Annual report 2019

uni
FINANCIAL COOPERATION

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HEADQUARTERS

295 Saint-Pierre Boulevard West
P.O. Box 5554
Caraquet, NB E1W 1B7

Overview of **2019**

As at December 31, 2019

FINANCIAL RESULTS

$4.4B
in assets
up **5.18%**

Surplus of
$21.12M
up **25.65%**

$115M
net financial income
up **18.62%**

SOCIAL AND COOPERATIVE RESPONSIBILITY

$2.4M
in donations, sponsorships and scholarships

1,000+
organizations supported

Support from **36 client members** spread across **3 regional cooperative committees**

A family of socially responsible funds and investment solutions

UNI IS...

155,000+
client members

39
business locations

4 UNI Business offices

2 UNI Insurance offices

Nearly
1,000
employees

Core **purpose**

UNI's core purpose and values are the pillars on which our conduct and actions rest. In fact, they express UNI's *raison d'être* — the substance of our ultimate purpose.

Together for the prosperity of UNI and its client members

Values of engagement

Values are the beacons that guide our actions and illuminate the way toward achievement of our core purpose.

Solidarity

WORKING TOWARD A COMMON CAUSE

- UNI strives for its client member's prosperity as well as its own

Responsibility

CHAMPIONS OF OUR CAUSE

- At UNI, we are all responsible together
- Making wise choices in the interest of our mission

Courage

REJECTING COMPLACENCY

- At UNI, we are courageous together
- When obstacles arise, stepping up to challenge ideas

Message from the **chief executive officer**

DEAR CLIENT MEMBERS,

In my role as chief executive officer, I am pleased to present our achievements and financial results for 2019, which were reached through a range of initiatives undertaken to maintain UNI's momentum.

Our commitment to always working in the best interest of our client members against the backdrop of a rapidly evolving industry means that we must have the courage to reinvent our offerings, our tools and even the ways in which we distribute our products and services. The year 2019 was a stepping stone in terms of preparing for the future and focusing our planning efforts on modernizing and streamlining the delivery of our services. Efforts in this area will continue to expand in 2020.

In 2019, implementation of our strategic plan for 2017–2019 was completed. This first three-year plan of the new UNI caisse was a resounding success. Significant accomplishments under this plan include:

Coming into compliance with national regulations

Becoming federally chartered required extensive work to support the operational transition to a new regulatory framework. This major transition is proof of UNI's impressive agility and capacity to reinvent itself. For a rural cooperative institution to be able to operate today under the same rules and requirements applicable to Canada's major banks is a tour de force achievement from the operational and functional perspectives.

Diversifying investment solutions for our client members and offering responsible investment options

To offer an even broader range of investment solutions, we extended our partnership with Aviso Wealth, a major Canadian actor in asset management. Among other advantages, these solutions now provide our client members access to a larger family of socially responsible funds.

Financing businesses outside our region while generating benefits locally

By entering into partnerships with several highly regarded actors in our industry, we significantly extended the scope of our business financing activities on the national level. UNI exports its expertise to generate benefits right here at home. For example, when UNI uses its expertise to participate in funding a factory ship in British Columbia, the economic and financial spin-offs from activities outside of New Brunswick benefit our client members and the communities they live in.

Robert Moreau,
Chief Executive Officer

Adapting our distribution network in response to new realities

Construction work on an innovative business location in Petit-Rocher started in November 2019. This new space, scheduled to open its doors in the fall of 2020, will serve as a testing ground through which we will be able to offer original financial services as well as deploy tool prototypes, thereby also redefining the client member experience.

It was critical for UNI to adapt both to consumer expectations and to the transaction habits of our client members. This was why we made the ambitious decision to consolidate a number of underused business locations with nearby, busier locations. Knowing that this would have an impact on the communities affected, we implemented a support program to guide them through this transition. Even after these closures, UNI remains the financial institution with the largest number of business locations across its territory.

Developing our new three-year plan

To continue this innovative shift, we launched the process for developing our next three-year strategic plan. In the current context of transformation affecting UNI and the entire industry, we need to continue striving to adapt our offerings, improve profitability and optimize interaction with our client members while also supporting the development of our talent to create and maintain an engaging workplace.

Meanwhile, the year 2020 got off to an exciting start, with UNI being recognized once again as one of *Atlantic Canada's Top Employers* for, among other factors, our outstanding work environment and our capacity to attract and retain skilled human resources.

Our commitment to always working in the best interest of our client members against the backdrop of a rapidly evolving industry requires from us the courage to reinvent our offerings, our tools and even the ways in which we distribute our products and services. The year 2019 was a stepping stone in terms of preparing for the future and focusing our planning efforts on modernizing and streamlining the delivery of our services. Efforts in this area will continue to expand in 2020.

Financial results propelling us into the future

I am particularly proud of our excellent financial results, as the aim of every choice and decision we make is to offer our client members access to high-quality financial services while they also enjoy the benefits of being owners of a sound, responsible and engaged financial cooperative.

UNI's assets totalled $4.44B, up 5.18% over 2018. Significant growth was observed in our financial results for 2019. Surplus earnings before other items at December 31, 2019, stood at $21.12M, which corresponds to a $4.3M increase over 2018.

These improved results demonstrate that our ongoing efforts and determination to evolve and adapt are generating tangible benefits. Based on these observations, we can continue investing in talent acquisition, training our employees, enhancing the client member experience, embracing the digital and technological transformation and pursuing our business development.

Engaged social responsibility for sustainable development

At UNI, we are aware of our economic and social role in our communities, which was reflected in $2.4M in total donations, sponsorships and scholarships.

In November 2019, we announced a major donation of $750,000 to the *Evolution* Fundraising Campaign of Université de Moncton. This significant investment will be put toward establishing a fund to support the implementation of student-focused initiatives on all three campuses. It will be used for both individual and collective student initiatives to promote the provision of rewarding learning experiences and enhance student life.

I am pleased to announce that thanks to our strong results in 2019, we are able to pledge an additional $2M toward social responsibility. This greater financial leeway positions us to do even more when it comes to participating in developing a sustainable and responsible economy in our communities. By giving ourselves the means to match our ambitions, we will increase our impact on meaningful, value-creating projects.

Expanding identity theft protection

This past December, we advised all our client members that an ill-intentioned employee of our technology partner Desjardins had gained access to their personal information. In November, in an abundance of caution and even before receiving confirmation of this from Desjardins, we had already put Identity Protection in place for all our client members.

The concept of digital identity needs to be strengthened in Canada, and in the meantime, it is important to offer the best possible protection against identity theft. We are living in a digital age in which personal data protection is a global issue, not one affecting only financial institutions. The Privacy Commissioner of Canada has also revealed that during the past year, some 28 million Canadians were affected by data breaches at more than 680 organizations.

Evidently, we continue to share our client members' concerns and deeply regret the occurrence of this incident. For this reason, we will intensify our efforts to raise awareness among our client members in 2020.

Revisiting our core purpose and values

Looking around us at the events currently shaping our lives—international agreements thrown into jeopardy, extremism continuing to rise around the geopolitical world, ongoing pressure on the global economy and a climate crisis that has become undeniable—today more than ever, as leaders in our industry, we need to embrace human, responsible values.

In 2019, it was important to me to conduct a review of our core purpose and the fundamental values by which we operate to ensure that they will continue to carry us into the future, ensure our institution's long-term success and create prosperity for our communities.

The workforce is changing, UNI is changing, and it is consequently essential for us all to rally around a common *raison d'être*. It was also important to me to involve our employees in this reflection process. The development of a new core purpose and values of engagement was achieved through workshops with employees in various roles and sectors across the entire region served by UNI. This new compass will be rolled out in 2020 along with the tools we are developing for supporting its successful adoption.

Personal courage guiding our actions

In closing, I would like to express my deepest gratitude to every member of the Board of Directors for their support and confidence during this unprecedented period of transformation that UNI must face with agility and enterprise.

I would be remiss not to acknowledge the contribution of our staff, who demonstrate unfailing commitment day after day. Without them and without their determination and enthusiasm in the face of challenges, our success would be impossible.

I also offer sincere thanks to our client members for their support and ongoing trust in our institution. We are honoured to stand at their side as they pursue their life projects.

UNI looks forward resolutely to the future, and our great sense of responsibility and courage to act will guide our actions.

At UNI, we will continue to work together toward sustainable prosperity.

ROBERT MOREAU, CHIEF EXECUTIVE OFFICER

Unrivalled presence **across the province**

Virtual Caisse

Online and mobile services available around the clock, 365 days a year.

The online account management app. Free, simple and secure.

®Apple is a registered trademark of Apple Inc. ™Android is a registered trademark of Google Inc.
®BlackBerry is a registered trademark of Research In Motion Ltd

Business locations

Northeast Area

Bas-Caraquet, Bathurst, Beresford, Caraquet, Grande-Anse, Lamèque, Neguac, Paquetville, Petit-Rocher, Sheila, Shippagan, Tracadie-Sheila

Northwest Area

Clair, Campbellton, Edmundston (Canada Road & Victoria Street), Eel River, Grand Falls, Kedgwick, Saint-Basile, Saint-Jacques, Saint-Léonard, Saint-Quentin

Southeast Area

Baie Sainte-Anne, Bouctouche, Cap-Pelé, Cocagne, Dieppe, Fredericton, Grand-Barachois, Moncton (Morton Avenue, St. George Street, Université de Moncton), Memramcook, Richibucto, Rogersville, Saint-Antoine, Saint-Louis, Shediac

Regional offices

- **UNI Insurance**
  Dieppe, Shippagan
- **UNI Business**
  Bathurst, Dieppe, Edmundston, Tracadie-Sheila

Or find us at

- facebook.com/unicooperation
- plus.google.com/+Caissepopulaireacadienne
- instagram.com/unicooperation
- linkedin.com/company/uni-cooperation-financiere
- twitter.com/UNIcooperation
- youtube.com/caissespopulaires

2019 highlights

Our main strategic priorities for **2020–2022**

1 Grow our business and develop our offering

2 Enhance organizational performance and develop client interaction channels

3 Develop our talent and effect cultural change

Our roadmap for 2020–2022

Our client members are changing.

- Next generations, evolving population
- Client members increasingly mobile

Our market is changing.

- Financial transactions increasingly simple
- Growing GAFA threat
- Appeal of fintechs and insuretechs

UNI is changing.

- Striving to respond to new expectations through an increasingly digital and agile shift
- Embracing an organizational culture aligned with the present while also looking toward the future
- Operating in a demanding reality where our people remain our greatest asset

Our objectives • Strategies for achieving our ambitions

1 Adapt our offering and increase profitability

- *Expand our **digital offering***
- *Attract and retain our **young clients***
- *Review our **asset management model***
- *Support decision-making based on **reliable business data***
- *Continue **developing our subsidiaries***
- *Foster **external strategic partnerships***

2 Improve our performance to interact even more effectively with our client members

- ***Streamline and simplify our operations** to generate more value for our members*
- *Review the **client experience** to capitalize on opportunities for attraction and retention*
- *Leverage our **business intelligence** to better understand our client members and focus our efforts*
- ***Develop our tools for interacting** with our client members*

3 Develop our talent and foster and maintain an engaging workplace

- *Strengthen our **connections to, and impact on, the communities we serve***
- *Shape the **employee experience** with a focus on engagement and mobilization in connection with the target client experience*
- *Promote the **overall development of our talent***
- *Build our **organizational culture***

Innovative business location

This new space accommodating the "caisse of tomorrow" will also provide the organization a testing ground for new approaches to the delivery of financial services as it continues to redefine conventional business practices. This people-friendly model will feature a coffee lounge, welcoming spaces for one-on-one conversations, a training platform and an inviting reception area as well as a configuration that sets the staff up for success in their work.

The world is evolving quickly, and UNI is keeping up with the pace of innovation to ensure that its offerings reflect its client member's changing needs. In a context where people now do almost everything online, the quality of our service becomes even more important in ensuring UNI's ongoing success. The business locations of the future will need to reflect this new reality as our focus shifts back to our core area of expertise and the task we have always found the most rewarding: providing personalized advice to our client members on managing and protecting their assets, from their school years through retirement or from an initial idea through to launching their own business.

Managing our talent **in a culture of change**

The changing face of UNI as we change together

The world is evolving, consumers' expectations are changing, technology is advancing, and to remain relevant, UNI needs to be transforming at the same pace as its clients and the financial industry. It is transforming because the people that make up UNI are continuously transforming as well. UNI's workforce is its greatest strength. All these changes involve and affect our people, who need to embrace this evolution while also continuing to serve and advise our client members with professionalism and expertise. Resilience, openness and capacity for change are part of their daily lives. With this in mind, in 2019, we invested in the development of change management practices and tools for managers to equip them to provide effective support to their team members as we all go through this transformation and adopt a forward-thinking approach to organizational culture to ensure that it continues to thrive—all of this while also maintaining open dialogue with our employees and reaching out to them regularly.

Core purpose and values of engagement

An organizational culture is a living thing that is continuously evolving and creating new challenges. For this reason, in early 2019, two groups of employees from across the organization were consulted. These highly motivated individuals all cared about the future of UNI and spoke about consistency, trust, prosperity, sustainability, community and what lies ahead for our organization. They also talked about their own aspirations as well as the core purpose and values for building the UNI of tomorrow.

Following these consultations, UNI's core purpose and values were defined, reviewed and approved by the Board of Directors. Deployment of the renewed core purpose and values of engagement has been initiated in 2020 to ensure they become an integral part of the daily activities of all employees.

Employee engagement

Open dialogue based on trust between people in their workplace is essential for understanding the team dynamics and culture at our organization. In 2019, to facilitate this dialogue, we equipped ourselves with a tool to measure employee engagement for managers to use to take the pulse of our organization in a quantifiable way while also providing employees a tool for making their opinions known.

Officevibe is an online platform designed to help leaders understand their people and improve employee engagement. Through short surveys completed on an ongoing basis, employees provided invaluable information, thereby contributing directly to UNI's culture. This is a fast, simple way to ensure that our workplaces remain healthy, positive and inspiring places where all employees can thrive, create and rise to their potential.

Managers can access at any time the results of the 10 metrics used to gauge employee engagement and can delve deeper into individual metrics to understand contexts, identify challenges and explore corrective actions with their teams.

Employee experience

The employee experience is all the various components that must be present for our people to succeed within our organization. Nearly two dozen employees serve on our employee experience design committee. In 2019, this committee invited employees to take part in a series of round tables on the employee life cycle at UNI, from attraction through retirement. Close to 100 employees answered this call and participated in approximately 10 workshops. Their task was to identify aspects that UNI should be proud of as well as areas where improvement can be made. These workshops generated a wealth of ideas on which we can build the target experience of the future.

A meeting of all managers was held in January in Beresford to discuss initiatives and priorities for maintaining alignment and understanding key issues.

Since our workforce is divided into four administrative regions around the province, technology was also used to hold a meeting with all employees on April 30, 2019. Hosted and facilitated by the Executive Committee, this session was organized to ensure the alignment of organizational priorities as well as to share information on progress concerning a number of major strategic initiatives and recognize the organization's achievements during fiscal 2018.

In April, approximately 40 employees took part in the Club Élite banquet held in Dieppe to recognize sales force members who had exceeded assigned goals.

In May, subsequent to a request for proposals, changes were made to the design and service provider of the employee group insurance plan. This change opened the door for UNI to offer a broader range of competitive services while also avoiding any significant fee increases for employees.

At UNI, we are fortunate to have a significant number of employees who have enjoyed long tenure with our organization. During Co-op Week this past October, we recognized more than 136 employees at a gala event held in their honour, more than 60 of whom had reached the major milestone of 25 years or more of service at UNI.

From an employer's perspective, our workforce is an invaluable asset, and it is essential to complement the wealth of organizational knowledge held by these long-serving employees with the contribution of newer team members who have grown up in a time of unprecedented technological growth and bring with them a new vision of our world. This complementarity adds value to our offer strategies and enhances our agility in the face of change.

In December, UNI also announced the roll-out of a new employee and family assistance program effective in January 2020. This confidential program is available at any time to assist employees and immediate family members in coping with difficult situations, whether at work or at home. Employees have access to professional counsellors who are there to offer help and support in a variety of areas as needed.

Development and training

Employee development and training play a major role within our organization. We notably invest in two different programs for the purpose of enhancing our team members' skills.

Coaching Ourselves, a peer coaching program, is a flexible approach to leadership development and organizational performance improvement. It takes the form of 90-minute coaching sessions for groups of four to six participants. These employees reflect and interact as a group concerning their experiences as managers and leaders in relation to a specific management or leadership-related topic or theme. *Coaching Ourselves* organizes the various topics into modules featuring content, questions and the entire structure required to facilitate effective, productive discussion and reflection to achieve real outcomes. Five 90-minute reflection and dialogue sessions in groups of four to six managers were guided by a facilitator from the human resources sector.

All employees are offered a subscription to LinkedIn Learning. This platform offers a range of training and enables employees to develop their skills, view course recommendations based on their interests and add completed courses to their LinkedIn profiles. For example, when the Microsoft OneDrive platform was rolled out, employees were directed to an excellent training module available via LinkedIn Learning.

As UNI continues through its transformation, it was also important to equip our managers to support their team members by facilitating three participatory workshops on change management.

An evolving organization

The technology shift currently underway in the financial services sector is also impacting UNI. As our client members continue to embrace online services, business location closures required significant planning and the provision of support to our client members and employees. This planned support is part of the process of change management that is necessary in any type of change, from the deployment of a new computer application to organizational restructuring or the centralization of services. UNI allocated funds toward the provision of professional training to set up employees for success in applying their knowledge during times of change so that our organization can respond effectively and rally quickly while also continuing to serve our clients.

UNI showed proof of its agility throughout the implementation of a number of initiatives in 2019, including the closure of business locations and replacement of our entire ATM fleet, which were led by dedicated, flexible project teams committed to their success.

UNI is proud of its employees, which have shown their impressive capacity for change, agility, resilience and perseverance during a time of major transformation.

UNI among **Atlantic Canada's top employers**

The year 2020 got off to an exciting start, with UNI being recognized once again as one of Atlantic Canada's Top Employers, an annual competition showcasing companies that stand out for their capacity to attract and retain skilled human resources. This initiative recognizes employers across Atlantic Canada that excel in their respective industries by providing outstanding work environments.

When assembling this list, multiple selection criteria are taken into consideration, including physical environment, work and social atmosphere, health, financial and compensation benefits, vacation and leave, communication with employees, performance management, training and skills development and, last but not least, community engagement. Employers are also compared to other organizations within their sector to identify the ones offering the most progressive, cutting-edge programs.

"In the current digital age, the future of our industry depends on the quality of the services we provide, and our employees will play a critical role in UNI's strategic evolution. As a financial cooperative, our purpose is to improve the well-being of our client members and the communities we serve. Thank you to our 1,000 employees who embrace this mindset with passion and dedication. Their level of satisfaction is reflected in their commitment to serving our clients and their community involvement," stated Robert Moreau, UNI's chief executive officer, following the publication of this annual ranking.

Diversifying our investment solutions and **offering responsible investment options**

UNI and Aviso Wealth: A winning partnership!

In 2019, UNI extended its partnership with Credential Asset Management Inc., a major Canadian player in asset management. A seasoned partner offering enhanced support in response to clients' diversified needs, Credential Asset Management Inc. is a wholly owned subsidiary of Aviso Wealth, a national provider of wealth management services with which we have been doing business for many years.

This partnership is in keeping with our strategic vision for developing our wealth management activities, thereby assuring our client members access to an even more comprehensive range of services and investment solutions.

Simplifying finances

At UNI, our goal is to simplify finances for our client members by guiding them in day-to-day management, financing their projects, saving for the future and protecting their assets.

aviso wealth

NEI Qtrade Credential

Aviso Wealth: Works with more than 200 caisses populaires/credit unions and financial cooperatives across Canada and has over $60 billion in assets under management and administration.

NEI: Helps its investors, its partners and society make a positive difference through responsible investing including Canada's most diversified line-up of RI solutions.

Qtrade: Designed for independent investors, Qtrade Investor[1] helps people diversify their strategies by buying and selling investments online.

Credential: A subsidiary of Aviso Wealth, a national, integrated financial services company serving the wealth management needs of virtually all Canada's credit unions as well as a range of independent financial organizations.

Under this initiative, effective September 9, 2019, all mutual fund accounts held by our client members were managed by Credential Asset Management Inc. as Acadia Financial Services ceased its activities.

[1] *Online brokerage services are offered through Qtrade Investor, a division of Credential Qtrade Securities Inc., member of the Canadian Investor Protection Fund. Mutual funds are offered through Credential Asset Management Inc.*

Benefiting locally from nationwide business financing

Partnerships and market expansion

From coast to coast, UNI Business fostered partnerships and business relationships through which it successfully contributed to the financing of various ambitious projects in diverse economic sectors.

Through its account management team, UNI Business is actively present in every Atlantic province, where it contributes to financing a wealth of business projects.

This year, UNI Business widened his horizons across the country, positioning it to significantly strengthen its relationships and grow its visibility as a high-ranking financial institution.

Business transfers: An important challenge in numerous industries

Ensuring a smooth business transition requires careful and detailed planning. UNI Business offered a province-wide series of presentations to provide its client members information on the various tax implications of transferring or buying a business. Business transfer experts advised attendees on the importance of having measures in place to plan the sale of their business and to ensure its sustainability.

Reflecting the fact that more than 650 of its clients work in the commercial fishery sector, UNI Business conducted a presentation tour on the tax implications and financing of fishing licence transfers targeting members of professional associations across New Brunswick and Nova Scotia. A partnership agreement with an association active in the commercial fishery sector was successfully negotiated in 2019, and steps were taken to put special financing structures in place to assist the industry in accommodating the next generation of fishers.

New administrative office in Miramichi

In September 2019, UNI Business opened an administrative office in Miramichi to strengthen its presence in that region's business community. Through this office, services can be provided directly to local business owners while expanding capacity to serve their needs.

Active in the business community

Corporate Suite at the Avenir Centre

Greater Moncton Roméo LeBlanc International Airport

Annual general meeting of the New Brunswick Maple Syrup Association

- Moncton

Province-wide tour on the implications of business transfers and presentation of comprehensive offerings

- 24 businesses represented
- 5 events (April–May)

Bleuets NB Blueberries annual conference - Caraquet

UNI Business Golf Tournament

- $55,000 raised for Fondation des Caisses populaires acadiennes
- 144 participants

Annual general meeting of the Maritime Fishermen's Union (MFU)

- Moncton

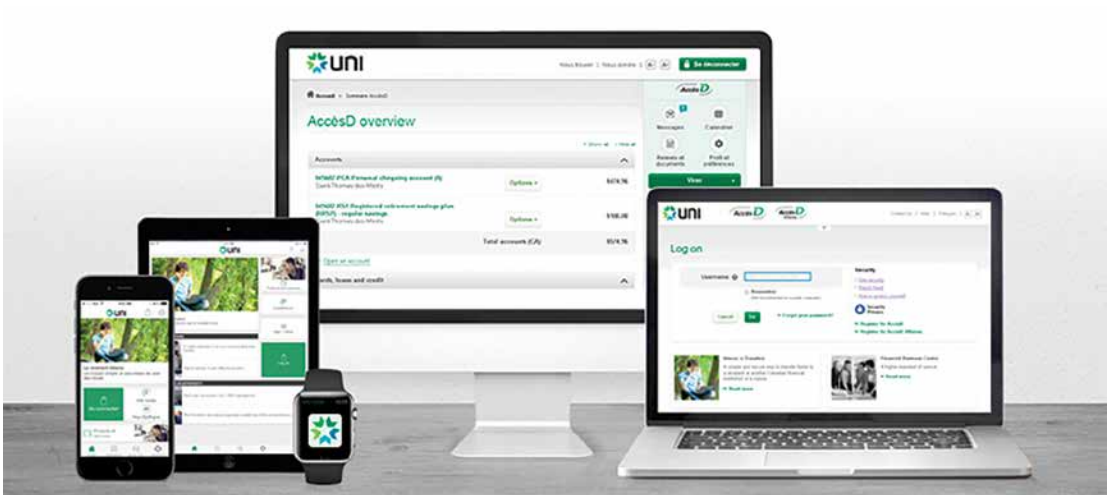
Offering simplified, **faster technology**

New touchscreen ATMs

In 2019, UNI updated its entire ATM fleet. The new machines offer easier navigation through use of a touchscreen that functions like the screen on a tablet and has the same look and feel as the AccèsD mobile app.

We now have two ATM models:

- **Withdrawal & deposit:** standard options
- **Express:** standard options excluding deposits



Guiding the change process

UNI implemented a special program to guide and support our client members in transitioning to these next-generation touchscreen ATMs and enhance the transaction experience while assisting client members in managing their finances and overseeing their migration toward added-value financial services.

Information sessions were offered and AccèsD video tutorials developed to provide more effective support to client members as they navigate the evolution and automation of financial services.

More than 15 information sessions attended by more than 200 people were held in communities affected by business location closures.

New | E-services via AccèsD mobile

Instant access to the *Home* and *Vehicles* tools

- All activities related to the purchase of a home or vehicle (e.g. tools, calculators, Tips section) have now been brought together in one place
- Creation of a handy Tips section

Contributing to the **social vitality of communities**

UNI invests in communities. Each week, thousands of dollars are redistributed in the form of donations, sponsorships and scholarships because we believe that the prosperity of some people should contribute to that of others.

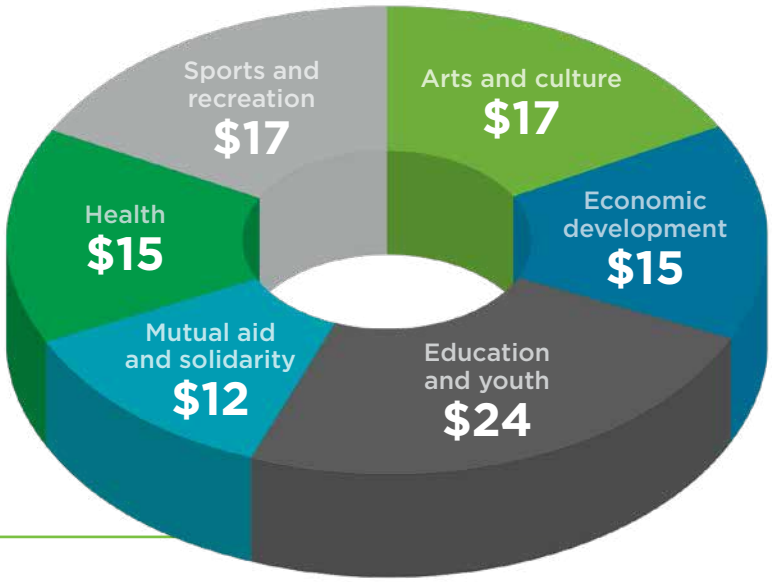
Geneviève Lalonde, Olympic athlete
Cooperative Distinction Spokesperson

From the Jeux de l'Acadie to the Olympics!

40th Finals of the Jeux de l'Acadie!
UNI has been there from the very start through a $40,000 annual contribution.

For every $100 invested in communities in 2019

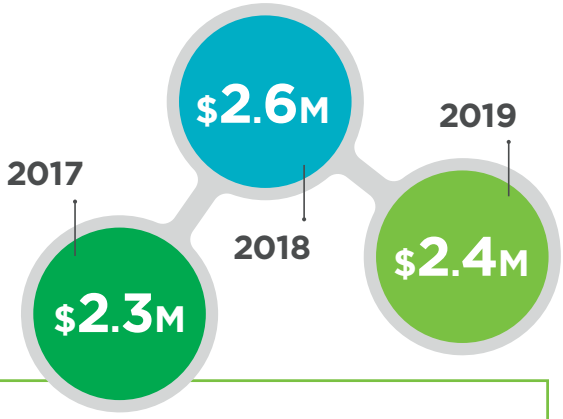
- **Arts and culture**
  Promoting the fostering of new talent and boosting the cultural industry
- **Economic development**
  Creating synergy with the business community
- **Education and youth**
  Contributing to the development of youth
- **Mutual aid and solidarity**
  Supporting community and social development projects
- **Health**
  Facilitating access to healthcare services and to research for a better quality of life
- **Sports and recreation**
  Contributing to community vitality



Sponsorships, donations and scholarships

UNI Financial Cooperation, naturally sensitive to the needs of the communities it serves, gave **$2.4M** to local organizations in 2019.

Returned to the community



*In the last three years, **UNI has given back more than $7M in group dividends to communities.***

Notable **achievements**

$750,000 TO THE *EVOLUTION* FUNDRAISING CAMPAIGN OF UNIVERSITÉ DE MONCTON

UNI committed to establishing a fund to support student initiatives on all three campuses through a major $750,000 donation to the *Evolution* Fundraising Campaign of Université de Moncton.

UNI's donation will be staggered over a 10-year period and used for both individual and collective student initiatives to promote the provision of rewarding learning experiences and enhance student life.

Vox pop with students at U de M, November 2020

It's a world filled with loving hearts and open minds.

Thank you for thinking of my future.

To me, the future is education..

I see a future without discrimination.

EXPO-KENT

This week-long agricultural fair in Sainte-Marie-de-Kent showcases farm life. The fair attracts over 15,000 people north of Moncton every year. Expo Kent has been educating visitors about farm life and promoting local products since the 1950s.

Our contribution supported a stellar program, providing a fabulous experience for young and old alike.

PJ WALK FOR KIDS

Ronald McDonald House Charities® in the Atlantic Provinces helps families with sick children to stay together near the medical care they need. Initiatives offered include Ronald McDonald Family Rooms® in Halifax and Moncton, which provide a comfortable place for families to rest and recharge right inside IWK Hospital and Moncton Hospital. Last year, more than 2,000 families from across the Maritimes made use of these services.

A total of $43,305 was raised at the 2019 PJ Walk for Kids in Moncton, with a grand total of $197,683 raised. UNI is proud to have contributed to the success of this event with the goal of making life easier for affected families.

CHALEUR TRANSPORTATION COOPERATIVE

Since 2018, the Chaleur Transportation Cooperative (CTC) has been providing alternative transportation options that are safe, accessible, affordable and efficient for all Chaleur residents. Thanks to the CTC, a 40 km trip can now cost as little as $14! The organization's long-term vision includes carpooling as well as minibus and minivan shuttle services throughout the Chaleur region.

Our contribution has helped to maintain the continuity of this service that ensures low-income users have access to medical appointments, mental health services, the grocery store, social events, etc. at minimal cost.

FONDATION DES PETITS DÉJEUNERS DE LA PÉNINSULE ACADIENNE

In 2015, a group of people with a passion discovered that breakfast programs varied widely from school to school. This team explored various breakfast program models, including how they operate and the level of support they provide to schools. In December 2017, the charity organization Fondation des petits déjeuners de la Péninsule acadienne was established. Two schools were selected to pilot a universally accessible breakfast service.

Our donation is helping make it possible to serve breakfast to students across the Acadian Peninsula from Neguac to Miscou. Made available to more than 5,000 children from kindergarten through grade 12 at 20 schools, these free breakfasts are offered to promote the health and education of every student in the Acadian Peninsula without exception.

Cooperative **committees**

These committees respond to the specific needs of each region and oversee the successful completion of provincial projects.

- Organize and promote local projects that contribute to the creation of value for the community
- Contribute to the creation of responsible and sustainable projects in communities
- Partner with local citizens and stakeholders to plan and develop community projects that create value
- Represent the interests of members who support our cooperative projects
- Manage and allocate budgets in the form of donations and sponsorships.

Northeast Cooperative Committee


KASSIM DOUMBIA, PRESIDENT


ANDRÉ MORAIS, VICE-PRESIDENT


RAYMOND BRYAR, SECRETARY


BERTRAND BRIDEAU


ROLLANDE DUGUAY


OCTAVE HACHÉ


JEANNE LANTEIGNE


DENIS PAULIN


NORMAND ROBICHAUD


DENIS SAVOIE


HUGUES THÉRIAULT

Northwest Cooperative Committee


ANDRÉ LECLERC, PRESIDENT


DIANE DESROSIERS, VICE-PRESIDENT


CAROL SAVOIE, SECRETARY


MELVIN BLANCHETTE


PIERRE ESSIAMBRE


RÉJEAN MICHAUD


NICOLE PLOURDE


RAYMOND SIROIS


VALÉRIE THÉRIAULT

Not pictured:
MANON GOULETTE
CHRISTINE LEVESQUE

Southeast Cooperative Committee


NICOLE THIBODEAU, PRESIDENT


ROSELINE PELLETIER, VICE-PRESIDENT


RONALD BOUDREAU, SECRETARY


ALONZO BOUCHER


CÉLINE DOUCET-ROUSSELLE


JOSEPH LIONEL GAUDET


GISÈLE GOUPIL


CAROLE LEBLANC


JASON OUELLETTE


LOUISE RICHARD HARTLEY


CLARENCE VAUTOUR

Not pictured:
DENISE LANDRY

UNI believes that **financial education benefits everyone**

Financial education is a lifelong process from kindergarten through retirement. Each year, UNI invests in the publication of blog posts, fun contests and educational content to help simplify finances and make financial concepts more accessible.

"DREAM BIG WITH FINANCIAL EDUCATION" CONTEST

The "Dream Big with Financial Education" contest was conducted at elementary and middle schools in New Brunswick between October 21 and December 13, 2019. It was a resounding success, with nearly 100 classes entering.

Four prizes of $1,000 per class were awarded randomly, with two prizes going to elementary school and two to middle school classes.

Children's Financial Education Starts at Home

Financial Independence: How to Start Working Less or Retire Earlier

Define a household budget now in order to avoid financial headaches for the rest of the year!

FREQUENT BLOG POSTS PUBLISHED AT UNI.CA

FACEBOOK LIVE EVENT ON RRSPs AND TFSAs WITH "ROBIN AND FRIENDS"

This video featuring UNI experts was offered to provide instant answers to viewers' questions about RRSPs and TFSAs.

Initiatives in **2019**

More than 60 financial education workshops were delivered in communities.

Elementary school tour featuring Roland and Babalou

Grades K to 3
65 schools visited

"Féeli Tout à mon école" contest

AEFNB conference

Presentation of educational tools to facilitate the work of teachers

Management's discussion and analysis

YEAR ENDED DECEMBER 31, 2019

Note to the reader

This management report provides a general overview of UNI Financial Cooperation. It complements the information provided in the combined financial statements of Caisse populaire acadienne and should therefore be read together with these statements and accompanying notes for the year ending December 31, 2019.

This report also presents the results analysis and main modifications made to UNI Financial Cooperation's balance sheet for the fiscal year ending December 31, 2019. Further information on UNI Financial Cooperation is available at www.uni.ca.

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Board of **Directors**

Pierre-Marcel Desjardins, ICD.D
CHAIR

Guy J. Richard, ICD.D
VICE CHAIR

Brian L. Comeau
DIRECTOR

Roland T. Cormier
DIRECTOR

Sébastien Deschênes, DBA, CFA, CPA, CA, ICD.D
DIRECTOR

Gilles Godin
DIRECTOR

COMMITTEES	• Conduct Review & Governance • Performance Evaluation & Remuneration of the Chief Executive Officer, **Chair**	• Audit • Board of Trustees • Nomination • Risk Management, **Chair**	• Conduct Review & Governance • Human Resources • Performance Evaluation & Remuneration of the Chief Executive Officer	• Audit • Board of Trustees, **Chair** • Human Resources, **Chair** • Nomination	• Audit • Board of Trustees • Risk Management	• Conduct Review & Governance, **Chair** • Performance Evaluation & Remuneration of the Chief Executive Officer • Nomination
TERM	**2018–2021**	**2018–2021**	**2017–2020**	**2019–2022**	**2017–2020**	**2019–2022**

Caroline Haché, MBA
DIRECTOR

Wanita McGraw, FCPA, CA, ICD.D
DIRECTOR

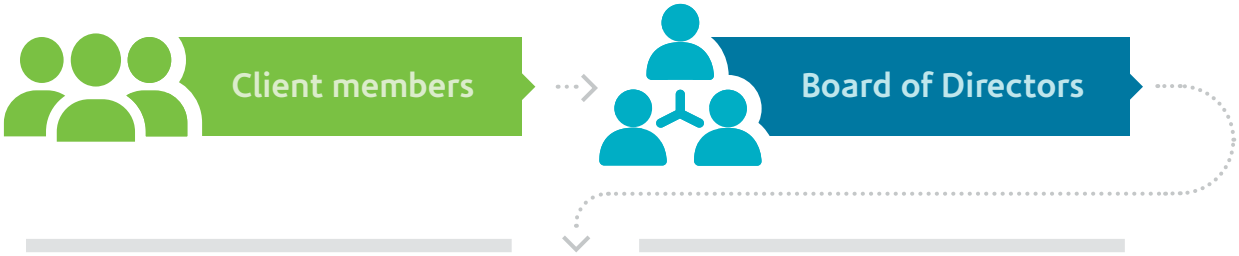
Guy Ouellet
DIRECTOR

Diane Pelletier
DIRECTOR

Allain Santerre
DIRECTOR

Jean-François Saucier, DBA, CFA, CPA, CA
DIRECTOR

COMMITTEES	• Human Resources • Nomination, **Chair** • Risk Management	• Audit, **Chair** • Performance Evaluation & Remuneration of the Chief Executive Officer • Risk Management	• Conduct Review & Governance • Human Resources • Risk Management	• Conduct Review & Governance • Human Resources • Risk Management	• Audit • Board of Trustees • Nomination • Performance Evaluation & Remuneration of the Chief Executive Officer	• Audit • Conduct Review & Governance • Human Resources
TERM	**2018–2021**	**2017–2020**	**2019–2022**	**2017–2020**	**2019–2022**	**2018–2021**



Executive Committee

Robert Moreau, FCPA, CGA, ICD.D
CHIEF EXECUTIVE OFFICER

Diane Allain
VICE-PRESIDENT, TALENT MANAGEMENT
- Employee Experience

René Collette
SENIOR VICE-PRESIDENT, PERSONAL & COMMERCIAL BANKING
- Business Development
- Wealth Management
- Sales Support

Sylvain Fortier, CERA, ASA
CHIEF RISK OFFICER
- Compliance
- Credit

Gilles Lanteigne
VICE-PRESIDENT, SUBSIDIARIES AND EXECUTIVE DIRECTOR OF ACADIA LIFE
- Life and Health Insurance
- General Insurance
- Sales Support

Martin Paré
VICE-PRESIDENT, INNOVATION & BUSINESS INTELLIGENCE
- Supply Management & Business Intelligence
- Innovation

Françoise Roy
VICE-PRESIDENT, COMMUNICATIONS, MARKETING & COMMUNITY
- Client Member Experience
- Digital Channels
- Community Services

Derrick Smith
VICE-PRESIDENT, OPERATIONS & OPTIMIZATION
- Project Management Office
- Customer Service & Continuous Improvement
- Information Technology

Éric St-Pierre, CPA, CMA
VICE-PRESIDENT, FINANCE
- Supply & Building
- Accounting
- Treasury

UNI FINANCIAL COOPERATION
operated
39 business locations

UNI BUSINESS
operated
4 regional offices

SUPPORT INSTITUTIONS
- Fondation des Caisses populaires acadiennes
- Conseil acadien de la coopération

ACADIA SERVICE CORPORATION
- Acadia Service Centre

ACADIA FINANCIAL HOLDINGS

UNI INSURANCE
- Acadia Life
- Acadia General Insurance
- AVie

As of April 1, 2020

Financial position as at **December 31, 2019**

Financial position

($000s and %)

	2019	2018
Profitability and productivity		
Productivity index	84.6%	85.1%
Surplus earnings before other items	$21,121	$16,809
Equity	$431,675	$410,036
Return on equity	4.5%	3.6%
Business development		
Assets	$4,440,719	$4,222,085
Business volume	$7.6B	$7.3B
Business volume growth	5.0%	4.3%
Risk		
Credit losses	$7,815	$5,651

Impact of COVID-19

Global economic and financial market environments changed significantly in early 2020. The COVID-19 virus, classified as a pandemic by the World Health Organization (WHO) on March 11, 2020, led many governments to put in place exceptional measures to slow its spread. These events herald a turnaround in economic conditions and are creating a great deal of uncertainty for the global economy. This event has led to significant fluctuations in the financial markets. Although the crisis will have consequences for our results in 2020, UNI will be able to recover given its strong financial position. UNI is among the strongest credit unions in Canada.

Economic and financial outlook

United States

Global trade volumes were down in 2019. Tensions between the United States and China, as well as the expected outcome of Brexit, are just some of the factors that have undermined confidence in import and export activities. Trade relations with Canada were also tense in 2019 but eased following the lifting of steel and aluminum import tariffs imposed earlier in the year by Washington.

Growth in U.S. GDP is expected to be below 2.5% according to IMF estimates. The U.S. economy underperformed with respect to 2018, when GDP hovered around 3%. In terms of key interest rates, the Federal Reserve lowered its federal funds rate three times in 2019, from 2.50% at the beginning of the year to 1.75% at the end of October.

Canada

Canadians experienced a controversial federal election in 2019. Our values with respect to gender equality, ethnicity and environmental concerns were the subject of much debate. Although many Quebecers supported the Bloc Québécois and the western provinces voted overwhelmingly in favour of the Progressive Conservatives, the Liberals managed to return to power, but with a minority government.

The Canadian economy grew at a slower pace than the previous year. The slowdown was felt in the energy sector as oil production and the housing market declined.

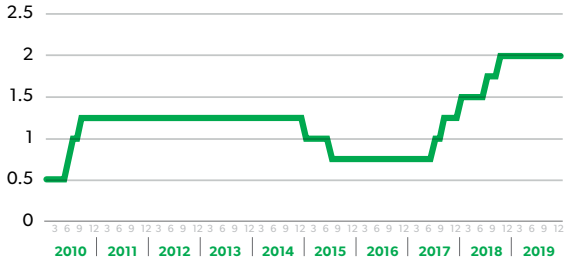
Canada's GDP (1.6%) declined from last year. Despite a rise in Canadians' debt ratios, their spending remained at the same level as last year, in part thanks to lower interest rates and higher wages. On the trade front, Canada experienced moderate export growth. At the end of the year, the government reached an agreement with the United States and Mexico on amendments to the new North American Free Trade Agreement (NAFTA), signed earlier in the year.

The Bank of Canada maintained its benchmark interest rate at 2.0% in 2019. Employment grew by 1.7% in 2019 due to an increase in full-time work. The unemployment rate fell to a 40-year low of 5.4% in May but increased to 5.6% in December, the same level as a year earlier.

The S&P/TSX index grew by nearly 23% in 2019, supported by technology companies, as did Wall Street, which had its best year since 2013.

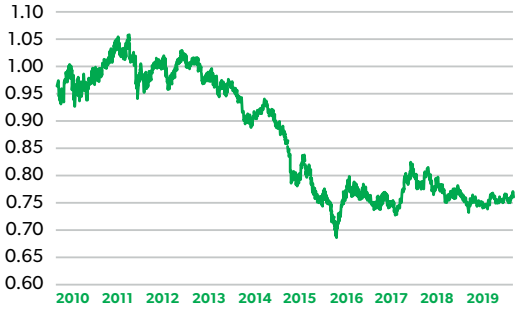
The Canadian dollar averaged over $0.75 against the U.S. dollar in 2019, reaching a low of $0.7353 in January and a high of $0.7699 in December.

Change in the Bank of Canada's Bank Rate 2010–2019



Source: Bank of Canada

Fluctuation in the Canadian Dollar against the U.S. Dollar 2010–2019



Source: Bank of Canada

New Brunswick

The new Conservative government presented a budget with no tax hikes. Significant reductions were proposed in capital spending. The 2019 budget provided for debt reduction and greater fiscal transparency due to quarterly reporting of results.

While retail trade growth at the national level increased by only 1.6% in 2019, New Brunswick posted 2.1% growth for the same period (based on the most recent seasonally adjusted data). Inflation was slightly higher than the national rate, with the CPI at 1.7% in New Brunswick compared to 1.9% in Canada as a whole. Housing starts in the province increased 26.1% in 2019, while they declined by 2.0% nationally. Exports increased 3.5% provincially, with the United States remaining the province's biggest international market at 88.0%. Imports decreased 5.3% in 2019, and came mainly from the United States (49.5%) and Saudi Arabia (24.9%).

The combination of retiring baby boomers and an aging population continues to influence the labour market. Employment edged up 0.8% in 2019, while the unemployment rate decreased slightly from 8.0% to 7.9%. Whereas the province as a whole gained 2,900 jobs, northwestern and northeastern New Brunswick lost 1,000 and 4,200 jobs, respectively. The southern part of the province experienced job gains, with 1,700 added jobs in the southeast, 4,700 in the southwest and 1,800 in the central part of the province. In both northern regions, the increase in the unemployment rate was due more to a decline in the labour force than to an increase in the number of unemployed.

	Unemployment (%)		Jobs ('000)	
	2018	2019	2018	2019
Northwest	6.4	6.8	36.5	35.5
Northeast	12.4	12.7	62.4	58.2
Southeast	6.8	7.0	107.5	109.2
Southwest	7.0	7.1	81.8	86.5
Centre	7.5	6.8	65.5	67.3
New Brunswick	8.0	7.9	353.8	356.7

Statistics Canada. Table 14-10-0090-01 Labour force characteristics

Review of **financial results**

Surplus earnings in 2019

The financial results of UNI and its subsidiaries improved significantly in 2019. Surplus earnings before other items as at December 31, 2019, were $21.1 million, an increase of $4.3 million compared to 2018. See the table below for a more in-depth analysis. A major component of the financial results is the performance in 2019.

($ thousand)	2019	2018	2017
		Retired	
Life and health insurance	$8,641	$10,218	$9,700
Personal and business	12,480	6,591	7,625
Surplus earnings before other items	$21,121	$16,809	$17,325

More specifically, the profitability of operations in the personal and business lines increased by $5.9 million to $12.5 million, compared to $6.6 million in 2018. The business line performed well, as did the pricing of our client member deposit portfolio. Investment income contributed to UNI's strong performance in 2019 due to equity markets, which grew throughout the year.

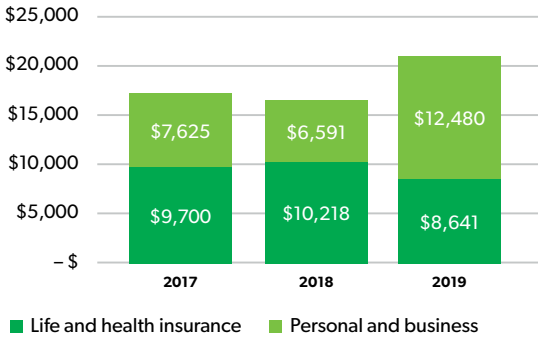
The life and health insurance line contributed $8.6 million to surplus earnings in 2019, compared to $10.2 million in 2018. UNI addressed the savings insurance situation in 2019. In response to comments received from the client members concerned, a product adapted to this clientele was developed and made available. The impact of this solution is explained in note 28 to the financial statements and is reflected in UNI's consolidated balance sheet.

Surplus earnings before other items for the fiscal year were $21.1 million as at December 31, 2019, while net surplus earnings totalled $19.4 million. This difference is due to taxes for 2019 and a number of other factors. The other factors consisted of a change in the market value of our derivatives, which in 2019 generated a gain of $5.6 million, mainly due to changes in interest rates and the amortization of capital gains from the interest rate swap portfolio. We spent $7.4 million in income taxes in 2019, representing approximately 27.6% of our surplus earnings before taxes.

UNI's directors took a cautious approach for the year ending December 31, 2019, and, due to capitalization requirements, decided against paying individual member dividends. However, an additional $2 million in donations and sponsorships has been allocated from our earnings in 2019 to support community sustainable development projects in 2020 and beyond.

Surplus earnings by line of business

($ thousand)



Net financial income

Net financial income corresponds to the difference between the financial income earned on assets, such as loans and securities, and the financial expenses associated with liabilities, such as deposits and borrowings. Net financial income also includes income from insurance and annuity business.

Net financial income stood at $145.7 million at the end of 2019, up $49.0 million from $96.7 million in 2018. This is mainly due to the change in the market value of Acadia Life's investments and UNI's investments, which benefited from a favourable market situation in 2019.

For a more in-depth analysis, the table below sets out changes in net financial income based on major asset and liability categories.

Financial income

Financial income totalled $187.1 million in 2019, up $53.4 million from the previous year. It consisted of $46.8 million in revenue on cash assets and investments and $140.3 million on the loan portfolio.

Cash assets and investments

Income from cash assets and securities increased by $40.9 million over that of the previous year, from $5.8 million in 2018 to $46.8 million in 2019.

Investment income

($ thousand)

	2019	2018	2017
Investment income from interest and dividends	$20,111	$16,321	$14,253
Market value of investment gains (losses) — UNI	2,908	(3,722)	(3,642)
Market value of investment gains (losses) — Acadia Life	23,760	(6,746)	11,662
Total investment income	$46,779	$5,853	$22,274

The increase largely stems from strong stock market performance in 2019. Market value gains on UNI's investments were primarily due to its equity portfolio, which totalled $9.3 million in Canadian common shares and $15.3 million in Canadian preferred shares as at December 31, 2019. The gains in market value for Acadia Life, which are related to the bond and equity portfolio, grew substantially. Acadia Life's investments include bonds with longer durations to match actuarial reserves. We are seeing an inverse movement of the same magnitude in actuarial reserves. We also saw growth of over $3.8 million in investment income, excluding fluctuations in fair market value.

Loans

Interest income on UNI's loan portfolio rose by $12.4 million, from $127.9 million in 2018 to $140.3 million in 2019, primarily due to a $91.1 million increase in our corporate loan portfolio. However, growth in our mortgage portfolio was more modest, at $9.4 million.

This income growth exceeded our expectations. We continue to strive to improve and diversify UNI's income.

Financial expenses

Financial expenses amounted to $41.4 million, up $4.4 million over fiscal year 2018. They consisted of $37.9 million in interest on the deposit portfolio and $3.5 million in interest on loans from other institutions.

Deposits

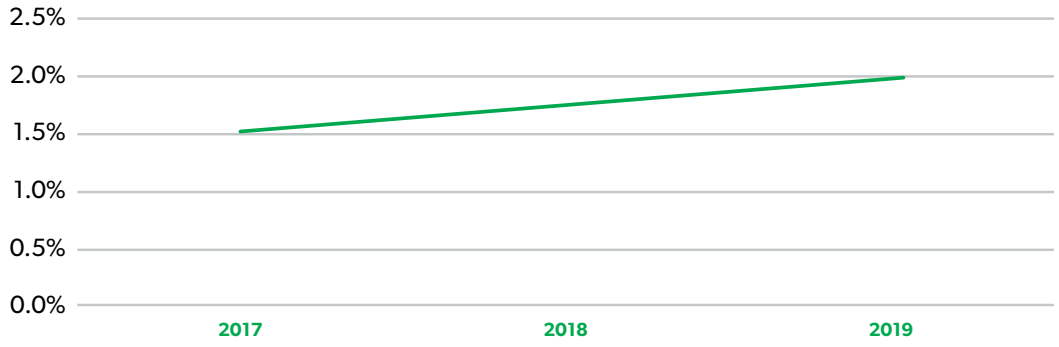
Interest expenses on client members' deposits increased from $34.7 million in 2018 to $37.9 million in 2019. It should be noted that the stability of the average rate on the deposit portfolio is due to the popularity of the "Enhanced Investment Account" product, which offers a lower rate than that of conventional term savings, yet more flexibility (cashable at any time). Our pricing remains competitive, as reflected in the constant growth of this deposit portfolio. The higher interest expenses are mainly due to the $179.7 million increase in the deposit portfolio in 2019.

Borrowing

In 2019, UNI finished deploying its first five-year securitization plan (2014–2019). The initial maturity dates, capital reimbursement at maturity, were reached in December 2019. A new plan will start in 2020 to maximize income generated by the plan.

Change in interest costs of the securitization program

(in % of the balance issued)



Net financial income on assets and average liabilities

($ thousand)

	2019			2018		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Interest-bearing assets						
Cash and securities	$742,652	$46,779	6.3%	$739,729	$5,852	0.8%
Loans	3,351,575	140,335	4.2%	3,271,279	127,865	3.9%
Total interest-bearing assets	4,094,227	187,114	4.6%	4,011,008	133,717	3.3%
Other assets	237,372			99,572		
Total assets	$4,331,599	$187,114	4.3%	$4,110,580	$133,717	3.3%
Liabilities and equity						
Interest-bearing liabilities						
Deposits	$3,518,213	$37,941	1.1%	$3,335,441	$34,689	1.0%
Borrowings and bank overdraft	134,536	3,450	2.6%	105,802	2,334	2.2%
Total interest-bearing liabilities	3,652,749	41,392	1.1%	3,441,243	37,023	1.1%
Other liabilities	237,797			264,033		
Equity	421,053			405,304		
Total liability and equity	$4,311,599	$41,392	1.0%	$4,110,580	$37,023	0.9%
Net financial income		$145,722	3.3%		$96,694	2.4%

Other income

($ thousand)

Other income comes from a number of sources, as shown in the table below.

	2019	2018	2017
Deposit and payment services charges	$18,368	$17,426	$18,241
Net insurance and annuity premiums	18,477	18,612	18,990
Commissions	12,277	12,925	11,679
Lending fees	-	-	1,267
Foreign exchange income	935	744	830
Sales of related services	2,793	2,713	2,813
Other income	1,974	1,795	1,979
Total other operating income	**$54,773**	**$54,215**	**$55,789**

Overall, our other income was up slightly in 2019 after several years of decreases. Service fees on deposits and payments increased due to a targeted review of our fees. We remain competitive in this respect. Transaction volumes at the counter and at banking machines are still declining and are being replaced by automated transactions.

Income from insurance premiums and commissions was down somewhat in 2019. Our other sources of income have been stable for several years.

Provision for credit losses

The provision for credit losses totalled $7.8 million, up $2.2 million from 2018. Since January 1, 2018, it has been calculated as per the new IFRS 9 accounting standard, which sets out new requirements concerning the classification, evaluation and depreciation of financial instruments. The new standard is based on information on expected credit losses (forward-looking information). With this new standard, our loan portfolios are segmented into three separate stages, based on risk trends. Stages 1 and 2 are assigned different default probabilities based on risk, while Stage 3 is calculated in the same way as the former individual provisions.

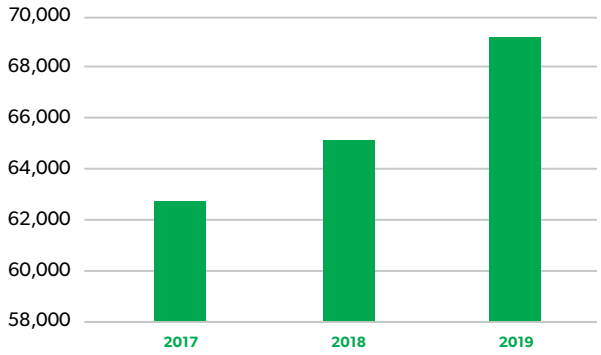
For Stages 1 and 2 loans, provision expenses amounted to $2.55 million in 2019, compared to a loss of $0.4 million in 2018. The rise in expenses in 2019 is related to markets weakened by international trade tensions and growth in household debt. These factors support a more pessimistic breakdown of scenarios in the model. Another variable also contributes to the increase, namely changes in the model's variables to more accurately calculate the provision. It should be noted that the expenses associated with Stages 1 and 2 of IFRS 9 are more volatile that than those under the former standard, in force before 2018. The provision for credit losses for Stage 1 is calculated based on the probability of default in the following 12 months, whereas for Stage 2, the provision is calculated based on the probability of default over the entire term of the loan. Consequently, any movement of loans between Stages 1 and 2 due to changes in borrowers' risk profiles can significantly alter the required provision.

The expense for provisions and loan losses stemming from Stage 3 loans stood at $5.26 million as at December 31, 2019, an increase of $50,000 over 2018 for individual provisions.

Operating expenses

Salaries and employee benefits

($ thousand)



Since UNI is a service-based company, its payroll is its biggest expense. Expenses related to employee salaries and benefits increased by $3.9 million in 2019 to $69.2 million. This increase is due to annual salary increases and UNI's performance-based incentive programs.

To remain relevant, UNI must gradually reduce its cost structure, including payroll, while maintaining a high quality service offer. To do this, we must improve our processes to become more efficient and keep prices as low as possible for our client members.

Other operating expenses

The following table presents a detailed look at our operating expenses.

($ thousand)

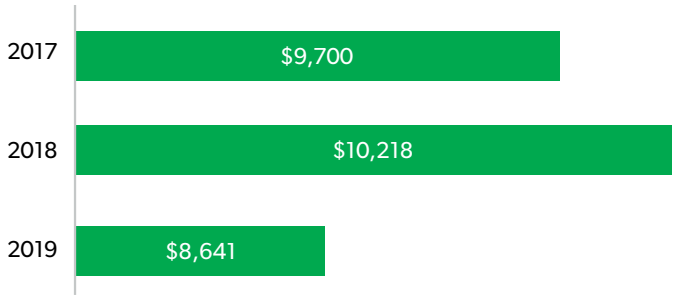
	2019	2018	2017
Employee travel, training and wellness	**$2,776**	$3,084	$3,338
Professional fees	**7,086**	5,206	4,915
IT costs and telecommunications	**23,408**	22,208	21,720
Building and equipment rental, maintenance and depreciation	**15,683**	12,790	12,088
Cash management and compensation	**2,124**	1,972	2,011
Dues and regulatory fees	**2,460**	2,348	2,092
Promotion, advertising, donations and sponsorships	**7,142**	4,697	2,608
Office expenses and postage	**2,053**	2,232	2,440
Governance	**870**	938	1,178
Insurance	**1,028**	1,066	1,001
Other	**2,849**	3,080	3,296
	$67,479	**$59,620**	**$56,687**

Total operating expenses increased by about $7.9 million compared to the previous fiscal year. First, non-recurring expenses required to modernize our distribution network were incurred in 2019. These expenses are related to consultant fees and IT and real estate expenses. Donations and sponsorships were also increased by $2 million given the positive financial results posted by both UNI and its subsidiaries in 2019.

Life and health insurance

Net income before distributions, bonuses and taxes

($ thousand)



The subsidiaries Acadia Life and AVie make up this line of business. Despite decreased profitability, it contributes significantly to UNI's overall income.

Operating income was positive in 2019 and surpassed the budgeted net income by about $1 million to reach $8.6 million, compared to $10.4 million in 2018. These positive results are mainly due to stock market performance in 2019. There were also changes in certain actuarial assumptions, which freed up about $1 million in actuarial liability, whereas in 2018, they created a $1.5 million gain. For example, assumptions about lapsed credit life insurance products were revised downwards whereas the mortality assumption for individual life insurance products was revised upwards.

The individual life insurance business line collected $10.8 million in premiums, up $0.3 million from 2018, whereas premiums for group life insurance decreased $0.3 million to $7.5 million. Mortgage disability insurance premiums also decreased by about $0.1 million.

The table below presents Acadia Life's main sources of income and fluctuations in actuarial reserves. Income from insurance premiums was down slightly in 2019 due to a decline in loan insurance volumes. The increase in investment income is counterbalanced by an increase in insurance benefits paid out and the variation in actuarial reserves.

Life insurance income

($ thousand)

	2019	2018	2017
Income from premiums	$18,477	$18,612	$18,990
Investment income from interest and dividends	6,509	6,378	6,630
Market value of investment gains (losses)	$23,760	($6,746)	$11,66
Total income	48,746	18,244	37,282
Insurance benefits and changes in actuarial reserves	$33,851	$4,252	$21,820

Balance sheet review

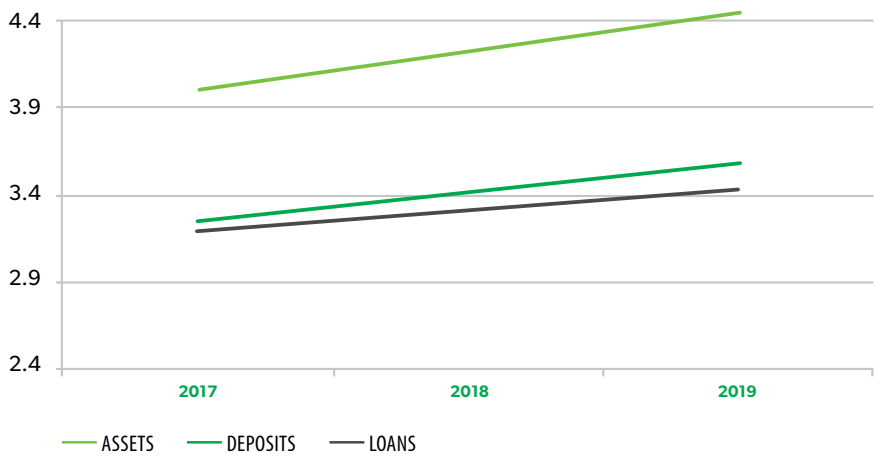
Summary balance sheet

($ thousand)

	2019		2018		2017	
Asset						
Cash	$184,675	**4.1%**	$198,146	4.7%	$100,193	2.5%
Securities	709,012	**16.0%**	593,471	14.1%	587,776	14.7%
Loans	3,413,242	**76.9%**	3,307,336	78.4%	3,184,700	79.6%
Other assets	133,790	**3.0%**	123,132	2.9%	128,479	3.2%
Total assets	$4,440,719	**100.0%**	$4,222,085	100.0%	$4,001,148	100.0%
Liabilities and equity						
Deposits	$3,587,769	**80.8%**	$3,408,099	80.9%	$3,248,302	81.4%
Borrowings	143,781	**3.2%**	125,291	3.0%	86,314	2.2%
Other liabilities	277,494	**6.3%**	278,659	6.3%	270,554	6.5%
Equity	431,675	**9.7%**	410,036	9.8%	395,978	10.0%
Total liabilities and equity	$4,440,719	**100.0%**	$4,222,085	100.0%	$4,001,148	100.0%

Changes in the balance sheet

($ billion)



Total assets

As at December 31, 2019, UNI's total assets were $4.4 billion, up $219 million or 5.2% from 2018. This increase was greater than in the previous year because of the substantial $102.1 million increase in our cash assets and securities and strong growth in our business loans (up $91.0 million). Personal loans grew more slowly (up $17.2 million), mainly due to a cooling mortgage market and aggressive competition for personal loans.

Liquidity management

The objective of liquidity risk management is to guarantee that the organization will have timely and profitable access to the funds necessary to fulfil its financial commitments when they become payable, both under normal circumstances and in crisis situations. Managing this risk requires an acceptable level of liquid securities, a three-year financing plan, a liquidity crisis simulation, daily liquidity position management and the submission of quarterly accountability reports to UNI's Board of Directors. This reporting process is supported by liquidity risk management and investment policies, both of which are reviewed annually by the Board.

Liquidity management is governed by a UNI in-house policy. It ensures proper monitoring of UNI's liquidity through multi-level management and therefore adequate short-term liquidity. A financing plan is used to anticipate long-term liquidity needs.

As a financial institution regulated by OSFI, UNI must maintain a short-term liquidity ratio of 100% to ensure proper liquidity risk management. A lower ratio does not necessarily mean the institution has a financial problem but may simply arise from an adjustment to liquidity management or changes in operations or the liquidity guidance standard that governs how calculations are done. We take a conservative approach to determining minimum liquidity levels and regularly update our investment strategy to maximize the return on our cash assets.

Short-term liquidity ratio

($ million and %)

	2019	2018	2017
Term	193%	217%	178%
Liquidity	$653M	$587M	$481M

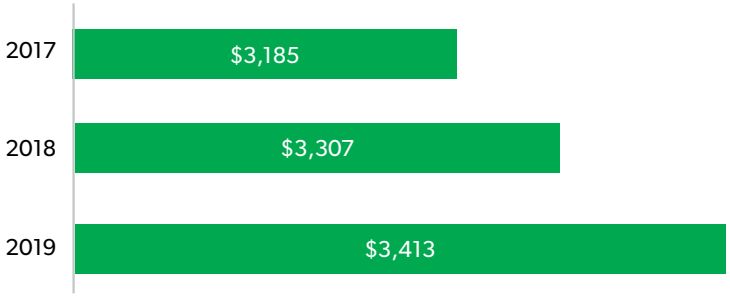
UNI's operations generated a net cash inflow of $35.7 million. This was mainly due to the fact that our loan portfolio grew more slowly than our deposit portfolio. In 2019, new client member deposits generated an inflow of $159.8 million, and growth in the loan portfolio resulted in an outflow of $124.1 million. The loan securitization program generated a net inflow of $18 million.

Loans

The loan portfolio, net of provisions, continued to grow in 2019. It was $3.4 billion as at December 31, 2019, up $108 million from 2018. This represents a growth rate of 3.2%. The personal credit portfolio underperformed in 2019, mainly due to a slowing mortgage market. The business line performed better, benefiting from out-of-province partnerships made possible by UNI's switch to federal regulation.

Loans to client members net of provisions

($ million)



The table below presents the breakdown of the loan portfolio by business line.

	2019	2018	2017
Personal			
Residential mortgages	$1,656,260	$1,653,496	$1,617,658
Consumer and other	539,754	525,286	526,132
Total personal	2,196,014	2,178,782	2,143,790
Business			
Real estate	510,908	445,491	378,084
Health care and related services	142,981	142,375	140,702
Construction	74,644	76,910	82,232
Forestry	37,012	37,464	42,934
Fishing and trapping	96,723	73,320	61,617
Retail	56,259	54,679	54,186
Manufacturing	55,637	52,678	48,126
Accommodation and food	90,340	84,539	65,994
Transportation and warehousing	34,618	35,161	37,500
Other	146,454	151,928	154,065
Total business	1,245,576	1,154,546	1,065,440
	3,441,590	3,333,328	3,209,230
Allowance for credit losses	(28,348)	(25,992)	(24,530)
Total loans by category of borrowers	$3,413,242	$3,307,336	$3,184,700

Residential mortgages

Growth in the residential mortgage portfolio was very weak in 2019, increasing by only $2.8 million compared to $35.8 million in 2018. The slower growth was due to the cooling New Brunswick mortgage market. The housing market in New Brunswick experienced a slowdown and more aggressive competition. The total mortgage portfolio before provisions stood at $1,656 million on December 31, 2019, versus $1,653 million on December 31, 2018. This represents a growth rate of 0.17%.

Consumer loans and other personal loans

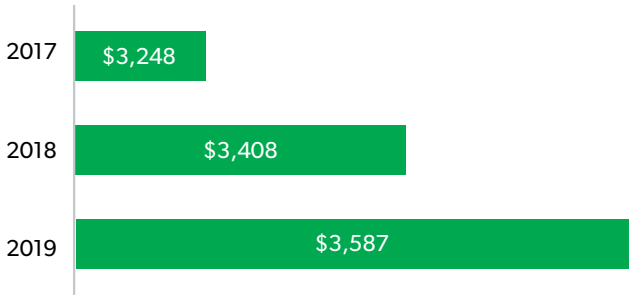
This loan portfolio increased by $14.5 million in 2019, whereas it had remained stable in 2018 due to aggressive competition for point-of-sale financing. A new strategy was deployed in the fourth quarter of 2018, and it seems to have paid off in 2019.

Business loans

The business loan portfolio once again saw impressive growth in 2019, totalling $1,246 million overall, compared to $1,155 million in 2018. This represents a growth rate of 7.9%. Out-of-province partnerships were important contributors to this growth in addition to the fishing industry, which again performed well this year.

Deposits

($ million)



The deposit portfolio grew significantly again this year. It posted an increase of 5.3%, or $179 million, compared to 2018, bringing the total to $3,587 million. The strength of the fishing industry was a key factor in this growth. The aging of New Brunswick's population and our membership creates a more favourable environment for depositors than for borrowers.

Capital management

Governance

UNI recognizes the importance of sound capital management and has put in place a series of measures:

- Annual review of the capital risk management policy by the Board of Directors
- Annual internal process for assessing capital adequacy
- Quarterly capital management reports to the Board of Directors
- Monthly monitoring of various capital indicators
- Annual three-year capitalization plan, updated quarterly, to ensure long-term capital adequacy

UNI uses two ratios to ensure capital adequacy:

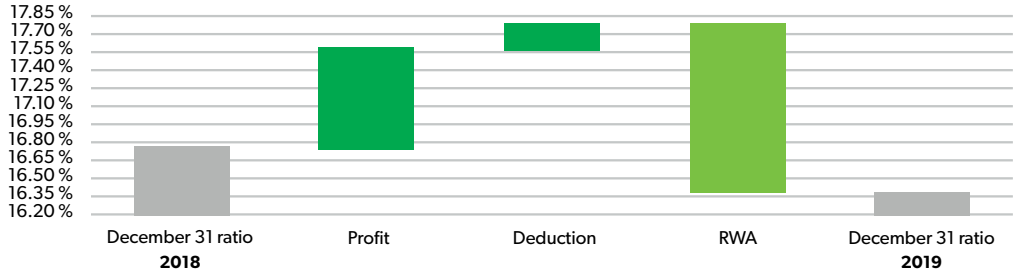
Capital to at-risk assets ratio

This ratio assesses risk-weighted capital adequacy. OSFI's Capital Adequacy Requirements guideline prescribes a minimum ratio for financial institutions. UNI easily achieves this minimum and compares favourably to other large Canadian banks. Our capital is also mainly made up of shares and retained earnings, which are considered as the highest quality capital.

($ thousand and %)	2019	2018	2017
Shares	$4,322	$4,367	$4,426
Retained earnings	427,747	407,712	394,098
Capital stock value	**432,069**	**412,079**	**398,524**
Deduction	(29,053)	(34,201)	(16,472)
Regulatory capital (CET1)	**$402,772**	**$377,878**	**$382,052**
Tier 2 capital	15,695	13,265	0
Total regulatory capital	**$418,467**	**$391,143**	**$382,052**
Risk-weighted assets			
Credit risk	1,967,721	1,799,476	1,629,236
Operational risk	268,888	261,822	257,094
Other	222,537	196,329	211,679
Total risk-weighted assets	**$2,459,146**	**$2,257,627**	**$2,098,009**
CET1 risk asset capital ratio	**16.4%**	**16.8%**	**18.2%**
Total risk asset capital ratio	**17.0%**	**17.3%**	**18.2%**

Annual fluctuations in the CET1 ratio

(in %)



The CET1 capital ratio had decreased by 0.4% as at December 31, 2019. UNI's surplus earnings helped generate 0.8% of the CET1 capital ratio in 2019, and the decrease in deductions improved the CET1 capital ratio by 0.2%. However, the increased credit risk took up 1.4% of CET1 capital. The higher credit risk is mainly due to the growth in business loans and changes in the composition of the securities portfolio.

Leverage ratio

OSFI's Leverage Requirements Guideline calls for compliance with another capital ratio, namely the leverage ratio. Capital must be at least 3% of non-risk-weighted assets. UNI's ratio is 9.2%.

($ thousand and %)	2019	2018	2017
CET1	$402,772	$377,878	$382,052
Risk-adjusted assets	$4,380,590	$4,140,793	$3,895,478
Leverage ratio	**9.2%**	**9.1%**	**9.8%**

Off-balance-sheet arrangements

In the normal course of operations, UNI manages investment portfolios for many of its client members, who can deposit their savings in investment funds at UNI's business locations. This savings portfolio involves off-balance-sheet arrangements.

The value of our portfolio of investment funds under management totalled $618 million on December 31, 2019, up $98 million from $520 million in 2018.

This line of business has grown substantially in recent years, especially in 2019, thanks to a booming stock market. This helps diversify our product offering to client members. UNI would like to position itself as an important player in New Brunswick's investment fund management market to better serve our client members and grow their assets.

UNI also offers its client members a range of credit instruments to meet their financing needs. These include credit commitments and standby letters of credit. As at December 31, 2019, these off-balance-sheet credit instruments totalled $869 million, up $72 million from the 2018 total of $797 million.

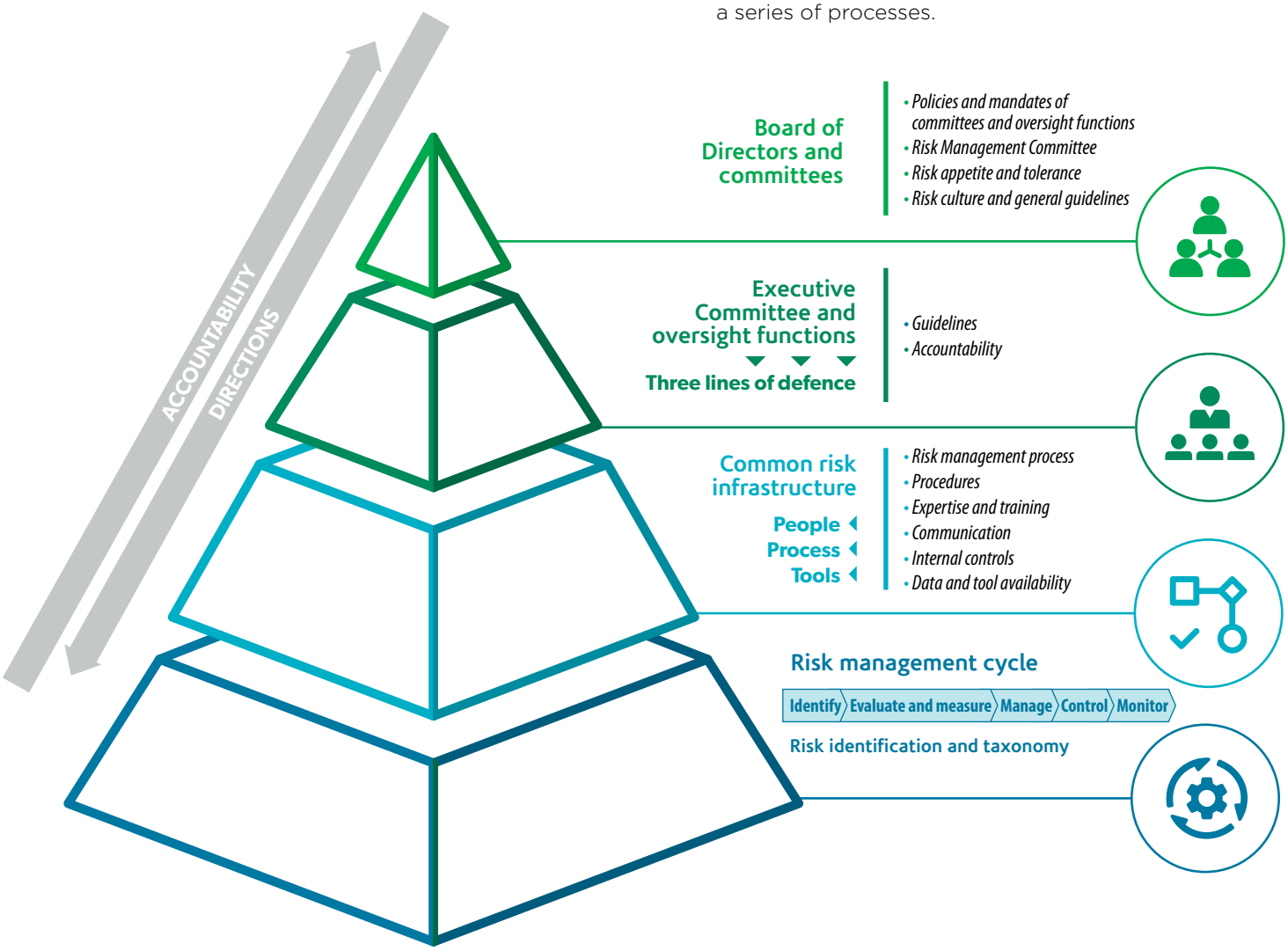
Risk **management**

UNI has a risk management oversight function which reports to the Chief Risk Officer (CRO). The CRO oversees the implementation of a risk management framework for UNI and its subsidiaries to ensure compliance with requirements established by OSFI and other regulatory authorities.

Risk management framework

The risk management framework is conservative, complete, efficient and consistent throughout the organization. It covers all UNI and subsidiary activities by establishing a global and coordinated approach to integrated risk management. The compliance management framework is part of the risk management framework.

This framework is based on a strict, formal and dynamic governance structure and a transparent, collaborative risk culture aimed at guiding business development and supervising and controlling risks throughout the organization. In addition to governance and culture, risk management includes a series of processes.



Governance

UNI's risk management framework is supported by a governance structure aligned with its organizational context. The Board of Directors has a risk management committee in place along with a number of other committees to oversee the organization's specific activities and the associated risks. It also makes use of oversight functions such as risk management, compliance, finances, internal audit and credit in the day-to-day monitoring of the organization's risks.

The Board of Directors expresses its risk orientations through the Risk-Taking Propensity Framework (RTPF). UNI manages risk by adopting three lines of defence to provide the Board of Directors and the Executive Committee assurance that all risks remain within the tolerance levels set out in the RTPF. This framework determines the appetite, tolerance and nature of risks that UNI is willing to accept in targeting its strategic and business objectives. Risk appetite and tolerance must be determined within UNI's capacity for risks. The risk management oversight function provides day-to-day coordination of the framework in accordance with the orientations of the Board of Directors. UNI continues to improve the efficiency of its three lines of defence in order to guarantee a truly efficient risk governance system tailored to the needs of the organization and the strict requirements of the industry.

Risk culture: "Risk is everybody's business"

The Board of Directors promotes a balanced risk-taking approach offering adequate return on equity to maintain a high level of capital while remaining competitive and not eroding the collective objectives of its client members or communities. The spirit of its risk culture is based on the following characteristics:

- Rigorous, formal, proactive, dynamic and comprehensive risk management
- Transparent communication
- Empowerment of one and all, and clear accountability
- Common language
- A clear vision of risk appetite and risk tolerance
- Risk management as an integral part of strategies
- A Board of Directors that is actively committed to risk governance and sets the tone
- An Executive Committee that implements the policies approved by the Board of Directors and leads by example
- An appropriate structure and allocation of the necessary resources to daily risk management
- Proper division of labour within a rigorous process based on use of the three lines of defence
- A compensation system that promotes sound risk management

Globally, UNI takes and assumes risks in a way that supports sustainable financial performance that reflects its cooperative nature while maintaining a sufficient level of capital to cover all its risks in crisis situations and support its strategic plan.

Risk appetite

Corresponds to UNI's target level or the level it wishes to maintain in order to achieve its strategic and business goals.

Risk tolerance (threshold and limit)

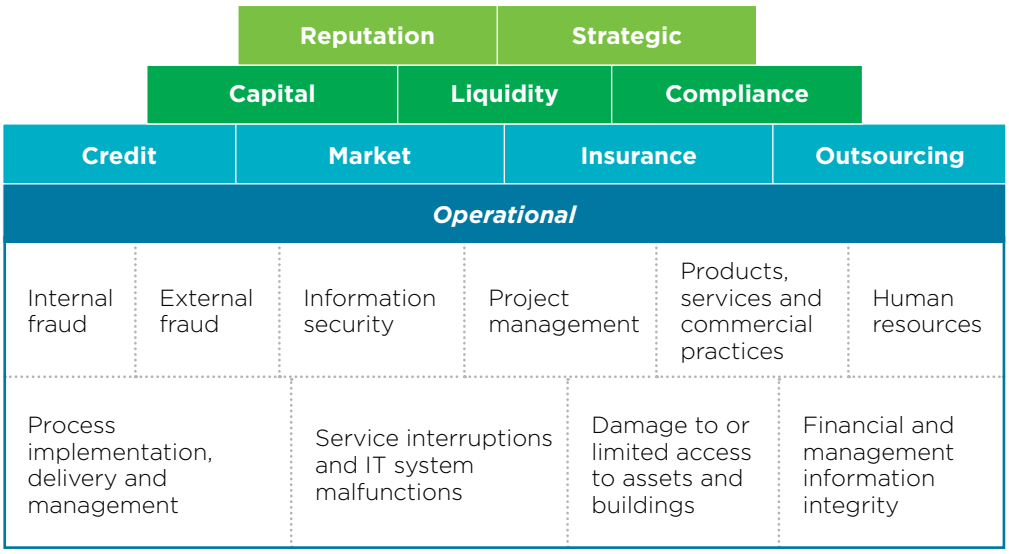
Corresponds to the threshold and limit established by taking into consideration risk-taking ability. UNI does not want to be in this zone.

Capacity

Corresponds to equity, forecast and actual profits, tools, experts, knowledge and UNI personnel needed to manage a risk. In terms of risk level, regulatory thresholds also limit UNI's capacity.

A successful and rigorous risk culture can be defined by the use of a common language. Being able to categorize risks and consistently and cohesively define them across the organization significantly contributes to daily risk management. UNI classifies its risks under ten categories. Operational risk, due to its disparate nature, has ten additional subcategories.

Risk taxonomy



Strategic risk

The material gap between the financial results of UNI and its subsidiaries and the anticipated results set out in its strategic plan. This financial gap may be linked to:

- *Inappropriate choices of strategies, business models, strategic partners or operation plans depending on its financial situation, operational capacity, expertise, competitive positioning, or business or economic environment*
- *Adequacy of the allocation of human, financial and material resources to realize its strategy*
- *Misalignment of sectorial plans with UNI's strategic plan*
- *Voluntary or involuntary inaction in response to a significant change in the economy or in the competitive or business environment*

Each year, the Board of Directors adopts a strategic plan which contains both quantitative targets (e.g., portfolio growth, financial performance) and organizational targets (e.g., establishment of a risk management structure, strategic projects). The Board of Directors conducts a quarterly review of the status of this strategic plan in conjunction with the members of the Executive Committee. The Executive Committee implements action plans to ensure that strategic objectives will be reached.

Reputation risk

Revenue losses due to activities, actions or practices undertaken by UNI that are significantly below the expectations of members, clients, employees or the general public. This risk often arises due to ineffective management of one or more other risk categories, which causes a loss of confidence or significant negative comments in traditional or social media.

UNI takes its reputation very seriously. It continuously ensures that these actions, methods and behaviours are aligned with its cooperative values. The Executive Committee closely oversees the marketing of new products and services as well as changes to our existing products and services.

UNI's client satisfaction rate is a key indicator of its reputation risk. UNI has been monitoring this rate closely for many years. To ensure that it is positioned to react promptly to fluctuations in customer satisfaction levels, UNI surveys individuals and businesses on a regular basis. The client satisfaction rates of these two groups of clients present a positive portrait.

Capital risk

Probable financial losses (or shortfalls) or losses of business opportunities resulting from the lack of necessary equity to fully implement the strategy or the retention of a commercial activity, business unit or subsidiary or of UNI in general due to a shortfall or improper allocation of capital. This risk also covers situations in which UNI may not have enough equity to maintain activity comprehensiveness due to erosion of its capital under regulatory ratios.

UNI maintains high levels of capital. It is proud of the financial soundness it offers its client members and it takes the appropriate actions to maintain a level of comfort exceeding regulatory ratios.

Every year, UNI carries out stress tests to determine the organization's resistance level in the event it had to manage a crisis situation. UNI successfully remains above regulatory ratios in all scenarios, including a severe real estate crisis.

Liquidity risk

Possible losses resulting from the use of expensive and unplanned sources of funding in order to continue honouring UNI's financial obligations in a timely manner. Financial obligations include commitments to depositors, borrowers (disbursement of approved loans), suppliers and client members. This risk is due primarily to asymmetry between the cash flows related to assets and those related to liabilities, including the payment of monies owed to suppliers and dividends to client members.

UNI presents a favourable liquidity level on the Canadian financial institution market. The main source is personal and business client member deposits, but it also uses mortgage securitization channels guaranteed by CMHC to diversify its sources. UNI also has lines of credit with other Canadian financial institutions. It has established risk indicators, alerts, thresholds and limits to ensure that its liquidity level is always at a comfortable level and always exceeds regulatory requirements. The specific purpose of alerts is to detect a potential liquidity crisis.

Compliance risk

Losses that may or may not result from litigation, penalties, fines or financial or other sanctions (increased surveillance by regulatory organizations) linked to inappropriate practices that do not comply with applicable regulations. This risk is due to the possibility of UNI's straying from the expectations provided in laws, rules, regulations, standards or other regulatory requirements. This risk also includes significant unplanned charges incurred to remain in compliance with current regulation or regulatory modifications.

UNI has a regulatory monitoring process which allows the identification of amendments to laws, rules and other regulatory requirements. When applicable, UNI adjusts its policies and procedures as promptly as possible to remain compliant.

MONEY LAUNDERING

UNI has a mechanism in place to combat money laundering and terrorist financing in compliance with the governing legislation (PCMLTFA) as well as OSFI requirements.

Credit risk

Unplanned financial losses due to the inability or refusal of a borrower, endorser, guarantor or counterparty to fulfil its entire contractual obligations to repay a loan or to meet any other pre-existing financial obligation.

Credit risk includes the risks of default, concentration and exposure to major commitments with a single counterparty.

Concentration risk: Concentration risk is a risk resulting from major exposure to a single factor (e.g., industrial activity sector).

Credit risk is among the most significant risks for UNI. Our credit portfolio is made up of residential mortgage loans, personal loans and business credit. There are two distribution channels for personal loans, the first being loans offered directly through our business locations and the other products offered through retailers.

UNI's Board of Directors establishes the policy on credit risk management, which is implemented by the representatives responsible for granting loans and managing credit products.

UNI uses rating systems supporting the quantitative assessment of borrowers' credit risk level. These systems are used for credit granting, review and management. At December 31, 2019, the credit portfolio totalled $3.4B, including $1.66B in residential mortgage loans.

Credit granting

UNI's Board of Directors establishes approval limits for the Credit Committee and Chief Credit Officer (CCO). The CCO then establishes approval limits for the various staff members responsible for approving credit applications.

Credit decisions are based on a risk evaluation and on factors such as the credit risk management policy, credit practices and procedures, compliance and available collateral.

Loans to retail clients – Personal

Our personal loan portfolio is composed of residential mortgages, loans and personal lines of credit as well as point-of-sale financing. Each decision is assigned to a different level within our independent business line risk management teams. Generally, decisions concerning credit approval for personal clients are based on risk ratings generated using credit risk predictive models. For riskier cases, the analysis is done using the credit team's professional assessment of the other characteristics of the case. The goal of credit approval and portfolio management methods is to standardize the credit-granting process and rapidly detect problem loans. The automated risk rating system assesses the solvency of each client member periodically. This process allows us to promptly track risk trends both on an individual client basis and collectively for entire portfolios.

Business loans

The business loan category is made up of a portfolio of loans to small businesses (retail businesses), a portfolio of loans to mid-sized businesses and a portfolio of loans to large businesses.

For these main portfolios, the ratings process includes 17 ratings consolidated into ten categories.

The following table compares internal ratings with external agency ratings.

Rating	S&P	Description
1 to 2	AAA to A	
2.5	A- to BBB+	Prime quality
3 to 4	BBB to BBB-	
4.5 to 5.5	BB+ to BB-	Satisfactory quality
6 to 7	B+ to B-	
7.5 to 9	B- to C	Under supervision
10	D	Impaired and defaulted loans

The following table shows the credit quality of the business loan portfolio (amounts shown were calculated before the impact of provisions for credit losses and without account overdrafts).

($ thousand and %)	2019		2018	
Business loans				
Prime quality	$390,417	31%	$370,066	32%
Satisfactory quality	779,826	63%	698,220	61%
Under supervision	49,122	4%	55,527	5%
Impaired and defaulted loans	25,317	2%	29,747	2%
Total	$1,244,682	100%	$1,153,559	100%

Retail clients – Businesses

Rating systems based on validated statistics are used to assess the credit risk associated with small business loans.

These systems use historical data on the behaviour of borrowers with characteristics or profiles similar to those of the applicant and compare the products used to estimate the risk associated with each transaction.

These systems are used at the initial approval stage and then on an ongoing basis to assess portfolio risk. Periodic updating of borrowers' level of risk allows us to proactively manage the credit risk of our portfolios. For riskier cases, the analysis is done using the credit team's professional assessment of the other characteristics of the case.

Medium-sized and large businesses

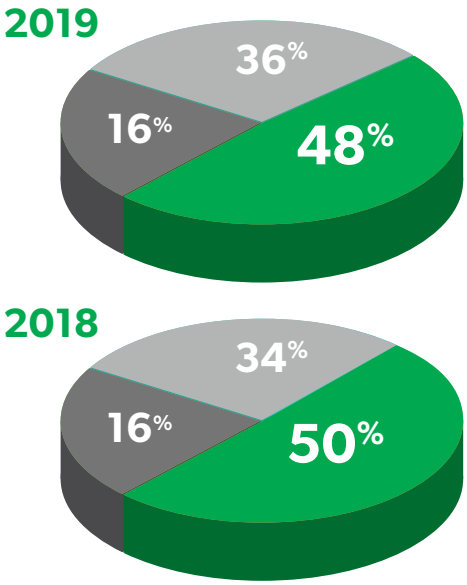
Credit is granted to medium-sized and large businesses based on a detailed analysis of the file. The financial, market and management characteristics of each borrower are analyzed using tools such as credit risk assessment models. Quantitative analysis using financial data is supplemented by professional assessment of the file's other characteristics by the credit team. On completion of this analysis, each borrower is assigned a rating corresponding to its level of risk. Regardless of the rating assigned, the final decision is made by the hierarchical level with the required approval limit.

Credit risk mitigation

When a loan is granted to a client member, UNI secures collateral for certain products in order to mitigate the borrower's credit risk. This collateral typically takes the form of assets, such as capital, accounts receivable, stocks, investments, government securities or shares. As needed, UNI uses available risk-sharing mechanisms with other financial institutions.

Breakdown of loans by borrower category

At December 31, 2019

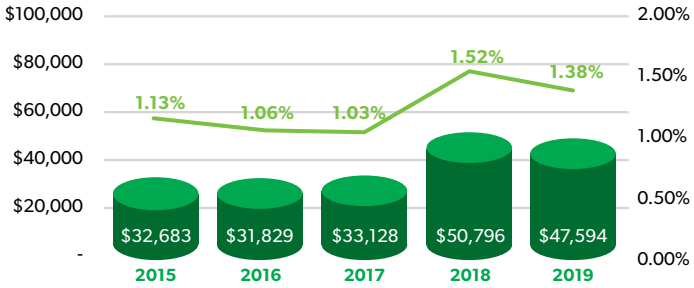


- Mortgages personal
- Consumer and other personal loans
- Businesses

Loan portfolio quality

At December 31, 2019

($ thousand and %)



- Gross impaired loans
- Ratio of gross impaired loans

UNI's loan portfolio continues to be very sound. As at December 31, 2019, total gross impaired loans stood at $47.9M, down $2.9M from 2018. The significant increase in 2018 was due to the switch from IAS 39 to IFRS 9. The new standard requires fully guaranteed loans, loans affected by default contagion and restructured loans to be added to impaired loans.

UNI's operations are concentrated in New Brunswick. On December 31, 2019, the loans granted to client members in this province represented 95.7% of our total loan portfolio. Due to this geographic concentration, our earnings depend heavily on the prevailing economic conditions in New Brunswick. A deterioration of conditions could have a negative impact on:

- Past due loans
- Foreclosed assets
- Claims and legal proceedings
- The value of guarantees available for loans

UNI is nevertheless pursuing a prudent diversification strategy for its business credit portfolio outside of New Brunswick.

Market risk

Possible losses resulting from potential changes to the interest or exchange rate, the market prices of shares, credit gaps, or desynchronization of market indexes or liquidity. Exposure to this risk arises from negotiations or investments creating on- and off-balance sheet positions.

Interest rate risk

UNI has adopted a strategy through which it takes on a very low level of risk associated with interest rate fluctuations. This strategy uses interest rate swaps to reduce the duration gap between assets and liabilities. It maintains a duration gap between assets and liabilities within the parameters established by the Board of Directors.

For the Acadia Life subsidiary, interest rate risk is managed using stochastic scenarios that determine the potential impact of interest rate fluctuations on the company's capital. Risk limits have been established to ensure that the company's risk profile corresponds to the risk appetite determined by the Board of Directors.

Foreign exchange risk

UNI does not maintain any significant positions on exchange markets. It holds only the foreign currencies (mainly US dollars) required to meet the anticipated needs of its client members.

Acadia Life holds a limited volume of American shares in US dollars, on which there is no protection against the risks associated with fluctuations in the exchange rate. This represents less than 5% of Acadia Life's investments.

Investment management

An investment policy covers the composition and quality of securities in the portfolios as well as the various portfolio management parameters for all funds under management associated with liquidity risk management.

Insurance risk

Possible losses incurred when paid compensation differs in practice from estimated assumptions (mortality, lapse, etc.) incorporated into the planning and pricing of insurance products.

UNI assumes life insurance risks (mortality, lapse) only for life insurance and annuity products offered by Acadia Life. This subsidiary does not offer complex insurance products. Acadia Life maintains a capital level significantly exceeding regulatory requirements.

Outsourcing risk

Possible losses (financial or other) due to failure of a supplier (including outsourcers and partners) to fulfil all or part of its non-financial contractual obligations (contractual misunderstanding). In such a case, potential costs associated with the implementation of an alternative solution to the services of the supplier in question could be incurred.

Although this is typically classified as falling under operational risk, UNI deems prudent to treat it as a separate risk category given the significance of this risk for the organization.

In order to achieve its strategic and business goals, UNI uses the services of various external suppliers. Among them, there are four agreements classified as major contracting agreements in terms of its outsourcing policy, the most significant being the agreement with Fédération des caisses populaires Desjardins du Québec.

UNI makes use of the information technology services offered by Desjardins in accordance with the same standards that Desjardins offers to its own caisses. This strategy allows UNI to take advantage of the reliability of the systems maintained by a large financial institution that is highly regarded across Canada. UNI also benefits from the improvements made by Desjardins to its systems, procedures, rules, products and services. However, UNI must regularly adapt new features launched by Desjardins to the Acadian reality and monitor anticipated changes at Desjardins with a view to adapting certain solutions or internal communications. UNI and its key suppliers maintain excellent business relationships supported by management processes that provide for adequate risk management among other considerations.

Operational risk

Losses resulting from shortcomings or failures related to procedures, employees, internal systems or external events. Outsourcing risk is treated separately due to its significance for UNI. Because of its heterogeneous nature, this risk is divided into ten distinct components.

UNI has established policies, guidelines, procedures, computer systems, rules, standards, business continuity plans and internal controls to mitigate any losses that might arise from various sources associated with its operations, such as:

- Internal fraud
- External fraud
- Damage to or limited access to tangible assets and buildings
- Service interruptions and IT system malfunctions
- Information security
- Project management
- Process implementation, delivery and management
- Products, services and commercial practices
- Human resources
- Financial and management information integrity

Additionally, UNI has insurance in place to cover any significant financial losses.

Office of Dispute Management

In 2019, the Office of Dispute Management improved its complaint handling process. Moving forward, business locations and regional offices are the first points of contact since they have the ability and availability to respond efficiently and quickly to concerns raised by client members.

Caisse populaire acadienne

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019

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Management's Responsibility for Financial Information

The consolidated financial statements of Caisse populaire acadienne ltée as well as the information included in this Annual Report are the responsibility of its management, whose duty is to ensure their integrity and fairness.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements necessarily contain amounts established by management based on estimates that it deems to be fair and reasonable. These estimates include, among other things, the valuation of actuarial liabilities performed by valuation actuaries of Caisse populaire acadienne ltée, the valuation of the employee benefit liability and the measurement of the fair values of Caisse populaire ltée's financial instruments. All financial information presented in the Annual Report is consistent with the audited consolidated financial statements.

The Board of Directors of Caisse populaire acadienne ltée ensures that management fulfills its responsibilities with regard to the presentation of financial information and the approval of the consolidated financial statements of Caisse populaire acadienne ltée. The Board of Directors exercises this role mainly through the Audit Committees who meet with the auditor in accordance with their mandate.

The consolidated financial statements were audited by the independent auditor appointed by the Board of Directors, Deloitte LLP, whose report follows. The auditor may meet with the audit committees at any time to discuss its audit and any questions related thereto, notably the integrity of the financial information provided.

Robert Moreau, FCPA, CGA, ICD.D
Chief Executive Officer

Éric St-Pierre, CPA, CMA
Vice-President, Finance

Caraquet, Canada
March 19, 2020

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Independent Auditor's Report

To the members of
Caisse populaire acadienne ltée

Opinion
We have audited the consolidated financial statements of Caisse populaire acadienne ltée (the "Caisse"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Caisse as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Caisse in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Observations – Restated Comparative Information
We draw attention to Note 28 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Caisse'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 Caisse's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Caisse 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Caisse to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants

March 19, 2020

Caisse populaire acadienne ltée

Consolidated statement of financial position

As at December 31, 2019

(In thousands of dollars)

	Notes	**December 31, 2019**	December 31, 2018	January 1, 2018
		$	$ (restated Note 28)	$ (restated Note 28)
Assets				
Cash		**184,675**	198,146	100,193
	22	**709,012**	593,471	587,776
Loans	6			
Personal		**2,196,014**	2,178,782	2,143,790
Business		**1,245,576**	1,154,546	1,065,440
		3,441,590	3,333,328	3,209,230
Allowance for credit losses		**(28,348)**	(25,992)	(24,530)
		3,413,242	3,307,336	3,184,700
Other assets				
Accrued interest, receivables and other assets	7	**29,294**	27,235	25,646
Derivative financial instruments		**42,536**	24,684	30,459
Reinsurance assets	10	**7,767**	8,129	8,455
Taxes receivable		**614**	—	—
Deferred income taxes	19	**11,932**	17,362	19,456
Property and equipment	8	**30,892**	32,867	34,616
Intangible assets	9	**10,755**	12,855	9,847
		133,790	123,132	128,479
		4,440,719	4,222,085	4,001,148
Liabilities				
Deposits				
Payable on demand		**1,795,604**	1,640,225	1,711,076
Payable on a fixed date		**1,792,165**	1,767,874	1,537,226
		3,587,769	3,408,099	3,248,302
Other liabilities				
Borrowings	11	**143,781**	125,291	86,314
Accrued interest, payables and other liabilities	12	**77,365**	93,158	73,443
Income taxes payable		**—**	687	440
Actuarial liabilities	10	**194,503**	172,932	181,286
Derivative financial instruments		**5,626**	11,882	15,385
		421,275	403,950	356,868
		4,009,044	3,812,049	3,605,170
Commitments and contingencies	23			
Equity				
Share capital	15	**4,322**	4,367	4,426
Accumulated other comprehensive income	16	**953**	(1,372)	3,757
General reserve		**426,400**	407,041	387,795
		431,675	410,036	395,978
		4,440,719	4,222,085	4,001,148

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors

Pierre-Marcel Desjardins, ICD.D
Chair of the Board

Wanita McGraw, FCPA, CA, ICD.D
Chair of the Audit Committee

Caisse populaire acadienne ltée
Consolidated statement of income
Year ended December 31, 2019
(In thousands of dollars)

	Notes	2019	2018
		$	$ (restated Note 28)
Net financial income			
Financial income		**156,520**	134,077
Financial expense		**41,392**	37,023
Net financial income		**115,128**	97,054
Provision for credit losses	6	**7,815**	5,651
Net financial income after provision for credit losses		**107,313**	91,403
Other income			
Mainly related to the administration of deposits		**18,368**	17,426
Related to the administration of other services		**17,928**	18,177
		36,296	35,603
Insurance revenues and net annuities			
Financial income (losses) from insurance activities and annuities		**30,594**	(360)
Net insurance and annuity premiums	17	**18,477**	18,612
Net insurance and annuity benefits	18	**34,895**	3,584
		14,176	14,668
Other expenses			
Salaries and employee benefits		**69,185**	65,245
General and other expenses		**67,479**	59,620
		136,664	124,865
Income before other items		**21,121**	16,809
Gains related to the recognition of derivative financial instruments at fair value		**5,645**	3,714
Income before income taxes		**26,766**	20,523
Income taxes	19	**7,391**	5,824
Net income for the year		**19,375**	14,699

The accompanying notes are an integral part of the consolidated financial statements.

Caisse populaire acadienne ltée

Consolidated statement of comprehensive income

Year ended December 31, 2019

(In thousands of dollars)

	Notes	2019	2018
		$	$ (restated Note 28)
Other comprehensive income		**19,375**	14,699
Other comprehensive income			
Items that will not be reclassified to the consolidated statement of income			
Change in the employee benefit liability			
Change during the year	13	**265**	(725)
Deferred income taxes	19	**(86)**	236
Total of item that will not be reclassified to the consolidated statement of income		**179**	(489)
Items that will be reclassified to the consolidated statement of income			
Unrealized changes in fair value on securities at fair value through other comprehensive income			
Change during the year		**6,012**	(726)
Related income taxes	19	**(1,744)**	207
		4,268	(519)
Reclassified to net income			
Realized (gains) losses in fair value on securities at fair value through other comprehensive income		**(2,410)**	1,097
Related income taxes	19	**699**	(309)
		(1,711)	788
Cash flow hedges			
Profit (loss) relating to the fair value of hedging instruments designated for hedging purposes	14	**(327)**	—
Cumulative (profit) loss resulting from hedging instruments reclassified to net income	14	—	—
Related income taxes	19	**95**	—
		(232)	—
Total of items that will be reclassified to the consolidated statement of income		**2,325**	269
Total other comprehensive income, net of income taxes		**2,504**	(220)
Comprehensive income for the year		**21,879**	14,479

The accompanying notes are an integral part of the consolidated financial statements.

Caisse populaire acadienne ltée

Consolidated statement of changes in equity

Year ended December 31, 2019
(In thousands of dollars)

	Notes	Share capital	Accumulated other compre-hensive income	Distributable net income	General reserve	Total equity
						2019
		$	**$**	**$**	**$**	**$**
Balance as at December 31, 2018, as previously reported		**4,367**	**(1,372)**	**—**	**409,184**	**412,179**
Impact of restatement	28	**—**	**—**	**—**	**(2,143)**	**(2,143)**
Restated balance as at January 1, 2019		**4,367**	**(1,372)**	**—**	**407,041**	**410,036**
IFRS 16 adoption	4	**—**	**—**	**—**	**(195)**	**(195)**
Balance, beginning of year		**4,367**	**(1,372)**	**—**	**406,846**	**409,841**
Net income for the year		**—**	**—**	**19,375**	**—**	**19,375**
Other comprehensive income		**—**	**2,325**	**—**	**179**	**2,504**
Comprehensive income		**—**	**2,325**	**19,375**	**179**	**21,879**
Net transfer to the general reserve	20	**—**	**—**	**(19,375)**	**19,375**	**—**
Net change in share capital		**(45)**	**—**	**—**	**—**	**(45)**
		(45)	**—**	**(19,375)**	**19,375**	**(45)**
Balance, end of year		**4,322**	**953**	**—**	**426,400**	**431,675**

	Notes	Share capital	Accumulated other compre-hensive income	Distributable net income	General reserve	Total equity
						2018
		$	$	$	$	$
Balance as at December 31, 2017, as reported		4,426	3,757	—	390,344	398,527
Impact of restatement	28	—	—	—	(2,549)	(2,549)
Restated balance as at January 1, 2018		4,426	3,757		387,795	395,978
IFRS 9 adoption		—	(5,398)	—	5,036	(362)
Balance, beginning of year		4,426	(1,641)	—	392,831	395,616
Net income for the year		—	—	14,699	—	14,699
Other comprehensive income		—	269	—	(489)	(220)
Comprehensive income		—	269	14,699	(489)	14,479
Net transfer to the general reserve	20	—	—	(14,699)	14,699	—
Net change in share capital		(59)	—	—	—	(59)
		(59)	—	(14,699)	14,699	(59)
Balance, end of year		4,367	(1,372)	—	407,041	410,036

The accompanying notes are an integral part of the consolidated financial statements.

Caisse populaire acadienne ltée

Consolidated statement of cash flows

Year ended December 31, 2019

(In thousands of dollars)

	2019	2018
	$	$ (restated Note 28)
Operating activities		
Net income before income taxes	**26,766**	20,523
Adjustments to determine cash flows		
Depreciation of property and equipment and amortization of intangible assets	**8,337**	5,577
Loss on disposal of property and equipment and intangible assets	**375**	24
Impairment of other assets	**564**	—
Amortization of premiums and discounts on securities	**(1,564)**	(139)
Net change in actuarial liabilities	**21,571**	(8,354)
Change in investment contract liabilities	**(2)**	(44)
Provision for credit losses	**7,815**	5,651
Loss (gain) on securities	**(29,431)**	10,466
Other items at fair value	**(5,645)**	(3,714)
Change in the employee benefit liability	**(2,819)**	(2,579)
Change in reinsurance assets	**362**	326
Net change in interest receivable and payable	**(3,033)**	(2,977)
Net change in loans	**(113,721)**	(128,797)
Net change in deposits	**179,670**	159,797
Net change in derivative financial instruments	**(18,463)**	5,986
Net change in other assets and liabilities	**(11,733)**	23,001
Income taxes paid during the year	**(4,217)**	(3,201)
	54,832	81,546
Investing activities		
Acquisitions of securities	**(950,184)**	(945,058)
Proceeds from disposal of securities	**868,349**	929,407
Acquisitions of property, plant and equipment and intangible assets	**(4,582)**	(6,904)
Proceeds from disposal of property, plant and equipment, and intangible assets	**480**	44
	(85,937)	(22,511)
Financing activities		
Increase of borrowings	**17,868**	38,977
Loan repayments	**(189)**	—
Net change in share capital	**(45)**	(59)
	17,634	38,918
Net (decrease) increase in cash	**(13,471)**	97,953
Cash, beginning of year	**198,146**	100,193
Cash, end of year	**184,675**	198,146
Other cash flow information relating to operating activities		
Interest received	**156,299**	142,192
Interest paid	**41,039**	36,498
Dividends received	**1,406**	1,302

The accompanying notes are an integral part of the consolidated financial statements.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

1. General information

Caisse populaire acadienne ltée (the "Caisse"), operating under UNI Financial Cooperation, is a co-operative chartered under the *Bank Act* and its activities are governed, in particular, by the Office of the Superintendent of Financial Institutions ("OSFI") of Canada and the Financial Consumer Agency of Canada. The Caisse is also a member of the Canada Deposit Insurance Corporation. The Caisse provides a complete range of financial products and services including banking services to individuals and businesses, asset management, personal insurance and damage insurance.

The headquarters of the Caisse are located at 295 St-Pierre Boulevard West, Caraquet (New Brunswick), Canada.

The Board of Directors approved these consolidated financial statements and notes on March 19, 2020.

2. Basis of preparation

International Financial Reporting Standards

These consolidated financial statements have been prepared by management of the Caisse in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on the basis of historical cost, except for the remeasurement of certain financial assets and liabilities at fair value, including securities at fair value through profit or loss, securities at fair value through other comprehensive income and derivative financial instruments.

The items included in the consolidated financial position are based on liquidity. And each item includes both short-term balances and long-term balances, if applicable.

Certain comparative amounts were reclassified to be consistent with the presentation of the consolidated financial statements of the current year. These reclassifications did not affect the Caisse's results or total assets and liabilities.

Functional currency and presentation currency

These consolidated financial statements are presented in Canadian dollars, the Caisse's functional currency.

Statement of compliance

The Caisse's consolidated financial statements are established according to IFRS effective on December 31, 2019.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

2. Basis of presentation (continued)

Changes in accounting policies

IFRS 16, Leases

In January 2016, the IASB published IFRS 16, *Leases*, that requires that companies record most lease contracts in their statement of financial position. Under this new standard, lessees will record assets and liabilities for the majority of their lease contracts. Lessor accounting however remains largely unchanged. The Caisse has elected to apply IFRS 16 to the financial statements for fiscal years beginning on or after January 1, 2019 on a modified retrospective basis.

3. Significant accounting policies

Basis of consolidation and amalgamation

These consolidated financial statements include the financial statements of the Caisse and its wholly-owned subsidiaries, Financière Acadie Inc. and Société de Services Acadie Inc. The consolidated financial statements also include the financial statements of Conseil Acadien de la Coopération Ltée, an entity that the Caisse controls by way of control of its Board of Directors.

The financial statements of all entities of the Caisse have been prepared for the same reference period using consistent accounting policies. All intra-group balances, income and expenses as well as gains and losses on internal transactions have been eliminated.

Use of estimates and judgment

The preparation of financial consolidated statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the presentation of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. The actual results could differ from these estimates.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Use of estimates and judgment (continued)

The main items for which management had to make these estimates and assumptions include insurance contract liabilities and reinsurance assets, the allowance for credit losses, the measurement of financial instruments at fair value, income taxes and the measurement of the employee benefit liability. The estimates and assumptions with respect to these items are presented below.

Insurance contract liabilities and reinsurance assets

Actuarial liabilities are determined using the Canadian Asset Liability Method ("CALM"), in accordance with accepted actuarial practice in Canada. Under CALM, the calculation of the actuarial liabilities, net of the reinsurance assets, is based on an explicit projection of cash flows using the current best estimate assumptions for each cash flow component and each significant contingency. Investment returns are based on projected investment income using the current asset portfolio and projected reinvestment strategies. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established using yield scenarios. These scenarios are determined using a deterministic model that includes testing prescribed by Canadian actuarial standards. The period used for the cash flow projection is the policy lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used. However, this period is limited to the term of the liability over which the Caisse is exposed to significant risk without the ability to adjust policy premiums or charges related to the contract. Additional information is disclosed in Note 10.

Allowance for expected credit losses

The model for determining the allowance for expected credit losses considers a number of factors and methodologies specific to credit risk, including changes in the notion of risk, the integration of prospective scenarios and the estimated life of rotation exposures. The results of the model are then examined taking into account management's judgment regarding external factors such as portfolio quality, economic conditions and credit market conditions.

The Caisse establishes separately, loan by loan, individual allowances for each loan that is considered impaired. To determine the estimated recoverable amount, the Caisse discounts expected future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan. Given the significance of the amounts and their inherent uncertainty, a change in the estimates and judgments could materially affect the amounts of the allowances.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Use of estimates and judgment (continued)

Measurement of financial instruments at fair value

The fair value of financial instruments is measured using a fair value hierarchy depending on whether the inputs used for measurement are observable or not. Note 22 shows how fair value measurements are allocated to the three levels of the hierarchy. Given the role of judgment in the application of a large number of acceptable valuation techniques and estimates for the calculation of fair values, they are not necessarily comparable among financial institutions. Fair value reflects market conditions at a given date and, therefore, may not be representative of future fair value. It also cannot be interpreted as a realizable amount in the event of immediate settlement.

Income taxes

Judgment is involved in determining the provision for income taxes. The calculation of income taxes is based on the tax treatment of the transactions recorded in the consolidated financial statements. The Caisse recognizes a liability for anticipated tax adjustments based on an estimate of the additional taxes payable. When the amount payable is different from that originally recorded, the difference affects income tax expense, and the provision for income taxes could increase or decrease in subsequent years.

Deferred tax assets and liabilities reflect management's estimate of the value of loss carryforwards and other temporary differences. Deferred tax asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates in effect on the date of reversals, which may change depending on government fiscal policies.

Management must also assess whether it is more likely than not that deferred income tax assets will be realized before they expire and, according to all available evidence, whether a valuation allowance is required on all or a portion of deferred tax assets. Moreover, in determining income taxes recorded on the consolidated statement of income, management interprets tax legislation in various jurisdictions. Using other assumptions or interpretations could lead to significantly different income tax expenses.

Valuation of the employee benefit liability

The present value of the defined benefit pension plan obligation is calculated on an actuarial basis using a number of assumptions. Any change in these assumptions would have an impact on the carrying amount of the employee benefit liability. The assumptions used and additional information can be found in Note 13.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments

All financial assets must be recognized at fair value upon initial recognition and classified as at fair value through profit or loss, fair value through other comprehensive income or amortized cost, according to the characteristics of the contractual cash flows of the financial assets and the business model relating to the management of these financial assets. Financial liabilities must be measured at amortized cost or classified as at fair value through profit or loss. Purchases and sales of financial assets are recorded using the trade date.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are measured at fair value and any change in fair value is recorded in profit or loss in the year in which these changes occur. Financial instruments can be classified in this category either because they are classified as at fair value through profit or loss or because, upon initial recognition, they were designated as at fair value through profit or loss. This designation may be made if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases or if a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to key management personnel. With the exception of the derivative financial instruments and instruments that do not meet the criteria of the test of the characteristics of the contractual cash flows corresponding solely to payments of principal and interest, financial instruments at fair value through profit or loss are classified in this category through initial designation. Interest income earned, amortization of premiums and discounts, and dividends received are included in financial income using the accrual method.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are measured at fair value and any unrealized gains or losses are recorded in other comprehensive income. Financial assets can be classified in this category either because they are classified at fair value through other comprehensive income or, if it is equity instruments, because, at initial recognition, they have been designated at fair value through other comprehensive income.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through other comprehensive income (continued)

Interest income earned, amortization of premiums and discounts, and dividends received are included in financial income using the accrual method.

For financial assets classified at fair value through other comprehensive income, gains and losses are reclassified to the consolidated statement of income when the asset is derecognized, whereas for financial assets designated at fair value through other comprehensive income, gains and losses are never reclassified to the consolidated statement of income and are reclassified immediately to distributable net income.

Classified at fair value through other comprehensive income

Financial assets classified at fair value through other comprehensive income include debt instruments for which the holding is part of a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and that meet the criteria of the test of contractual cash flows corresponding solely to payments of principal and interest.

Designated at fair value through other comprehensive income

Financial assets designated at fair value through other comprehensive income include equity instruments that were subject to an irrevocable choice, instrument by instrument. The Caisse has not designated any financial asset in this measurement category.

Financial instruments at amortized cost

Financial instruments at amortized cost are financial assets for which the holding is part of a business model whose objective is to collect the contractual cash flows and which meet the criteria of the test of contractual cash flows corresponding solely to payments of principal and interest.

Financial instruments at amortized cost are carried at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts future cash outflows or receipts over the expected life of the financial instrument or, as the case may be, over a shorter period of time to obtain the net carrying amount of the financial asset or liability.

Interest or dividends arising from these financial instruments are included in financial income and expense.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs

Transaction costs relating to the acquisition of investments at fair value through other comprehensive income are capitalized and then amortized over the term of the investment using the effective interest method, while those relating to acquisition of investments at fair value through profit or loss are recognized in net income. Those arising from the disposition of investments are deducted from the proceeds of disposition. Investment management fees are expensed as incurred. Transaction costs attributable to financial instruments at amortized cost are capitalized and amortized using the effective interest method.

Classification and recognition of financial assets and liabilities

Financial assets and liabilities are classified using the methods described below.

Cash

Cash is classified at amortized cost and includes cash on hand and current accounts.

Securities

Debt securities include money market securities, bonds, asset-backed term notes and term deposits. Income from securities is accounted for on an accrual basis.

Money market securities matched with actuarial liabilities of Acadie Life are designated as at fair value through profit or loss. Other money market securities are classified at fair value through other comprehensive income.

Bonds matched with actuarial liabilities of Acadia Life are designated at fair value through profit or loss. Other bonds are classified at fair value through other comprehensive income.

Asset-backed term notes are classified at fair value through other comprehensive income.

Term deposits are classified at amortized cost.

Equity securities include equities, investment funds and other investments.

Equities are classified at fair value through profit or loss.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification and recognition of financial assets and liabilities (continued)

Securities (continued)

Investment funds are classified at fair value through profit or loss.

Other investments mainly consist of equity securities in unrelated entities and are classified at fair value through profit or loss.

For items designated at fair value through profit or loss, with actuarial liabilities being determined according to CALM, the carrying value of the assets matching those liabilities is reflected in the calculation basis. As a result, any change in the fair value of the portion of money market securities, bonds, asset-backed term notes and investment funds matched to actuarial liabilities is included in the measurement of actuarial liabilities.

Loans

Loans are classified at amortized cost and recognized at amortized cost using the effective interest method, net of the allowance for credit losses. The allowance for credit losses on impaired loans is charged immediately to net income.

Other assets

With the exception of derivative financial instruments, financial assets included in other assets are classified at amortized cost.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates and other financial indices. Derivative financial instruments are negotiated by mutual agreement between the Caisse and the counterparty and include interest rate swaps, foreign exchange contracts and stock index options.

The Caisse recognizes derivative financial instruments at fair value, whether they are stand-alone or embedded in financial liabilities or other contracts not closely related to the financial instrument or the host contract. Stand-alone derivative financial instruments are recognized in the consolidated statement of financial position in other assets and liabilities, while embedded derivative financial instruments are reported in accordance with their characteristics with their host contract, under deposits payable on a fixed date. Changes in the fair value of stand-alone derivative financial instruments are recognized in the consolidated statement of income in gains related to the recognition of derivative financial instruments at fair value, except for changes in market-linked term deposits, which are recognized as a financial expense, as well as interest rate swaps designated in a cash flow hedging relationship. Changes in the fair value of embedded derivative financial instruments are recorded as a financial expense adjustment.

The Caisse uses derivative financial instruments primarily for asset-liability management.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
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(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification and recognition of financial assets and liabilities (continued)

Derivative financial instruments (continued)

Derivative financial instruments are mainly used to manage the interest rate risk exposure of the assets and liabilities in the consolidated statement of financial position, firm commitments and forecasted transactions.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

The foreign exchange contracts to which the Caisse is party consist of forward contracts. Forward contracts are commitments to exchange, at a future date, two currencies based on a rate agreed upon by both parties at the inception of the contract.

The Caisse has opted to apply hedge accounting only for interest rate swaps contracted since January 1, 2019. The Caisse applies the hedge accounting requirements in IFRS 9.

Deposits

Deposits are classified at amortized cost. Deposits are carried at amortized cost using the effective interest method.

Demand deposits are interest-bearing or non-interest-bearing deposits typically held in chequing accounts and savings accounts. Deposits payable on a fixed date are interest-bearing deposits usually held in fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with terms generally varying from one day to five years and maturing on a predetermined date.

Other liabilities

Borrowings and financial liabilities included in other liabilities, excluding derivative financial instruments, are classified at amortized cost and are carried at amortized cost using the effective interest method.

Impairment of financial assets

At the end of the year, the Caisse recognizes an allowance for expected credit losses for debt instruments classified at amortized cost or at fair value through other comprehensive income, as well as for some specific off-balance sheet items, i.e., credit commitments.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

The estimate of the allowance for expected credit losses is based on an impairment model that includes three different stages:

- Stage 1: For financial instruments whose credit risk has not increased significantly since initial recognition and which are not considered to be impaired, an allowance for the next 12 months expected credit losses is recognized;
- Stage 2: For financial instruments whose credit has increased significantly since initial recognition, but which are not impaired, an allowance for the lifetime expected credit losses is recognized;
- Stage 3: For financial instruments considered to be impaired, an allowance for lifetime expected credit losses remains recognized.

Over the life of the financial instruments, they may move from one stage of the impairment model to another depending on the improvement or deterioration of their credit risk. The categorization of instruments between the various stages of the impairment model is always done by comparing the change in credit risk between the end-of-year date and the initial recognition date of the financial instrument and analyzing the objective evidence of impairment.

Assessment of significant increase in credit risk

In determining if the credit risk of the financial instrument has significantly increased since the initial date, the Caisse bases its assessment on the change in the risk of default over the expected lifetime.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Assessment of significant increase in credit risk (continued)

In order to achieve this, the Caisse compares the risk rating of the financial instrument at the reporting date with the risk rating on the date of initial recognition. In addition, reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition are also taken into account, including qualitative information and future economic condition; to the extent that these affect the assessment of the probability of default of the instrument. The criteria used to determine the significant increase of credit risk are based primarily on a change in the increase in credit rating by member type. A simplification linked to the low credit risk allows to consider that there has not been a significant increase in credit risk since initial recognition for instruments whose risk is considered low at the reporting date. All instruments that are 30 days past due and commercial financing on the "watch list" are also migrated to Stage 2 of the impairment model.

Measurement of the allowance for expected credit losses

The allowance for expected credit losses on impaired loans is measured individually, while the allowance for performing loans is measured collectively. Financial instruments for which credit losses are measured on a collective basis are grouped according to the similarity of the credit risk characteristics.

Changes in allowance for losses due to the passage of time are recognized in financial income, while those attributable to the revision of expected cash inflows are recognized in the allowance for loan losses.

Loan portfolios that have not been subject to an allowance for impaired loans are included in a group of assets with similar credit risk characteristics and are subject to an allowance for expected credit losses.

The method used by the Caisse to measure the allowance takes into account the risk parameters of the various loan portfolios. Models used to determine the allowance take into account a number of factors, including probabilities of default (frequency of losses), losses given default (size of losses) and exposures at default. These parameters are based on historical loss patterns and are determined by the member types, namely personal retail, business retail and non-retail. In addition, for each of these member types, two types of products are identified: line of credit or term loan.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Measurement of the allowance for expected credit losses (continued)

The measurement of allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of the multiplication of the three credit risk parameters, namely the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EaD").

The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using appropriate segmentation that takes into account common credit risk characteristics. For financial instruments in Stage 1 of the impairment model, the projection of credit risk parameters is performed over a maximum horizon of 12 months, while for those in Stage 2, the projection is performed on the remaining life of the instrument. The allowance for expected credit losses also takes into account information on future economic conditions. The measurement of the allowance relies heavily on management's judgment and depends on its assessment of current credit quality trends in relation to business segments, impact of changes in its credit policies and economic conditions.

Finally, the allowance on off-balance sheet items, such as unrecognized credit commitments, is recognized in other liabilities.

Maturity date and expected life

The expected life corresponds to the maximum contractual maturity date during which the Caisse is exposed to credit risk, including when the options for extension are at the discretion of the borrower. The exception of this guidance is rotating exposures, consisting of lines of credit and Atout margins for which the life is estimated and corresponds to the period for which there is exposure to credit risk without the expected credit losses mitigated by normal credit risk management measures.

Inclusion of the passage of time in the calculation of allowance

Measurement of expected credit losses takes into account the time value of money. The effective discount rate used is based on the different types of financial instruments as well as the nature of the rate at initial recognition, either fixed or variable.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
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(In thousands of dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Definition of default

The definition of default for determining financial instruments that will be classified in Stage 3 is the same as that used for the Caisse's internal credit risk management. This definition considers observable data about quantitative and qualitative events that have a detrimental effect on estimated future cash flows.

Definition of impaired financial assets

The Caisse assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered to be impaired if such evidence exists, specifically when one of the following conditions is met: (a) there is reason to believe that a portion of the principal or interest cannot be collected; (b) the interest or principal repayment is contractually more than 90 days past due, unless the loan is fully secured and in the process of collection. A loan is considered to be past due when a borrower has failed to make a payment when contractually due.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. However, for loans fully secured by government or impaired by contagion, interest will not be capitalized to the loan. Payments subsequently received are recorded as a reduction of the principal. Interest revenues on impaired loans are calculated on the net value of the loan. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no longer any doubt as to the collection of the loan, or when it is restructured, in which case it is treated as a new loan, and there is no longer any doubt as to the collection of the principal and interest.

Write-off of loans

A loan is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded in net income.

Assets foreclosed

Collateral is obtained if deemed necessary for a member's loan facility, after an assessment of their creditworthiness. Collateral usually takes the form of an asset such as cash, government securities, stocks, receivables, inventories or property and equipment.

Assets foreclosed to settle impaired loans are recognized on the date of foreclosure at their fair value less costs of disposal. The fair value of foreclosed assets is determined by using a comparative market analysis, based on the optimal use of the assets, and considering the characteristics, location and market of each foreclosed asset. Transaction prices for similar assets are used, but certain adjustments are made to take into account the differences between assets on the market and the foreclosed assets being evaluated. Any subsequent change in fair value is recorded in the statement of income.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Hedge accounting

The Caisse designates certain derivatives as hedges of interest rate risk in fair value or cash flow hedges.

At the inception of the hedge relationship, the Caisse documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Caisse indicates whether the hedging relationship meets all of the following effectiveness requirements for the hedge:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Caisse actually hedges and the quantity of the hedging instrument that the Caisse actually uses to hedge that quantity of hedged item.

Fair value hedges

Changes in the fair value of qualifying hedging instruments are included in profit or loss.

The carrying value of a hedged item not already measured at fair value is adjusted according to the fair value change attributable to the hedged risk and an equivalent amount is included in net income.

Net profits or net losses representing the ineffectiveness of hedges recognized in profit or loss are presented under Other items in the income statement.

The Caisse discontinues using hedge accounting only in the case where a hedging relationship (or a portion of the hedging relationship) no longer satisfies the eligibility criteria (following rebalancing, if applicable).

This includes situations in which the hedging instrument expires or is sold, terminated or exercised. The discontinuation of hedge accounting applies prospectively. Any adjustment to the carrying value of the hedged instrument resulting from the hedged risk is amortized to profit or loss starting on the date of discontinuation.

Cash flow hedges

The effective portion of changes in the fair value of qualifying derivatives is recognized in other comprehensive income and accumulated in the cash flow hedge reserve, for an amount not exceeding the cumulative change in the fair value of the hedged item since the inception of the hedge. The profit or loss relating to the ineffective portion is immediately recognized in profit or loss, under Other items.

Amounts recognized previously as other comprehensive income and accumulated in equity are reclassified in profit or loss in periods where the hedged item affects net income in the same line item as the hedged item recognized. If the Caisse expects that all or a portion of a cumulative loss will not be recovered in the cash flow hedge reserve during future periods, this amount is immediately reclassified to profit or loss.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

La Caisse discontinues using hedge accounting only in the case where a hedging relationship (or a portion of the hedging relationship) no longer satisfies the eligibility criteria (following rebalancing, if applicable). This includes situations in which the hedging instrument expires or is sold, terminated or exercised.

The discontinuation of hedge accounting applies prospectively. Any profit or loss recognized in other comprehensive income and accumulated in the cash flow hedge reserve at that time remains in equity and is reclassified in net income when the anticipated transaction has an impact on net income. When an anticipated transaction is no longer expected to occur, the profit or loss accumulated in the cash flow hedge reserve is immediately reclassified to profit or loss.

Reinsurance assets

In the normal course of business, the Caisse uses reinsurance to limit its exposure to risk. The reinsurance assets represent amounts owed to the Caisse by reinsurance companies for ceded insurance contract liabilities. These amounts are calculated in a manner similar to the actuarial liabilities for future benefits under insurance contracts, in accordance with the reinsurance agreements. The reinsurance assets are tested for impairment annually. When there is objective evidence that a reinsurance asset is impaired, the carrying value of that asset is written down to its recoverable value and the resulting loss is recognized in profit or loss.

Property and equipment

Land is recorded at cost. Buildings and equipment and other are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives on a straight-line basis. Gains and losses from disposal are included in net income in the year in which they occur and are included in Other income. Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When the carrying value exceeds the fair value, the carrying value is adjusted and an impairment loss is recognized in profit or loss.

Buildings	5 to 60 years
Equipment and other	1 to 30 years

Intangible assets

Intangible assets include software, acquired or internally generated, and are recorded at cost. They are amortized over their useful lives on a straight-line basis and using terms of 1-15 years. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When the carrying value exceeds the recoverable amount, the carrying value is adjusted and an impairment loss is recognized in profit or loss.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Assets held for sale

An asset is classified as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use, and such a sale transaction is highly probable. An asset held for sale is measured at the lower of its carrying amount and its fair value less costs to sell.

The fair value of assets held for sale is determined by using a comparative market analysis based on the optimal use of the assets, as well as the characteristics, location and market of each asset. Transaction prices for similar assets are used and certain adjustments are made to take into account the differences between assets on the market and assets held for sale.

Leases

The Caisse elected to expense its short-term leases (term of 12 months or less) and leases of low-value assets, such as computer equipment, on a straight-line basis over the term of the lease.

As of January 1, 2019, for its other contracts, the Caisse assesses whether its new or amended contracts contain a lease.

A lease represents the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract conveys the right to control the use of an identified asset, the Caisse assesses the following:

- Is the identified asset directly or indirectly specified in the contract, or does it represent substantially all of the capacity of an asset that is physically distinct?
- Does the right of use cover substantially all of the economic benefits from use of the identified asset for a period of time?
- Does the Caisse have the right to direct the use of the identified asset? In cases where the use is predetermined, does the Caisse operate the asset or did the Caisse design the asset in a way that predetermines how and for what purpose the asset will be used?

When a lease is identified, the Caisse allocates the consideration in the contract to each of the lease components, separately from the non-lease components, on the basis of their relative stand-alone price.

A right-of-use asset (a "lease asset") and a lease liability are recognized in the statement of financial position at the date on which the asset is made available to the Caisse.

Lease asset

A lease asset is initially recognized at cost, which comprises the amount of the initial measurement of the lease liability, minus any lease payments made or any lease incentives received at or before the commencement date, plus any initial direct costs incurred by the Caisse and an estimate of costs to be incurred in dismantling, removing or restoring the asset or site, as required by the terms and conditions of the lease.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
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3. Significant accounting policies (continued)

Lease asset (continued)

The lease asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the lease asset or the end of the lease term. The useful life of a lease asset is measured on the same basis as the Caisse's other property and equipment.

The Caisse presents its lease assets with its other property and equipment in Note 8.

Lease liability

A lease liability is initially measured at the present value of the lease payments that are not paid at that date using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Caisse uses its incremental borrowing rate, which is generally the case. The lease payments comprise the following: fixed payments; variable lease payments that depend on an index or a rate, using the index or rate as at the commencement date; an estimate of the amounts to be payable under residual value guarantees; as well as amounts the Caisse is reasonably certain to pay as the exercise price of a purchase or extension option, or as a penalty to exercise a termination option.

The lease liability is subsequently remeasured at amortized cost using the effective interest method.

When there is a change in lease payments resulting from a change in an index or a rate or a change in an estimated amount, the amount of such an adjustment is offset in the unamortized cost of the lease asset or reported in the consolidated statement of income when the lease asset is fully impaired.

The Caisse presents its lease liabilities with its other borrowings (see Note 11) and the interest on its lease liabilities (calculated at the effective interest rate) with its other interest expenses in the consolidated statement of income.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Impairment of non-financial assets

The Caisse assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. Fair value is the best estimate of the amount that can be obtained from a sale during an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows. Impairment losses on that asset may be subsequently reversed and are recognized in the statement of income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine if it is impaired also requires that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test.

Insurance and investment contract liabilities

i) Classification of contracts

Insurance contracts are contracts that transfer a significant insurance risk at the time of issue of the contract. Insurance risk is transferred when the Caisse agrees to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Insurance contracts may also include the transfer of an immaterial financial risk. Contracts that do not meet the definition of an insurance contract in accordance with IFRS are classified either as investment contracts or service contracts. Investment contracts are contracts that involve financial risk without significant insurance risk.

Contracts issued by the Caisse that transfer a significant insurance risk are classified as insurance contracts in accordance with IFRS 4, *Insurance Contracts*. Contracts issued by the Caisse that do not meet the definition of an insurance contract are classified as investment contracts, in accordance with IFRS 9, *Financial Instruments*.

When a contract has been classified as an insurance contract, it remains an insurance contract for the rest of its term, even if the insurance risk decreases significantly during this period, until its expiry or the expiration of all rights and obligations. However, an investment contract may be reclassified as an insurance policy after its issue if the insurance risk becomes significant.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
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3. Significant accounting policies (continued)

Insurance and investment contract liabilities (continued)

ii) Insurance contract liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will allow the Caisse to meet all of its obligations regarding estimated future benefits, taxes other than income taxes and related estimated future expenses. The appointed actuary of the Caisse is required to determine the actuarial liabilities needed to meet its future commitments.

Actuarial liabilities are determined using the CALM, in accordance with Canadian accepted actuarial practice.

The reinsurers' share of the actuarial liabilities is recognized as an asset in the consolidated statement of financial position as "Reinsurance assets."

iii) Liability adequacy test

The Caisse meets the minimum requirements of the liability adequacy test given that it takes into consideration, when determining the actuarial liabilities, current estimates of all contractual and related cash flows, such as the costs of processing claims and cash flows resulting from embedded options and guarantees. Moreover, if the liability is inadequate, the entire deficiency is recognized in net income.

iv) Investment contract liabilities

Investment contracts of the Caisse mainly comprise annuity-certain contracts. Investment contract liabilities are classified at amortized cost and are recorded at amortized cost using the effective interest method. Amounts received as premiums are initially recognized in the consolidated statement of financial position as deposits. Subsequently, deposits and withdrawals are recorded directly as an adjustment to the liability in the consolidated statement of financial position.

v) Reinsurance

The Caisse uses reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. In addition, it purchases additional reinsurance protection against large-scale catastrophic events.

Liabilities for pending and unreported claims

These liabilities represent life insurance claims known at year-end that have not yet been settled as well as an estimate of the insurance claims for which death has occurred but no claim has yet been received by the Caisse.

Currency translation

Monetary assets and liabilities in foreign currencies are translated at the exchange rate in effect at year-end. Other assets and liabilities are translated at historical exchange rates. Statement of income items are translated at the average exchange rate for the year. Exchange gains and losses are recognized in the statement of income for the year in "Revenues related to the administration of other services."

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
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3. Significant accounting policies (continued)

Member dividends

Member dividends are a distribution of net income for the year based on the volume of activity of each member. As such, they are recognized on the consolidated statement of income.

Income taxes

The Caisse uses the tax asset and liability method of accounting for income taxes. Under this method, income taxes include both current taxes and deferred taxes. Current taxes represent the taxes on the year's taxable income. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates that were enacted or substantively enacted at the reporting date. Deferred taxes are recognized based on the expected tax consequences of the differences between the carrying value of items in the statement of financial position and their tax basis, using the tax rates that are enacted or substantively enacted for the years in which the differences are expected to reverse. A deferred tax asset is recognized to the extent that future realization of the tax benefit is more likely than not.

Pension plans

Until December 31, 2013, the Caisse participated in the Mouvement des caisses populaires acadiennes employee pension plan, as part of a multi-employer defined benefit plan that guaranteed the payment of pension benefits. Since January 1, 2014, the Caisse participates in the Régime de pension à risques partagés des employés d'UNI Coopération financière. Due to the conversion to the shared risk pension plan, the Caisse has committed to pay temporary contributions under certain conditions. The liability for these payments is determined through an analysis of probabilities and is discounted using a yield curve that takes into consideration the expected schedule of payments. The liability's annual interest expense is recorded in net income. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise. These gains and losses are also recognized immediately in the general reserve and are not reclassified to net income in a subsequent period.

Under the shared risk pension plan, the actuarial and investment risks are assumed by employees. As a result, the pension plan is recorded as if it were a defined contribution pension plan.

The Caisse also participates in two other defined benefit pension plans. Pension plan benefits are calculated similarly to those in the shared risk plan. The Caisse accounts for these plans as defined benefit plans. The cost of the benefits is determined using the Projected Unit Credit Method. The employee benefit liability is measured using an actuarial valuation in accordance with IFRS. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise. These gains and losses are also recognized immediately in the general reserve and are not reclassified to net income in a subsequent period.

The Caisse also offers employees a retirement benefit by way of a lump-sum payment. This benefit is based on the employee's salary and the number of years worked within the Caisse.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

3. Significant accounting policies (continued)

Revenue recognition

Financial income is recognized using the accrual basis of accounting. Revenues related to the administration of deposits consist primarily of fees relating to payment orders issued without sufficient funds and of service fees. These revenues are recognized when the transaction occurs in accordance with the prevailing fee agreement with the member.

Gross premiums for all types of insurance contracts are recognized as revenue when due and the amount can be determined objectively. Net premiums represent gross premiums, net of the portion ceded to reinsurers. As soon as these premiums are recognized, the related actuarial liabilities are calculated so that benefits and expenses of these products are recorded.

Other income related mainly to the administration of deposits is recognized as revenue when services are rendered, either over time or at a specific point in time. Other income related to the administration of other services consists mainly of commissions, management fees and miscellaneous revenues, and is recognized as revenue when services are rendered, either over time or at a specific point in time. Some commission revenues include variable consideration based on variable parameters and are recognized as revenue when it is highly probable that no significant reversal in the amount of cumulative revenue recognized will occur.

4. Changes in accounting policies

These standards or amendments apply to financial statements beginning on or after January 1, 2019.

IFRS 16, Leases

On January 1, 2019, the Caisse adopted IFRS 16, which was issued by the IASB in January 2016, using the modified retrospective approach whereby the comparative information for 2018 was not restated and continues to be presented in accordance with IAS 17.

The new standard establishes principles concerning the recognition, measurement and presentation of leases, as well as the information to be disclosed in this regard, from the perspective of both the lessee and the lessor. For the lessee's accounting, there will now be only one model, which requires the recognition of all assets and liabilities arising from leases.

The new standard cancels and replaces the provisions of IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

The main elements of the new standard are as follows:

- A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- The lessee recognizes a right-of-use asset in respect of the leased property and a liability in respect of the obligation to make lease payments. Exceptions are provided for short-term leases and leases for which the underlying asset is of low value.

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
December 31, 2019
(In thousands of dollars)

4. Changes in accounting policies (continued)

IFRS 16, Leases (continued)

- The asset is initially measured at cost, then depreciated like property and equipment. The liability is initially measured at the present value of the lease payments payable.
- In the statements of income and comprehensive income, the lessee presents the interest expense on the lease obligation separately from the depreciation of the right-of-use asset.
- The lessor continues to classify leases as operating leases or finance leases and recognizes them accordingly.
- The lessor provides more detailed information on the risks it is exposed to, particularly the risk related to residual value.

The new standard mainly has an impact on the recognition of the Caisse's operating leases. As at January 1, 2019, the Caisse did not have any significant commitments except for non-cancellable operating leases totalling $1,733, and it was a lessor of premises. Given that IFRS 16 replaces the straight-line expense recognition under operating leases by the depreciation of right-of-use assets and interest expense on lease obligations, the nature of the expenses related to leases is different.

Following the initial adoption of IFRS 16, as described above, the Caisse has applied the new standard, as permitted by IFRS 16, only to contracts that it had previously identified as leases under IAS 17 and IFRS 4; thus, it recognized a lease asset of $515 and a lease obligation of $791, with the difference being recognized in general reserve net of deferred income taxes of $81.

The carrying amount of the lease asset was determined as if IFRS 16 had been applied since the start of the lease, discounting it using the lease's implicit interest rate. If this rate was not available, the incremental borrowing rate at the date of first application was used.

To measure the present value of the lease obligation, the Caisse used its weighted incremental borrowing rate of 4% as at January 1, 2019. The following table presents commitments under operating leases as at December 31, 2018, and the lease obligation as at January 1, 2019.

	2019
	$
Commitments under operating leases as at December 31, 2018	**1,733**
Present value as at January 1, 2019	**795**
Present value adjustments for:	
Low-value contracts	**(4)**
Lease obligation as at January 1, 2019	**791**

Caisse populaire acadienne ltée
Notes to the consolidated financial statements
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4. Changes in accounting policies (continued)

IFRIC 23, Uncertainty Over Income Tax Treatments

On June 7, 2017, the IASB published Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments*. This interpretation clarifies how to apply the recognition and measurement requirement in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. An entity shall recognize and measure its current or deferred tax asset or liability applying the requirement of IAS 12 based on taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. The provisions of this interpretation apply retrospectively to financial statements beginning on or after January 1, 2019. The Caisse has determined that this interpretation had no impact on the consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures

On October 12, 2017, the IASB published an amendment to IAS 28, *Investments in Associates and Joint Ventures*. The amendment *Long-term Interest in Associates and Joint Ventures* clarifies the situation where an entity applies the equity method and owns long-term interests that meet the criteria to be qualified in substance as long-term net investments. This amendment applies more specifically to shares when there are losses that must be absorbed by long-term interests. The provisions of this amendment apply retrospectively to financial statements beginning on or after January 1, 2019.

The Caisse has determined that this amendment had no impact on its consolidated financial statements.

IAS 19, Employee Benefits

On February 7, 2018, the IASB published an amendment to IAS 19, *Employee Benefits*. The amendment *Plan Amendment, Curtailment or Settlement* clarifies, for defined benefit pension plans, when changes require a revaluation of the net cost of assets and liabilities involved. The amendment requires the entity to use the adjusted assumptions resulting from the reassessment to determine the cost of services rendered during the period and the net interest for the period following the changes made to the pension plans or the revaluation. The provisions of this amendment apply prospectively to financial statements beginning on or after January 1, 2019.

The Caisse has determined that this amendment had no impact on the consolidated financial statements.

IFRS 9, Financial Instruments.

On October 12, 2017, the IASB published an amendment to IFRS 9, *Financial Instruments*. The amendment *Prepayment Features With Negative Compensation* enables entities to measure at amortized cost some pre-payable financial assets with so-called negative compensation. The provisions of this amendment apply retrospectively to financial statements beginning on or after January 1, 2019.

The Caisse has determined that this amendment had no impact on its consolidated financial statements.

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5. Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2019, are presented below.

IFRS 17, Insurance Contracts

On May 18, 2017, the IASB published the standard IFRS 17, *Insurance Contracts*, which replaces the provisions of the standard IFRS 4, *Insurance Contracts*. The standard IFRS 17:

- has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flows statement;
- establishes the principles for recognition, measurement, presentation and disclosure;
- defines a general model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities;
- defines a specific approach for contracts covering one year or less.

The provisions of this new standard will apply retrospectively to each group of insurance contracts and if, and only if, impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements beginning on or after January 1, 2021. Early adoption is permitted if IFRS 9, *Financial Instruments* and IFRS 15, *Revenue From Contracts With Customers* are previously applied.

The Caisse is evaluating the impact on presentation, disclosure and measurement of the insurance contract liabilities that this standard will have on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

On September 16, 2014, the IASB published an amendment to IFRS 10, *Consolidated Financial Statements* and to IAS 28, *Investments in Associates and Joint Ventures*. This amendment, "Sale or contribution of assets between an investor and its associate or joint venture," clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. The provisions of this amendment will apply prospectively to the financial statements beginning on or after January 1, 2016. In December 2015, the IASB published an amendment, which defers the application to financial statements beginning on or after a date yet to be determined. Early adoption is permitted.

The Caisse has completed the analysis of this amendment and concluded that it will not have an impact on its consolidated financial statements.

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5. Future accounting changes (continued)

Conceptual framework for financial reporting

On March 29, 2018, the IASB published a revised version of the *Conceptual Framework for Financial Reporting*. The IASB decided to revise the Conceptual Framework because important issues were not addressed and some indications were outdated or unclear. This revised version includes, among other things, a new chapter on valuation, guidance on the presentation of financial performance and improved definitions of an asset, and a liability and guidance in support of those definitions. The Conceptual Framework helps entities to develop their accounting method when no IFRS is applicable to a specific situation. The provisions will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted.

The Caisse is currently evaluating the impact of this revision on its consolidated financial statements.

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

On October 31, 2018, the IASB published an amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment, *Definition of Material*, clarifies the definition of material in IAS 1, the explanation accompanying that definition and aligns the definitions used across IFRS standards. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted.

The Caisse is currently evaluating the impact of this amendment on its consolidated financial statements.

Interest Rate Benchmark Reform (amendment of IFRS 9, IAS 39 and IFRS 7)

In September 2019, the IASB issued amendments of its new and old financial instruments standards, IFRS 9 – *Financial Instruments* and IAS 39 – *Financial Instruments: Recognition and Measurement*, and the related standard concerning disclosures, IFRS 7 – *Financial Instruments: Disclosures*. The amendments concern certain specific provisions of IFRS 9 and IAS 39 regarding the recognition of hedging relationships and aim to provide some relief regarding the potential consequences of uncertainties related to the reform of IBORs (Interbank Offered Rates). The amendments to IFRS 7 require entities to disclose additional information regarding their hedging relationships that are directly affected by these uncertainties. These amendments come into force on January 1, 2020.

The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

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6. Loans and allowance for credit losses

Carrying value of loans and allowance for expected credit losses

The following table presents the carrying value of the loans, the exposure amount of the credit commitments and the balances of their respective allowance according to the stage in which they are classified:

	Not impaired				**Impaired**		**December 31, 2019**	
	Next 12 months allowance for credit losses		**Lifetime allowance for credit losses**		**Lifetime allowance for credit losses**		**Total**	
	Gross carrying amount	**Allowance**	**Gross carrying amount**	**Allowance**	**Gross carrying amount**	**Allowance**	**Gross carrying amount**	**Allowance**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Personal – Residential mortgages	**1,547,369**	**1,497**	**93,644**	**1,180**	**15,247**	**1,406**	**1,656,260**	**4,083**
Personal – Consumer and other	**503,093**	**3,584**	**32,022**	**3,660**	**4,639**	**3,360**	**539,754**	**10,604**
Business	**962,176**	**1,563**	**255,379**	**3,628**	**28,021**	**8,470**	**1,245,576**	**13,661**
Total loans	**3,012,638**	**6,644**	**381,045**	**8,468**	**47,907**	**13,236**	**3,441,590**	**28,348**
Total credit commitments	**770,838**	**442**	**34,976**	**140**	**11,043**	**—**	**816,358**	**582**

	Not impaired				Impaired		December 31, 2018	
	Next 12 months allowance for credit losses		Lifetime allowance for credit losses		Lifetime allowance for credit losses		Total	
	Gross carrying amount	Allowance	Gross carrying amount	Allowance	Gross carrying amount	Allowance	Gross carrying amount	Allowance
	$	$	$	$	$	$	$	$
Personal – Residential mortgages	1,563,722	1,343	75,272	807	14,502	1,244	1,653,496	3,394
Personal – Consumer and other	494,133	3,016	26,798	2,402	4,355	3,204	525,286	8,622
Business	860,665	1,082	261,942	3,939	31,939	8,955	1,154,546	13,976
Total loans	2,918,520	5,441	364,012	7,148	50,796	13,403	3,333,328	25,992
Total credit commitments	734,831	421	45,996	132	9,397	—	790,224	553

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6. Loans and allowance for credit losses (continued)

Allowance for credit losses

The following tables show the changes of the allowance for expected credit losses on loans and credit commitments.

Personal – Residential mortgages

	Not impaired		Impaired	December 31, 2019
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	1,404	818	1,244	3,466
Transfer to measurement of expected credit losses for:				
Next 12 months	370	(308)	(62)	–
Lifetime – Loans not impaired	(258)	305	(47)	–
Lifetime – Impaired loans	(25)	(30)	55	–
Remeasurement	180	(461)	(300)	(581)
New exposures	398	–	–	398
Derecognition	(511)	876	674	1,039
Write-offs	–	–	(158)	(158)
As at December 31	1,558	1,200	1,406	4,164
Total on loans	1,497	1,180	1,406	4,083
Total on credit commitments	61	20	–	81

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6. Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Personal – Residential mortgages (continued)

	Not impaired		Impaired	December 31, 2018
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	1,280	612	1,293	3,185
Transfer to measurement of expected credit losses for:				
Next 12 months	379	(268)	(111)	—
Lifetime – Loans not impaired	(314)	323	(9)	—
Lifetime – Impaired loans	(36)	(39)	75	—
Remeasurement	(271)	256	1,171	1,156
New exposures	489	—	—	489
Derecognition	(123)	(66)	(563)	(752)
Write-offs	—	—	(612)	(612)
As at December 31	1,404	818	1,244	3,466
Total on loans	1,343	807	1,244	3,394
Total on credit commitments	61	11	—	72

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Notes to the consolidated financial statements
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6. Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Personal – Consumer and other

	Not impaired		Impaired	December 31, 2019
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	3,298	2,438	3,204	8,940
Transfer to measurement of expected credit losses for:				
Next 12 months	1,042	(850)	(192)	—
Lifetime – Loans not impaired	(1,155)	1,245	(90)	—
Lifetime – Impaired loans	(367)	(294)	661	—
Remeasurement	1,038	(1,451)	784	371
New exposures	2,436	—	—	2,436
Derecognition	(2,426)	2,649	3,550	3,773
Write-offs	—	—	(4,557)	(4,557)
As at December 31	3,866	3,737	3,360	10,963
Total on loans	3,584	3,660	3,360	10,604
Total on credit commitments	282	77	—	359

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6. Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Personal – Consumer and other (continued)

	Not impaired		Impaired	December 31, 2018
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	3,324	2,278	3,244	8,846
Transfer to measurement of expected credit losses for:				
Next 12 months	1,269	(849)	(420)	—
Lifetime – Loans not impaired	(690)	1,036	(346)	—
Lifetime – Impaired loans	(240)	(332)	572	—
Remeasurement	(1,503)	581	4,135	3,213
New exposures	1,516	—	—	1,516
Derecognition	(378)	(276)	(249)	(903)
Write-offs	—	—	(3,732)	(3,732)
As at December 31	3,298	2,438	3,204	8,940
Total on loans	3,016	2,402	3,204	8,622
Total on credit commitments	282	36	—	318

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6. Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Business

	Not impaired		Impaired	December 31, 2019
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	1,160	4,024	8,955	14,139
Transfer to measurement of expected credit losses for:				
Next 12 months	667	(667)	—	—
Lifetime – Loans not impaired	(556)	1,116	(560)	—
Lifetime – Impaired loans	(190)	(311)	501	—
Remeasurement	431	(18)	(1,024)	(611)
New exposures	1,103	—	—	1,103
Derecognition	(953)	(473)	1,313	(113)
Write-offs	—	—	(715)	(715)
As at December 31	1,662	3,671	8,470	13,803
Total on loans	1,563	3,628	8,470	13,661
Total on credit commitments	99	43	—	142

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6. Loans and allowance for credit losses (continued)

Allowance for credit losses (continued)

Businesses (continued)

	Not impaired		Impaired	December 31, 2018
	Next 12 months allowance for credit losses	Lifetime allowance for credit losses	Lifetime allowance for credit losses	Allowance for credit losses
	$	$	$	$
As at January 1	1,160	4,047	8,254	13,461
Transfer to measurement of expected credit losses for:				
Next 12 months	561	(561)	—	—
Lifetime – Loans not impaired	(1,037)	1,460	(423)	—
Lifetime – Impaired loans	(540)	(399)	939	—
Remeasurement	(689)	301	789	401
New exposures	1,795	—	—	1,795
Derecognition	(90)	(824)	(350)	(1,264)
Write-offs	—	—	(254)	(254)
As at December 31	1,160	4,024	8,955	14,139
Total on loans	1,082	3,939	8,955	13,976
Total on credit commitments	78	85	—	163

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6. Loans and allowance for credit losses (continued)

Loans by category of borrowers

	January 1, 2018
	$
Personal	
Residential mortgages	1,617,658
Consumer and other	526,132
Business	1,065,440
	3,209,230

Loans, impaired loans and allowance for credit losses

				January 1, 2018
	Personal			
	Residential mortgages	Consumer and other	Business	Total
	$	$	$	$
Loans, neither past due nor impaired, gross	1,583,557	514,532	1,034,961	3,133,050
Loans, past due but not impaired, gross	30,040	7,501	5,511	43,052
Gross impaired loans	4,061	4,099	24,968	33,128
Total gross loans	1,617,658	526,132	1,065,440	3,209,230
Individual allowances	(1,292)	(3,245)	(8,254)	(12,791)
Collective allowance	(383)	(3,288)	(8,068)	(11,739)
Total net loans	1,615,983	519,599	1,049,118	3,184,700

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6. Loans and allowance for credit losses (continued)

Gross loans, past due but not impaired

					December 31, 2019
	From 1 to 29 days	**From 30 to 59 days**	**From 60 to 89 days**	**90 days and greater**	**Total**
	$	**$**	**$**	**$**	**$**
Personal					
Residential mortgages	**19,185**	**3,429**	**1,197**	**139**	**23,950**
Consumer and other	**11,690**	**1,606**	**930**	**—**	**14,226**
Business	**25,719**	**422**	**686**	**—**	**26,827**
	56,594	**5,457**	**2,813**	**139**	**65,003**

					December 31, 2018
	From 1 to 29 days	From 30 to 59 days	From 60 to 89 days	90 days and greater	Total
	$	$	$	$	$
Personal					
Residential mortgages	20,337	4,387	1,363	—	26,087
Consumer and other	5,832	1,863	484	13	8,192
Business	4,353	610	15	—	4,978
	30,522	6,860	1,862	13	39,257

					January 1, 2018
	From 1 to 29 days	From 30 to 59 days	From 60 to 89 days	90 days and greater	Total
	$	$	$	$	$
Personal					
Residential mortgages	19,793	3,722	2,151	4,374	30,040
Consumer and other	5,931	1,156	403	11	7,501
Business	4,290	1,092	129	—	5,511
	30,014	5,970	2,683	4,385	43,052

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6. Loans and allowance for credit losses (continued)

Impaired loans and individual allowances

			January 1, 2018
	Gross	Individual allowances	Net
	$	$	$
Personal			
Residential mortgages	4,061	(1,292)	2,769
Consumer and other	4,099	(3,245)	854
Business	24,968	(8,254)	16,714
	33,128	(12,791)	20,337

Loan securitization

As part of its liquidity and capital management strategy, the Caisse participates in the *National Housing Act* Mortgage-Backed Securities Program. Under this program, the Caisse bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation ("CMHC") into mortgage-backed securities ("NHA MBS") and transfers them to the Canada Housing Trust ("CHT"). The Caisse may not subsequently transfer or sell these assets or pledge them as collateral, since they have been sold to the CHT, and it may not repurchase them before maturity. The Caisse treats these transfers as collateralized financing transactions and recognizes a liability in that respect because it substantially retains certain prepayment and interest risks. This liability is equal to the consideration received from the CMHC for the loans that do not meet the derecognition criteria. For its part, the CHT funds these purchases by issuing Canada Mortgage Bonds ("CMB") to investors. The legal guarantee of third parties holding CMB is limited to the transferred assets.

The following table presents the securitized loans as well as the related liabilities:

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Securitized mortgage loans	**175,338**	154,597	103,081
Related liabilities (Note 11)	**143,159**	125,291	86,314

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7. Accrued interest, receivables and other assets

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Accrued interest	**14,349**	10,931	9,986
Prepaid expenses	**9,023**	9,438	9,690
Receivables	**4,681**	5,250	4,805
Assets foreclosed	**475**	861	733
Other	**766**	755	432
	29,294	27,235	25,646

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8. Property and equipment

	Land	Buildings	Equipment and other	Lease asset	Total
Cost	$	$	$	$	$
December 31, 2017	7,439	49,484	38,250	—	95,173
Acquisitions	—	407	1,284	—	1,691
Disposals and write-offs	(2)	(19)	(67)	—	(88)
December 31, 2018	7,437	49,872	39,467	—	96,776
Impact of changes in accounting policy (Note 4)	—	—	—	1,032	1,032
Balance as at January 1, 2019	7,437	49,872	39,467	1,032	97,808
Acquisitions	**—**	**261**	**3,719**	**20**	**4,000**
Disposals and write-offs	**(436)**	**(833)**	**(6,570)**	**(162)**	**(8,001)**
Reclassification	**—**	**711**	**(711)**	**—**	**—**
December 31, 2019	**7,001**	**50,011**	**35,905**	**890**	**93,807**
Accumulated depreciation					
December 31, 2017	—	29,839	30,718	—	60,557
Amortization	—	1,336	2,036	—	3,372
Disposals and write-offs	—	(12)	(8)	—	(20)
December 31, 2018	—	31,163	32,746	—	63,909
Impact of changes in accounting policies (Note 4)	—	—	—	517	517
Balance as at January 1, 2019	—	31,163	32,746	517	64,426
Amortization	**—**	**3,203**	**2,246**	**196**	**5,645**
Disposals and write-offs	**—**	**(473)**	**(6,521)**	**(162)**	**(7,156)**
Reclassification	**—**	**707**	**(707)**	**—**	**—**
December 31, 2019	**—**	**34,600**	**27,764**	**551**	**62,915**
Book value					
Balance as at December 31, 2019	**7,001**	**15,411**	**8,140**	**339**	**30,892**
Balance as at December 31, 2018	7,437	18,709	6,721	—	32,867
Balance as at January 1, 2018	7,439	19,645	7,532	—	34,616

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8. Property and equipment (continued)

Leases

The Caisse leases office space under leases expiring in 2021, 2022 and 2023. It also leases rolling stock with an average term of three years. In addition, the Caisse leases computer equipment and office space under short-term and low-value leases. The Caisse's commitment under these leases as at December 31, 2019 was $16, for which no leased asset and no lease liabilities were recognized.

The following table presents changes in leased assets.

	Leased buildings	Leased rolling stock	Total
	$	$	$
January 1, 2019	381	134	515
Acquisitions	—	20	20
Amortization	(122)	(74)	(196)
Disposals and write-offs	—	—	—
December 31, 2019	259	80	339

Additional information on the lease liability is presented in Note 11.

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9. Intangible assets

	Acquired software	Internally generated software	Total
	$	$	$
Cost			
December 31, 2017	13,373	2,186	15,559
Acquisitions	5,183	30	5,213
Disposals and write-offs	(864)	—	(864)
December 31, 2018	17,692	2,216	19,908
Acquisitions	**515**	**87**	**602**
Reclassification	**1,098**	**(1,098)**	**—**
Disposals and write-offs	**(5)**	**(5)**	**(10)**
December 31, 2019	**19,300**	**1,200**	**20,500**
Accumulated amortization			
December 31, 2017	4,449	1,263	5,712
Amortization	2,146	59	2,205
Disposals and write-offs	(864)	—	(864)
December 31, 2018	5,731	1,322	7,053
Amortization	**2,603**	**89**	**2,692**
Reclassification	**376**	**(376)**	**—**
December 31, 2019	**8,710**	**1,035**	**9,745**
Net book value			
December 31, 2019	**10,590**	**165**	**10,755**
December 31, 2018	11,961	894	12,855
January 1, 2018	8,924	923	9,847

Acquired software includes an amount of $0 (December 31, 2018 – $590 and January 1, 2018 – $938) for software that was not amortized since it was not in use as at December 31. Internally generated software included an amount of $0 in 2019 ($0 on December 31, 2018 and $114 as at January 1, 2018) for software that was not amortized since it was in development as at December 31.

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10. Actuarial liabilities

a) Nature

Actuarial liabilities represent the estimated amount that, together with future premiums and net investment income, will be adequate to cover future benefits and expenses related to existing insurance contracts. Actuarial liabilities are determined using the Canadian asset liability method, in accordance with Canadian accepted actuarial practice, as set out by the Canadian Institute of Actuaries ("CIA").

The calculation of the actuarial liabilities necessarily includes the risk that actual results could deviate from the best estimates. This risk varies in proportion to the length of the estimation period and the possible instability of the factors used for calculating the liability. The appointed actuary is required to add to each assumption a margin to reflect the uncertainty of the determination of the best estimates and the risk of deteriorating results.

b) Composition

The CIA prescribes the range of acceptable margins. The appointed actuary must evaluate various scenarios using a cash flow projection method to establish a margin for adverse deviation that adequately covers the risks, including interest rate risk. This provision is recorded in future income when it is no longer required to cover estimation error. If the estimates of future conditions change during the term of a contract, the present value of the changes is recognized immediately in the statement of income.

The composition of the Caisse's actuarial liabilities is as follows:

	December 31, 2019		
	Actuarial liabilities	**Reinsurance assets**	**Net amount**
	$	**$**	**$**
Personal life insurance	**113,848**	**7,038**	**106,810**
Group and health insurance	**(9,278)**	**729**	**(10,007)**
Savings insurance	**11,091**	**—**	**11,091**
Annuities	**78,842**	**—**	**78,842**
	194,503	**7,767**	**186,736**

	December 31, 2018 (restated, Note 28)		
	Actuarial liabilities	Reinsurance assets	Net amount
	$	$	$
Personal life insurance	91,993	7,338	84,655
Group and health insurance	(3,081)	791	(3,872)
Savings insurance	10,288	—	10,288
Annuities	73,732	—	73,732
	172,932	8,129	164,803

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10. Actuarial liabilities (continued)

b) Composition (continued)

			January 1, 2018 (restated, Note 28)
	Actuarial liabilities	Reinsurance assets	Net amount
	$	$	$
Personal life insurance	93,776	7,715	86,061
Group and health insurance	(2,263)	740	(3,004)
Savings insurance	10,859	—	10,859
Annuities	78,914	—	78,914
	181,286	8,455	172,830

The assets covering the actuarial liabilities include the following:

			December 31, 2019
	Life insurance	**Annuities**	**Total**
	$	**$**	**$**
Bonds and short-term securities	**92,649**	**78,842**	**171,491**
Investment funds	**15,245**	**—**	**15,245**
Reinsurance assets	**7,767**	**—**	**7,767**
	115,661	**78,842**	**194,503**

			December 31, 2018 (restated, Note 28)
	Life insurance	Annuities	Total
	$	$	$
Bonds and short-term securities	70,817	73,732	144,549
Investment funds	12,361	—	12,361
Reinsurance assets	8,129	—	8,129
Other	7,893	—	7,893
	99,200	73,732	172,932

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10. Actuarial liabilities (continued)

b) Composition (continued)

			January 1, 2018 (restated, Note 28)
	Life insurance	Annuities	Total
	$	$	$
Bonds and short-term securities	71,773	78,914	150,687
Investment funds	13,784	—	13,784
Reinsurance assets	8,455	—	8,455
Other	8,360	—	8,360
	102,372	78,914	181,286

c) Actuarial assumptions

In calculating the actuarial liabilities, the assumptions have been established based on estimates for the duration of the contracts. The nature of the most significant assumptions and the methods used to establish them are described in the following paragraphs. Each of the assumptions has a margin for adverse deviation.

Mortality

The mortality assumption is based on a combination of the Caisse's most recent experience and the industry's recent experience as published by the CIA. An increase (a decrease for annuities) of 1% in the most likely assumption would result in an increase of approximately $582 in the actuarial liabilities (2018 — $577).

Morbidity

The morbidity assumption is based on the Caisse's experience and other companies with similar population characteristics. The majority of products for which a morbidity assumption is significant consists of products whose premiums can be adjusted to reflect the Caisse's actual experience. In the case of products for which morbidity has a significant effect, a deterioration of 1% in the most likely assumption would not have a significant impact on the actuarial liabilities.

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10. Actuarial liabilities (continued)

b) Composition (continued)

Investment income

The calculation of the actuarial liabilities reflects the projected net investment income from the assets covering the liabilities. It also takes into account the income that the Caisse expects to earn on reinvestment or forego to finance the mismatch in the timing of cash flows. Interest rate and credit risk projections include some uncertainty. The Caisse considers this uncertainty by including margins for credit risk in its projections of investment income and by evaluating future interest rate scenarios. Projected investment returns are reduced in anticipation of future credit losses on assets. One way to measure the interest rate risk associated with these assumptions is to determine the effect of an immediate increase or decrease of 1% of interest rates on the present value of net projected cash flows of the assets and liabilities related to the Caisse's personal insurance activities. These changes in interest rates would impact the projected cash flows. An immediate increase of 1% in interest rates would result in a decrease in the fair value of the assets matched to the liabilities of approximately $24,200 (2018 — $21,300) and a decrease in the corresponding liabilities of $28,300 (2018 — $23,000), resulting in a net positive impact of $4,100 (2018 — $1,700) on income before taxes for the year. An immediate decrease of 1% in interest rates would result in an increase in the fair value of the assets matched to the liabilities of approximately $28,900 (2018 — $25,400) and an increase in the corresponding liabilities of $32,700 (2018 — $27,800), resulting in a net negative impact of $3,800 (2018 — $2,400) on income before taxes for the year.

Expenses

Amounts are included in the actuarial liabilities for the costs of administering the existing contracts, including the cost of premium collection, the granting and processing of benefits, periodic actuarial calculations, preparation and sending of statements, related indirect expenses, renewal commissions and general expenses. The projections of expenses consider estimates of variables such as inflation, productivity and indirect tax rates. An increase of 1% in the most likely assumption of policy management expenses would increase the actuarial liabilities by approximately $277 (2018 — $240).

Policy lapse or cancellation rates

Policyholders can choose to allow their policy to lapse by ceasing to pay their premiums. The Caisse bases its estimate of policy lapse rates on the past performance of each of its business lines. A business line is considered to be based on policy lapses if an increase in the policy lapse rate is accompanied by an increase in profitability. However, if a decrease in the policy lapse rate is accompanied by an increase in profitability, the business line is not considered to be based on policy lapses.

The lapse assumptions reflect the Caisse's experience and the industry.

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10. Actuarial liabilities (continued)

c) Uncertainty of measurement (margins for adverse deviations)

The basic assumptions used in establishing actuarial liabilities represent best estimates of the range of possible outcomes. Actuaries must include in each assumption a margin to recognize the uncertainty surrounding the establishment of best estimates, to take into account a possible deterioration in experience and to provide better assurance that the actuarial liabilities will be sufficient to pay future benefits. The CIA prescribes a range of allowable margins. The margins used are at least in the middle of the suggested range.

d) Change in actuarial liabilities

The following table shows the changes in actuarial liabilities over the last two fiscal years:

	December 31, 2019	December 31, 2018
	Actuarial liabilities	Actuarial liabilities
	$	$ (restated, Note 28)
Balance, beginning of year	**172,932**	181,286
Normal increase (decrease) for:		
Existing contracts	**24,356**	(5,027)
New contracts	**(1,744)**	(1,685)
Changes in assumptions and methods	**(1,041)**	(1,642)
	21,571	(8,354)
Balance, end of year	**194,503**	172,932

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10. Actuarial liabilities (continued)

d) Change in actuarial liabilities (continued)

	December 31, 2019	December 31, 2018
	Reinsurance assets	Reinsurance assets
	$	$
Balance, beginning of year	**8,129**	8,455
Normal increase (decrease) for:		
Existing contracts	**(242)**	(159)
New contracts	**(78)**	(85)
Changes in assumptions and methods	**(42)**	(82)
	(362)	(326)
Balance, end of year	**7,767**	8,129

e) Changes in actuarial assumptions and methods

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact on actuarial liabilities of changes made to assumptions for the years ended December 31:

	December 31, 2019	December 31, 2018
	$	$
Mortality	**1,544**	—
Contract cancellation rates	**(5,587)**	—
Operating expenses	**500**	(2,388)
Ultimate credit spread	**(363)**	—
Methods and other	**2,907**	828
	(999)	(1,560)

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10. Actuarial liabilities (continued)

e) Changes in actuarial assumptions and methods (continued)

Regarding the actuarial assumptions used in the establishment of actuarial liabilities, various studies are made annually to reflect the most up-to-date data possible. At the end of 2019, some assumptions were thus updated, in addition to some improvements to the valuation model. We note among other things:

Mortality

A mortality study was conducted for the individual life insurance business line in 2019, taking into consideration the Caisse's most recent experience and combining it with recent industry experience.

Contract cancellation rates

In 2019, a new lapse experience study was conducted of life insurance products on loans, and lapse rates were found to be lower than expected, resulting in lower actuarial liabilities.

Operating expenses

A change was made to the way life insurance product expenses are projected on loans.

Ultimate credit spreads

Historical credit spreads were updated in 2019 using historical data from March 1992 to November 2019. Less weight was given to data from January 2008 to July 2013, since credit spreads during this period were at a historically high level.

Methods and other

Corrections were made to the valuation model to better assess the costs associated with non-forfeiture guarantees on old products. Also, various minor corrections were made to the model in light of certain observations that had been made.

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11. Borrowings

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Securitized loans, guaranteed by mortgage loans as described in Note 6, repayable at maturity, interest payable semi-annually at rates varying from 1.20% to 2.55%, maturities varying from December 2019 to December 2024	**143,159**	125,291	86,314
Lease liability	**622**	—	—
Total	**143,781**	125,291	86,314

The projected securitization loan principal repayments over the next five years are as follows:

2020	40,794
2021	3,969
2022	19,818
2023	39,302
2024	39,315

The Caisse also has an operating credit facility with an authorized amount of $12,500 bearing interest at the prime rate plus 0.75% and renewable annually, an operating credit facility with an authorized amount of $50,000, bearing interest at the cost of funds plus 0.45% and renewable in December 2020, a revolving term loan with an authorized amount of $100,000, bearing interest at the cost of funds plus 1.00% and renewable in December 2022, and a revolving term loan with an authorized amount of $100,000, bearing interest at the cost of funds plus 1.15% and renewable in December 2024. As at December 31, 2019 and 2018, these facilities were undrawn.

Lease liability

The following table presents the change in the lease liability:

	2019
	$
Balance, beginning of year	—
IFRS 16 adoption (Note 4)	**791**
Amounts added	**20**
Repayments	**(189)**
Balance, end of year	**622**

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11. Borrowings (continued)

Lease liability (continued)

The following table presents the total future minimum payments to be made under the leases.

	2019
	$
Less than one year	**438**
Over one year to five years	**655**
Over five years	—
Total undiscounted amounts	**1,093**

The "Financial expense" item in the consolidated statement of income for the year ended December 31, 2019 includes an amount of $322 in interest on the lease liability. The Caisse has recognized a rental expense of $72 for its short-term and low-value leases. The Caisse's total cash outflow for its leases in 2019 was $583.

12. Accrued interest, payables and other liabilities

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Accrued interest	**16,055**	15,670	17,702
Payables	**40,730**	53,909	30,886
Deferred revenue	**474**	457	171
Employee benefit liability (Note 13)	**18,464**	21,548	23,402
Liabilities for pending and unreported claims	**1,029**	988	733
Investment contract liabilities	—	2	46
Other	**613**	584	503
	77,365	93,158	73,443

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13. Employee benefit liability

Until December 31, 2013, the Caisse participated in a funded defined benefit pension plan through the Mouvement des caisses populaires acadiennes employee pension plan, date at which the plan was converted to a shared risk pension plan for the active employees. For those already retired, annuities were purchased in 2014 by the pension plan from an insurance company and the plan was thus wound up.

In addition, the Caisse participates in two other unfunded defined benefit pension plans. Therefore, the Caisse records, in the consolidated statement of financial position, the liability for these supplementary plans. Benefits under these other two plans were modified and are calculated similarly to those in the shared risk plan.

Principal actuarial assumptions

The principal actuarial assumptions used in measuring the defined benefit obligation are as follows:

	December 31, 2019	December 31, 2018
Discount rate	**3.05%**	3.59%
Expected rate of salary increases	**3.50%**	3.50%
Mortality	**CPM 2014-MI-2017 Public**	CPM 2014-MI-2017 Public

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13. Employee benefit liability (continued)

Defined benefit pension plans

The following tables show the liabilities and costs recognized in respect of the defined benefit pension plans for the Caisse.

	December 31, 2019	December 31, 2018
	$	$
Change in the defined benefit plan obligation		
Defined benefit plan obligation, beginning of year	**5,250**	5,299
Current service cost	**175**	203
Interest expense	**174**	177
Benefits paid	**(364)**	(346)
Actuarial losses (gains) arising from		
Plan experience	**(762)**	(1)
Changes in financial assumptions	**247**	(102)
Changes in demographic assumptions	**–**	20
Defined benefit plan obligation, end of year, accounting deficit and defined benefit plan liability	**4,720**	5,250

Costs recognized in respect of the defined benefit pension plans

The amounts recognized in the statement of income under "Salaries and employee benefits" for the year ended December 31 are as follows:

	December 31, 2019	December 31, 2018
	$	$
Current service cost	**175**	203
Interest expense	**174**	177
Expense recognized in the statement of income	**349**	380

The amounts recognized in other comprehensive income for the year ended December 31 are as follows:

	December 31, 2019	December 31, 2018
	$	$
Gains (losses) for the year	**515**	83

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13. Employee benefit liability (continued)

Sensitivity of key assumptions

Due to the long-term nature of employee benefits, there are significant uncertainties in recognizing balances related to the assumptions made.

The following table shows the impact of a one-percentage point change in the discount rate on the defined benefit plan obligation as at December 31:

	December 31, 2019	December 31, 2018
	$	$
Discount rate		
Increase of 1%	**(438)**	(509)
Decrease of 1%	**536**	587
Expected rate of salary increases		
Increase of 1%	**109**	77
Mortality rate		
Decrease of 10%	**31**	57

The above sensitivity analysis was developed using a method that extrapolates the impact on the defined benefit plan obligation of reasonable changes in the significant assumptions at the closing date.

Expected contributions for 2020

The Caisse expects to contribute $341 to the defined benefit pension plans in the next year.

Other employee benefit liability

Due to the conversion to the shared risk pension plan, the Caisse has committed to pay temporary contributions of $3,000 per year for 10 years starting in 2014, or until the funding ratio reaches 140%. A liability for these payments has been determined through an analysis of probabilities that considers multiple scenarios and has been discounted using a yield curve that takes into consideration the expected schedule of payments. Since it is only an estimate, the amount of the liability could change in the future.

The following table shows the recorded liability and costs of this commitment.

	December 31, 2019	December 31, 2018
	$	$
Liability, beginning of year	**13,592**	15,292
Interest expense recorded in the statement of income	**402**	492
Actuarial losses recorded in other comprehensive income	**250**	808
Contributions paid	**(3,000)**	(3,000)
Liability, end of year	**11,244**	13,592

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13. Employee benefit liability (continued)

Other retirement benefits

The Caisse also offers a retirement benefit by way of a lump-sum payment to some of its employees. This benefit is based on the salary and the number of years worked for the Caisse at the time of retirement. The liability recorded for these benefits amounts to $2,500 (December 31, 2018 — $2,706 and January 1, 2018 — $2,811).

Amount recognized under "Employee benefit liability"

The "Employee benefit liability" in Note 12 consists of the following:

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Liability for pension plans	**4,720**	5,250	5,299
Liability for temporary contributions	**11,244**	13,592	15,292
Liability for other retirement benefits	**2,500**	2,706	2,811
	18,464	21,548	23,402

Shared risk pension plan

During the year, the Caisse contributed $4,970 (2018 — $4,966) to the shared risk pension plan.

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14. Hedging activities

The Caisse applies hedge accounting in accordance with the provisions of IFRS 9 to interest rate swaps that it trades as part of its interest rate risk management. Since the application of hedge accounting commenced in fiscal 2019, no comparative information has been presented from fiscal 2018.

The following table presents the notional amounts and average fixed rates by maturity of derivative financial instruments designated in hedging relationships as well as their fair value by type of hedging relationship.

						2019
	Remaining term				Fair value [1]	
	Under 1 year	1 to 5 years	Over 5 years	Total	Assets	Liability
	$	$	$	$	$	$
Fair value hedges					49	(270)
Notional amount	—	24,237	—	24,237		
Average fixed rate		1.83%		1.83%		
Cash flow hedges					287	(602)
Notional amount	—	137,563	—	137,563		
Average fixed rate	—	1.99%	—	1.99%		

[1] The fair value of the derivative financial instruments designated in hedging relationships is presented in the statement of financial position under "Derivative financial instruments" in other assets and liabilities.

Fair value hedges

A fair value hedge consists of using derivative financial instruments to mitigate the risk of fluctuations in the fair value of fixed-rate financial instruments resulting from changes in interest rates. The hedged item in these hedges represents fixed-rate term deposits. Interest rate swaps designated as hedging instruments are negotiated so that their terms are matched with the terms of the specific instrument representing the hedged item. Consequently, the Caisse relies on qualitative analysis to conclude that an economic relationship exists between the hedging instrument and the hedged item.

The risk being hedged represents that portion of the overall change in fair value of the hedged item that is attributable to the change in a benchmark interest rate index, i.e., the rate on a three-month bankers' acceptance interest rate swap with terms corresponding to those of the hedged item. Changes in this benchmark rate comprise a significant portion of the changes in the hedged item's rate of return at maturity, such that the gain or loss on the hedged item attributable to the hedged risk represents most of its overall change in fair value.

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14. Hedging activities (continued)

Hedge ineffectiveness is attributable to the components of measurement of the hedging instrument that are not present in the measurement of the gain or loss on the hedged item. These components are represented by the interest rate that is periodically fixed on the variable leg of the interest rate swap and the credit adjustment applied in determining the fair value of the interest rate swap.

In order to maximize the monetary compensation of the risk being hedged by the hedging instrument, the Caisse uses a hedge ratio of 100% for this type of hedge.

The following table presents amounts related to the hedged items and the results of fair value hedges. All amounts are presented on a pre-tax basis.

As at December 31, 2019			For the year ended December 31, 2019		
Carrying amount of hedged items (1)	Cumulative amount of adjustments to active hedges (2)	Cumulative adjustments on discontinued hedges	Gains (losses) on hedged items for the purpose of measuring ineffectiveness	Gains (losses) on hedging instruments for the purpose of measuring ineffectiveness	Ineffective-ness of hedging relationships (3)
24,005	**(232)**	**-**	**232**	**(221)**	**11**

(1) The carrying amount of the hedged items is presented in the statement of financial position under Payable on a fixed date, in Deposits.
(2) Included in the carrying amounts of the hedged items.
(3) Ineffectiveness is presented under Other income in the statement of income.

Cash flow hedges

A cash flow hedge consists of using derivative financial instruments to mitigate the risk posed by fluctuating cash flows from variable-rate financial instruments. The hedged item in cash flow hedges is a component of the interest rate on prime-rate loan portfolios.

The risk being hedged represents that portion of the overall change in the cash flows of the hedged item that is attributable to changes in a benchmark interest rate index, namely the one-month bankers' acceptance rate quoted daily. Since the spread between the one-month bankers' acceptance rate and the prime rate is historically stable under normal conditions in the Canadian money market, the change in the hedged item's cash flows attributable to the hedged risk represents most of the overall change in its cash flows.

The Caisse uses interest rate swaps as hedging instruments, where the interest rate on the variable leg is set on a quarterly basis and based on the three-month bankers' acceptance rate. Given the mismatch between this index and the interest rate index being hedged, the Caisse uses an analysis of correlations in the historical data to conclude that an economic relationship exists between the hedging instrument and the hedged item.

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14. Hedging activities (continued)

Hedge ineffectiveness is attributable to this mismatch in interest rate indices as well as to components of the valuation of the hedging instrument that are not present in the measurement of the gain or loss on the hedged item, as described in the "Fair value hedges" section above.

In order to maximize the monetary compensation for the risk hedged by the hedging instrument, the Caisse uses a 100% hedge ratio for this type of hedge.

The following table presents amounts related to the hedged items and the results of cash flow hedges. All amounts are presented on a pre-tax basis.

As at December 31, 2019		For the year ended December 31, 2019				
Accumulated other compre-hensive income on active hedges	Accumulated other compre-hensive income on discontinued hedges	Gains (losses) on hedged items for the purpose of measuring ineffective-ness	Gains (losses) on hedging instruments for the purpose of measuring ineffective-ness	Ineffective-ness of hedging relationships [1]	Gains (losses) recorded in other compre-hensive income	Gains (losses) reclassified to net income [2] [3]
(327)	**—**	**369**	**(315)**	**12**	**(327)**	**—**

(1) Ineffectiveness is presented under Other in the income statement.
(2) Gains or losses reclassified to net income are presented under Other in the income statement.
(3) Gains and losses reclassified to net income relate only to hedges where the hedged item has affected net income. No amounts have been reclassified for hedges where the Caisse has concluded that the hedged item is no longer likely to be realized.

Reconciliation of components of equity

The following table presents the reconciliation of accumulated other comprehensive income attributable to cash flow hedges.

	2019
	$
Beginning of year	**-**
Gains (losses) for the year	**(327)**
Losses (gains) reclassified in net income	**-**
Income taxes	**95**
End of year	**(232)**

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15. Share capital

Authorized

The share capital is made up of membership shares.

The Caisse may issue an unlimited number of membership shares, redeemable under certain conditions stipulated in the *Bank Act*, in the by-laws and in the articles of incorporation of the Caisse. Members have only one vote regardless of the number of membership shares they must buy and hold according to the requirements set out in the by-laws of the Caisse.

The shares issued and paid are distributed as follows:

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Membership shares	**4,322**	4,367	4,426

16. Accumulated other comprehensive income

Accumulated other comprehensive income consists of an unrealized gain on securities at fair value through other comprehensive income of $1,185 (December 31, 2018 — losses of $1,372 and January 1, 2018 — gains of $3,757) net of $485 in taxes (December 31, 2018 — $560 and January 1, 2018 — $1,499) and a loss related to the fair value of hedging instruments of $232, net of $95 in taxes.

17. Net insurance and annuity premiums

	2019	2018
	$	$ (restated, Note 28)
Gross insurance and annuity premiums	**20,325**	20,477
Premiums ceded to reinsurers	**(1,848)**	(1,865)
	18,477	18,612

18. Net insurance and annuity benefits

	2019	2018
	$	$ (restated, Note 28)
Gross insurance benefits	**10,485**	8,466
Benefits ceded to reinsurers	**(2,112)**	(1,496)
Annuity benefits	**4,590**	4,685
Net change in actuarial liabilities	**21,571**	(8,397)
Change in reinsurance assets	**361**	326
	34,895	3,584

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19. Income taxes

Income tax expense (recovery) for the years presented in the consolidated statement of income is comprised of the following items:

	2019	2018
	$	$ (restated, Note 28)
Consolidated statement of income		
Current		
Income tax expense for the year	**2,682**	3,725
Deferred		
Creation and reversal of temporary differences	**4,709**	2,099
Total income tax expense	**7,391**	5,824
Other comprehensive income		
Current	**234**	(277)
Deferred	**802**	143
Total income taxes included in other comprehensive income	**1,036**	(134)

The provision for income taxes in the consolidated statement of income differs from that established by application of the Canadian statutory tax rate for the following reasons:

	2019		2018	
	$	**%**	$ (restated, Note 28)	% (restated, Note 28)
Income taxes at the statutory rate	**7,762**	**29.0**	5,952	29.0
Non-deductible expenses	**62**	**0.2**	81	0.4
Non-taxable revenues	**(608)**	**(2.3)**	(367)	(1.8)
Other	**175**	**0.7**	158	0.8
	7,391	**27.6**	5,824	28.4

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19. Income taxes (continued)

The deferred tax assets (liabilitied) by type of temporary difference and carryforward is as follows:

					2019
	Deferred tax assets (liabilities) as at January 1	Impact of IFRS 16 adoption as at January 1	Changes through equity	Change through profit or loss	Deferred tax assets (liabilities) as at December 31
	$ (restated, Note 28)	$	$	$	$
Net deferred tax assets (liabilities), net amount					
Property and equipment and intangible assets	(1,906)	(149)	—	478	(1,577)
Securities and derivative financial instruments	927	—	95	(1,563)	(541)
Allowance for credit losses	4,111	—	—	995	5,106
Employee benefit liability	6,098	—	(86)	(629)	5,383
Non-capital losses	8,567	—	(811)	(3,392)	4,364
Actuarial liabilities	744	—	—	(727)	17
Lease liability	—	230	—	—	230
Other	(1,179)	—	—	129	(1,050)
	17,362	81	(802)	(4,709)	11,932

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19. Income taxes (continued)

					2018
	Deferred tax assets (liabilities) as at January 1	Impact of IFRS 9 adoption as at January 1	Changes through equity	Change through profit or loss	Deferred tax assets (liabilities) as at December 31
	$	$	$	$	$
	(restated, Note 28)			(restated, Note 28)	(restated, Note 28)
Net deferred tax assets (liabilities), net amount					
Property and equipment and intangible assets	(1,474)	—	—	(432)	(1,906)
Securities and derivative financial instruments	2,019	—	—	(1,092)	927
Allowance for credit losses	3,906	148	—	57	4,111
Employee benefit liability	7,403	—	236	(1,541)	6,098
Non-capital losses	8,674	—	(379)	272	8,567
Actuarial liabilities	795	—	—	(51)	744
Other	(1,867)	—	—	688	(1,179)
	19,456	148	(143)	(2,099)	17,362

20. Transfer to general reserve

Pursuant to the *Bank Act*, the distribution of surplus earnings is the responsibility of the Caisse's directors. Accordingly, net income for the year have been transferred to the general reserve.

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21. Related party transactions

In the normal course of business, the Caisse enters into financial transactions with its member officers and their related parties. The Caisse's interest rate policy is to offer the same interest rates to member officers who are employees as the rates offered to preferred members.

At year-end, loans and deposits to member officers who are employees and their related parties with the Caisse are as follows:

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	
Loans	**2,005**	1,398	890
Deposits	**924**	620	597

No individual allowance was deemed necessary on these loans.

Key management personnel compensation

The key management personnel of the Caisse are the members of the Board of Directors and senior management who have the authority and responsibility for planning, directing and controlling the activities of the Caisse.

For the year ended December 31, the compensation of the key management personnel of the Caisse is as follows:

	2019	2018
	$	$
Short-term benefits	**4,138**	3,618
Post-employment benefits	**412**	400
	4,550	4,018

22. Fair value of financial instruments

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions have been used to estimate the fair value of the financial instruments:

Short-term financial instruments

The fair value of cash, accrued interest receivable, receivables, accrued interest payable and payables approximates their carrying value due to their short-term nature.

22. Fair value of financial instruments (continued)

Securities

The estimated fair value of securities is based on quoted market prices, when available. Fair values are based on closing bid prices.

Fair values of securities are determined as follows:

- The fair value of money market securities is equal to the sum of the purchase price and accumulated interest;
- The fair value of equities is based on their daily quotations on the stock exchange or in the market where they are primarily traded;
- The fair value of non-publicly-traded fixed income securities is determined daily based on prices obtained from market participants or investment dealers;
- The fair value of the commercial mortgage fund is equal to the discounted value of future cash flows of commercial mortgages, established monthly based on current market rates;
- The fair value of mutual fund units is the net asset value per unit on each valuation date.

Derivative financial instruments

Fair values of derivative financial instruments are determined as follows:

- The fair value of interest rate swaps is determined by discounting the remaining contractual cash flows until maturity of the contract;
- The fair value of call options is determined by various assumptions that consider the underlying asset, the remaining term and the market volatility;
- The fair value of forward contracts is determined based on the spot rate adjusted for the forward rate between the current date and the settlement date of the contract.

Loans

For certain variable rate loans, whose rates are revised frequently, the estimated fair value is assumed to be equal to the carrying value. The fair value of the other loans is estimated using a discounted cash flow calculation method that uses market interest rates currently charged for similar new loans as of December 31, applied to expected maturity amounts. Changes in interest rates as well as in borrowers' creditworthiness are the main reasons for fluctuations in the fair value of the loans. For impaired loans, fair value is equal to carrying value in accordance with the valuation techniques described in Note 3.

Deposits

The fair value of deposits with no stated maturity is assumed to be equal to the carrying value. The fair value of fixed rate deposits is determined by discounting contractual cash flows using market interest rates currently offered for deposits with relatively similar terms remaining to maturity.

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22. Fair value of financial instruments (continued)

Reinsurance assets and insurance contract liabilities

The fair value of the reinsurance assets and the insurance contract liabilities has not been established. However, the Caisse annually segments the assets that cover the actuarial liabilities or the liabilities for the different business lines. It attempts, within reasonable limits, to match the assets' cash flows with those of the liabilities. In this way, changes in the realizable values of assets should generally be offset by changes in the realizable values of the items associated with the actuarial liabilities.

Borrowings

For the operating credit facilities and the securitization loans, fair value equals the book value because they bear interest either at a variable rate or at rates that approximate the market rate.

Investment contract liabilities

The fair value of the investment contract liabilities is assumed to be equal to the carrying value.

The following tables present the carrying amount and fair value of all financial assets and liabilities and the related items of income, expense and net gain, according to their classification determined by the financial instruments standards.

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22. Fair value of financial instruments (continued)

						December 31, 2019
	At fair value through profit or loss					
	Designated at fair value through profit or loss	Classified at fair value through profit or loss	Classified at fair value through other compre-hensive income	Amortized cost	Total	Fair value
	$	$	$	$	$	$
Financial assets						
Cash	—	—	—	184,675	184,675	184,675
Securities						
Money market securities	3,842	—	46,417	—	50,259	50,259
Bonds	170,001	—	358,088	—	528,089	528,089
Term deposits	—	—	—	10,000	10,000	10,000
Equities	—	32,421	—	—	32,421	32,421
Investment funds and other	—	88,243	—	—	88,243	88,243
	173,843	120,664	404,505	10,000	709,012	709,012
Loans	—	—	—	3,413,242	3,413,242	3,434,842
Derivative financial instruments						
Foreign exchange contracts	—	272	—	—	272	272
Interest rate swaps	—	6,592	287	—	6,879	6,879
Options	—	35,385	—	—	35,385	35,385
Other assets	—	—	—	19,030	19,030	19,030
Total financial assets	173,843	162,913	404,792	3,626,947	4,368,495	4,390,095
Financial liabilities						
Deposits	—	—	—	3,587,769	3,587,769	3,547,600
Borrowings	—	—	—	143,159	143,159	143,159
Derivative financial instruments						
Foreign exchange contracts	—	272	—	—	272	272
Interest rate swaps	—	4,752	602	—	5,354	5,354
Accrued interest, payables and other liabilities	—	—	—	58,427	58,427	58,427
Total financial liabilities	—	5,024	602	3,789,355	3,794,981	3,754,812
Net realized and unrealized gains	22,298	1,969	6,012	—	30,279	s. o.
Financial income	5,488	(1,680)	11,270	143,569	158,647	s. o.
Financial expenses	—	—	—	(41,392)	(41,392)	s. o.
Dividends	—	1,406	—	—	1,406	s. o.

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22. Fair value of financial instruments (continued)

					December 31, 2018 (restated, Note 28)	
	At fair value through profit or loss					
	Designated at fair value through profit or loss	Classified at fair value through profit or loss	Classified at fair value through other compre-hensive income	Amortized cost	Total	Fair value
	$	$	$	$	$	$
Financial assets						
Cash	—	—	—	198,146	198,146	198,146
Securities						
Money market securities	2,124	—	29,515	—	31,639	31,639
Bonds	149,590	—	318,994	—	468,584	468,584
Asset-backed long-term notes	—	—	171	—	171	171
Equities	—	26,959	—	—	26,959	26,959
Investment funds and other	—	66,118	—	—	66,118	66,118
	151,714	93,077	348,680	—	593,471	593,471
Loans	—	—	—	3,307,336	3,307,336	3,306,237
Derivative financial instruments						
Foreign exchange contracts	—	258	—	—	258	258
Interest rate swaps	—	8,214	—	—	8,214	8,214
Options	—	16,212	—	—	16,212	16,212
Other assets	—	—	—	16,181	16,181	16,181
Total financial assets	151,714	117,761	348,680	3,521,663	4,139,818	4,138,719
Financial liabilities						
Deposits	—	—	—	3,408,099	3,408,099	3,334,658
Borrowings	—	—	—	125,291	125,291	125,291
Derivative financial instruments						
Foreign exchange contracts	—	258	—	—	258	258
Interest rate swaps	—	11,624	—	—	11,624	11,624
Accrued interest, payables and other liabilities	—	—	—	71,153	71,153	71,153
Total financial liabilities	—	11,882	—	3,604,543	3,616,425	3,542,984
Net realized and unrealized gains	(7,020)	(2,331)	(726)	—	(10,077)	s. o.
Financial income	5,343	(698)	8,438	129,246	142,329	s. o.
Financial expenses	—	—	—	(37,023)	(37,023)	s. o.
Dividends	—	1,302	—	—	1,302	s. o.

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22. Fair value of financial instruments (continued)

						January 1, 2018 (restated, Note 28)
	At fair value through profit or loss					
	Designated at fair value through profit or loss	Held for trading	Available-for-sale	Loans and receivables and other financial liabilities	Total	Fair value
	$	$	$	$	$	$
Financial assets						
Cash	—	—	—	100,193	100,193	100,193
Securities						
Money market securities	19,689	—	3,792	—	23,481	23,481
Bonds	403,870	—	66,430	—	470,300	470,300
Asset-backed long-term notes	171	—	—	—	171	171
Term deposits	—	—	—	19,499	19,499	19,499
Equities	20,494	—	12,192	—	32,686	32,686
Investment funds and other	33,951	—	7,688	—	41,639	41,639
	478,175	—	90,102	119,692	687,969	687,969
Loans	—	—	—	3,184,700	3,184,700	3,169,972
Derivative financial instruments						
Foreign exchange contracts	—	147	—	—	147	147
Interest rate swaps	—	8,167	—	—	8,167	8,167
Options	—	22,145	—	—	22,145	22,145
Other assets	—	—	—	14,791	14,791	14,791
Total financial assets	478,175	30,459	90,102	3,319,183	3,917,919	3,903,191
Financial liabilities						
Deposits	—	—	—	3,248,302	3,248,302	3,265,075
Borrowings	—	—	—	86,314	86,314	86,314
Derivative financial instruments						
Foreign exchange contracts	—	147	—	—	147	147
Interest rate swaps	—	15,238	—	—	15,238	15,238
Accrued interest, payables and other liabilities	—	—	—	49,870	49,870	49,870
Total financial liabilities	—	15,385	—	3,384,486	3,399,871	3,416,644

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22. Fair value of financial instruments (continued)

Classification of fair value measurements in the fair value hierarchy

IFRS 13, *Fair Value Measurement*, establishes a fair value hierarchy that reflects the relative weight of the data used for valuation. The hierarchy consists of the following levels:

Level 1 – Quoted prices in active markets for identical financial instruments.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the financial instrument, either directly or indirectly.

Level 3 – Inputs for the financial instrument that are not based on observable market data.

Measurement process of financial instruments for each level

Securities

Exchange-traded equity securities are classified at Level 1. For marketable bonds, the Caisse determines fair value through, where available, quoted prices related to recent trading activities on identical assets or with characteristics similar to those of the bond assessed. Securities measured using these methods are usually classified at Level 2.

Derivative financial instruments

Usually, prices obtained from models should be used at a lower level, in the hierarchy of price sources, than prices that can be observed directly. Where they exist, industry standard models should be used whenever possible; observable market inputs are therefore classified at Level 2.

Loans

There is no quoted price in an active market for these financial instruments; they are therefore classified at Level 3.

Deposits

Cash flows are discounted using market interest rates for deposits with substantially the same terms and conditions to measure the fair value of deposits; it is therefore classified at Level 2.

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22. Fair value of financial instruments (continued)

Measurement process of financial instruments for each level (continued)

The following tables present the measurement levels according to the fair value hierarchy:

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial instruments recorded at fair value				
Assets				
Securities				
Money market securities	—	**50,259**	—	**50,259**
Bonds	**297,111**	**230,979**	—	**528,089**
Equities	**30,669**	—	**1,751**	**32,421**
Investment funds and other	—	**88,204**	**39**	**88,243**
Derivative financial instruments				
Foreign exchange contracts	—	**272**	—	**272**
Interest rate swaps	—	**6,879**	—	**6,879**
Options	—	**35,385**	—	**35,385**
Liabilities				
Derivative financial instruments				
Foreign exchange contracts	—	**272**	—	**272**
Interest rate swaps	—	**5,354**	—	**5,354**
Financial instruments for which fair value is disclosed				
Assets				
Loans	—	—	**3,434,842**	**3,434,842**
Liabilities				
Deposits	—	**3,547,600**	—	**3,547,600**

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22. Fair value of financial instruments (continued)

Measurement process of financial instruments for each level (continued)

				December 31, 2018 (restated, Note 28)
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial instruments recorded at fair value				
Assets				
Securities				
Money market securities	—	31,639	—	31,639
Bonds	280,288	188,296	—	468,584
Asset-backed long-term notes	—	171	—	171
Equities	25,008	—	1,951	26,959
Investment funds and other	—	66,079	39	66,118
Derivative financial instruments				
Foreign exchange contracts	—	258	—	258
Interest rate swaps	—	8,214	—	8,214
Options	—	16,212	—	16,212
Liabilities				
Derivative financial instruments				
Foreign exchange contracts	—	258	—	258
Interest rate swaps	—	11,624	—	11,624
Financial instruments for which fair value is disclosed				
Assets				
Loans	—	—	3,306,237	3,306,237
Liabilities				
Deposits	—	3,334,658	—	3,334,658

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22. Fair value of financial instruments (continued)

Measurement process of financial instruments for each level (continued)

				January 1, 2018 (restated, Note 28)
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial instruments recorded at fair value				
Assets				
Securities				
Money market securities	—	23,481	—	23,481
Bonds	41,264	429,036	—	470,300
Asset-backed long-term notes	—	171	—	171
Equities	30,735	—	1,951	32,686
Investment funds and other	—	41,599	40	41,639
Derivative financial instruments				
Foreign exchange contracts	—	147	—	147
Interest rate swaps	—	8,167	—	8,167
Options	—	22,145	—	22,145
Liabilities				
Derivative financial instruments				
Foreign exchange contracts	—	147	—	147
Interest rate swaps	—	15,238	—	15,238
Financial instruments for which fair value is disclosed				
Assets				
Loans	—	—	3,169,972	3,169,972
Liabilities				
Deposits	—	3,265,075	—	3,265,075

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23. Commitments and contingencies

Standby letters of credit and credit commitments

The primary purpose of financial instruments that present a credit risk is to ensure that members and clients have funds available when necessary for variable terms and under specific conditions. The collateral security policy of the Caisse with respect to these credit instruments is generally the same as that applied to loans.

Standby letters of credit are irrevocable commitments by the Caisse to make payments for members or clients who might not be able to meet their financial obligations to third parties and represent the same credit risk as loans.

Credit commitments represent unused portions of authorizations to extend credit in the form of loans or letters of credit.

The total amount of credit instruments does not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. The maximum amount of letters of credit and credit commitments is presented in Note 25.

Contingencies

The Caisse is party to various business litigation matters, lawsuits and potential claims arising in the course of normal business activities. In management's opinion, the total amount of contingent liability resulting from these lawsuits will not have a material impact on the financial position of the Caisse.

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24. Leases

Lessee

Operating lease

As at December 31, 2018, prior to the adoption of IFRS 16, the future minimum lease commitments under non-cancellable operating leases for premises and equipment are presented in the following table:

	2018
	$
Under 1 year	468
1 to 5 years	1,265
	1,733

Lease payments recognized as expenses for the year ended December 31, 2018, totalled $651.

25. Financial instrument risk management

The Caisse is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk and market risk. The Caisse's objective in risk management is to optimize the risk-return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout its activities.

Under the Caisse's risk management approach, its entities and units are accountable for the consolidated results and the quality of risk management practices. The boards of directors of the Caisse's components also play a pivotal role in monitoring the risks and results of those units and entities. Several committees support the boards of directors and management teams of each component in their efforts to fulfill their risk management responsibilities.

Credit risk

Credit risk is the risk of losses resulting from a borrower's or a counterparty's failure to honour its contractual obligations, whether or not these obligations appear on the consolidated statement of financial position.

Most of the loans and deposits of the Caisse are related to the New Brunswick market.

Credit risk management

The Caisse upholds its goal of effectively serving all of its members. To this end, it has developed distribution channels specialized by product and member type. The units and components that make up these channels are considered centres of expertise and are accountable for their performance in their respective markets, including credit risk. In this regard, they have latitude regarding the framework they use and credit granting and are also equipped with the corresponding management and monitoring tools and structures.

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25. Financial instrument risk management (continued)

Credit risk (continued)

Framework

A set of policies and standards govern all aspects of credit risk management for the Caisse. These frameworks define:

- the minimal framework that governs risk management and control activities;
- the roles and responsibilities of the parties involved.

These frameworks are supplemented by the Caisse's credit practices. They define:

- the guidelines relating to commitment, authorization, review and delegation limits;
- the policies regarding the management and control of credit activities;
- the financing terms and conditions applicable to borrowers.

Credit granting

To assess the risk of credit activities with individuals and smaller businesses, credit rating systems, based on proven statistics, are generally used. These systems were developed using a history of borrower behaviour with a profile or characteristics similar to those of the applicant to determine the risk of a particular transaction. The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing transaction and borrower risk as accurately as possible.

The granting of credit to businesses is based on an analysis of the various parameters of each file, where each borrower is assigned a risk rating. These ratings are assigned individually following a detailed examination of the financial, market and management characteristics of the business.

The depth of the analysis and the approval level required depend on the product characteristics as well as the complexity and scope of the transaction risk. Riskier loans are approved by the credit risk manager in Caisse's head office.

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25. Financial instrument risk management (continued)

Credit risk (continued)

File monitoring and management of more significant risks

Portfolios are monitored by the Caisse's head office using credit policies that set out the degree of depth and frequency of review based on the quality and extent of the risk related to the commitments.

The management of higher-risk loans involves follow-up controls adapted to their particular circumstances.

Credit risk mitigation

In its lending operations, the Caisse obtains collateral if deemed necessary for a member's loan facility following an assessment of their creditworthiness. Collateral normally comprises assets such as cash, government securities, stocks, receivables, inventory or property and equipment. For some portfolios, programs offered by organizations such as the CMHC are used in addition to the customary collateral.

As of December 31, loans guaranteed by the CMHC represented 43% (2018 — 46%) of the residential mortgage portfolio.

Maximum credit risk exposure

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	
Recognized on the consolidated statement of financial position			
Cash	**151,416**	156,694	62,439
Securities	**588,348**	500,394	513,451
Loans			
Personal	**2,192,163**	2,175,350	2,139,253
Business	**1,236,191**	1,144,574	1,057,186
Collective allowance	**(15,112)**	(12,588)	(11,739)
Derivative financial instruments	**42,536**	24,684	30,459
Other financial assets	**19,030**	16,181	14,791
	4,214,572	4,005,289	3,805,840

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	
Off-consolidated statement of financial position			
Standby letters of credit	**5,769**	6,796	7,400
Credit commitments	**816,358**	790,224	739,609
	822,127	797,020	747,009

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25. Financial instrument risk management (continued)

Credit risk (continued)

Credit quality

The following table presents the credit quality of the money market securities and bond portfolios, evaluated in accordance with external credit risk ratings. The other financial assets of the Caisse are not rated.

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Money market securities			
R1-H	**50,259**	31,639	23,481
	50,259	31,639	23,481
Bonds			
AAA	**152,679**	137,614	136,294
AA	**199,242**	108,472	68,629
A	**113,259**	169,661	218,977
BBB	**48,942**	43,119	39,220
BB	**13,967**	9,718	7,180
	528,089	468,584	470,300

Allowance for loss on investments

The following table shows the change of allowance for loss on investments:

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	**128**	—
Effect of IFRS 9 adoption as at January 1, 2018	**—**	108
(Decrease) increase in the allowance on the liquidity portfolio	**(10)**	20
Share capital	**118**	128

Liquidity risk

Liquidity risk refers to the Caisse's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the consolidated statement of financial position, on the date it is due or otherwise.

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25. Financial instrument risk management (continued)

Liquidity risk (continued)

The Caisse manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due, in both normal and stressed conditions. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy because it is essential to preserving market and depositor confidence.

Policies setting out the principles, limits and procedures that apply to liquidity risk management have been established. The Caisse also has a liquidity contingency plan including an action plan for a stress-case scenario. This plan also identifies sources of liquidities that are available in extraordinary situations. This plan allows for effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

The minimum level of liquidity that the Caisse must maintain is prescribed by the OSFI guideline titled "Liquidity Adequacy Requirements." This liquidity level is centrally managed by the Caisse's Treasury function and is monitored on a daily basis. Eligible securities must meet high security and negotiability standards. The securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e., R1-L or better.

The Caisse's Treasury function ensures stable sources of funding by type, source and maturity.

The following table presents certain financial instruments by remaining contractual maturity:

				December 31, 2019
	Under 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**
Deposits	**1,822,928**	**1,720,389**	**44,452**	**3,587,769**
Borrowings, excluding lease liabilities	**40,987**	**102,172**	—	**143,159**
Other financial liabilities	**58,427**	—	—	**58,427**
Credit commitments	**816,358**	—	—	**816,358**
Standby letters of credit	**5,769**	—	—	**5,769**
Derivative financial instruments with net settlement	**887**	**4,739**	—	**5,626**

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25. Financial instrument risk management (continued)

				December 31, 2018 (restated, Note 28)
	Under 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$
Deposits	1,567,852	1,822,441	18,076	3,408,099
Borrowings	—	125,291	—	125,291
Other financial liabilities	71,153	—	—	71,153
Credit commitments	790,224	—	—	790,224
Standby letters of credit	6,796	—	—	6,796
Derivative financial instruments with net settlement	258	11,624	—	11,882

				January 1, 2018 (restated, Note 28)
	Under 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$
Deposits	1,647,558	1,600,713	31	3,248,302
Borrowings	—	86,314	—	86,314
Other financial liabilities	49,870	—	—	49,870
Credit commitments	739,609	—	—	739,609
Standby letters of credit	7,400	—	—	7,400
Derivative financial instruments with net settlement	140	15,245	—	15,385

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25. Financial instrument risk management (continued)

Market risk

Market risk refers to the potential losses resulting from changes in interest rates, exchange rates, stock prices, credit spreads, decoupling of indices or liquidity in the markets. The exposure to that risk results from trading and investing activities that may or may not be reflected in the statement of financial position.

The Caisse is mainly exposed to interest rate risk through positions related to its traditional financing and deposit-taking activities.

Interest rate risk management

The Caisse is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net financial income and the economic value of its equity.

Dynamic and prudent management is applied to optimize net financial income while minimizing the negative impact of interest rate movements. Simulations are used to measure the impact of different variables on net financial income and the economic value of equity. The assumptions used in the simulations are based on an analysis of historical data and the impact of different interest rate conditions on the data, and affect changes in the structure of the statement of financial position, member behaviour and pricing. The Caisse's Risk Management Committee is responsible for analyzing and adopting the global matching strategy to ensure sound management.

The following table presents the potential impact, before income taxes, of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of the Caisse's equity:

	2019	2018
	$	$
Impact of an increase	**1,773**	594
Impact of a decrease	**(1,176)**	(2,135)

The extent of the interest rate risk depends on the gap between assets, liabilities and off-statement of financial position instruments. The situation presented reflects the position as at that date, and may change depending on members' behaviour, the interest rate environment and the strategies adopted by the Caisse's Risk Management Committee.

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25. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk management (continued)

The following table summarizes the matching of the maturities of the Caisse's assets and liabilities at year-end.

	December 31, 2019						
	Term to maturity or rate change						
	Floating rate	0 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-sensitive or without maturity	Total
	$	$	$	$	$	$	$
Assets							
Cash and securities	103,774	21,312	83,571	255,984	248,823	180,223	893,687
Loans	637,676	413,467	833,147	1,546,979	10,321	(28,348)	3,413,242
Other assets	—	—	—	—	—	133,790	133,790
	741,450	434,779	916,718	1,802,963	259,144	285,665	4,440,719
Liabilities and equity							
Deposits	588,259	595,090	639,579	1,720,389	44,452	—	3,587,769
Actuarial liabilities	—	—	—	—	194,503	—	194,503
Borrowings	—	—	40,644	103,137	—	—	143,781
Other liabilities	—	—	—	—	—	82,991	82,991
Equity	—	—	—	—	—	431,675	431,675
	588,259	595,090	680,223	1,823,526	238,955	514,666	4,440,719
Sensitivity gap in items recognized in the consolidated statement of financial position	153,191	(160,311)	236,495	(20,563)	20,189	(229,001)	—
Sensitivity gap in derivative financial instruments by notional amounts	—	(376,310)	5,110	410,500	(39,300)	—	—
Total sensitivity gap	153,191	(536,621)	241,605	389,937	(19,111)	(229,001)	—

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25. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk management (continued)

							December 31, 2018 (restated, Note 28)
	Term to maturity or rate change						
	Floating rate	0 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-sensitive or without maturity	Total
	$	$	$	$	$	$	$
Assets							
Cash and securities	118,675	4,987	46,858	247,465	218,315	155,317	791,617
Loans	666,300	416,898	878,481	1,353,475	18,174	(25,992)	3,307,336
Other assets	—	—	—	—	—	123,132	123,132
	784,975	421,885	925,339	1,600,940	236,489	252,457	4,222,085
Liabilities and equity							
Deposits	525,388	428,717	620,717	1,815,201	18,076	—	3,408,099
Actuarial liabilities	—	—	—	—	172,932	—	172,932
Borrowings	—	—	—	125,291	—	—	125,291
Other liabilities	—	—	—	—	—	105,727	105,727
Equity	—	—	—	—	—	410,036	410,036
	525,388	428,717	620,717	1,940,492	191,008	515,763	4,222,085
Sensitivity gap in items recognized in the consolidated statement of financial position	259,587	(6,832)	304,622	(339,552)	45,481	(263,306)	—
Sensitivity gap in derivative financial instruments by notional amounts	—	(345,635)	(116,075)	495,285	(18,100)	—	15,475
Total sensitivity gap	259,587	(352,467)	188,547	155,733	27,381	(263,306)	15,475

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25. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk management (continued)

	Term to maturity or rate change						January 1, 2018 (restated, Note 28)
	Floating rate	0 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-sensitive	Total
	$	$	$	$	$	$	$
Assets							
Cash and securities	20,573	22,523	66,276	237,777	200,635	140,185	687,969
Loans	683,880	398,520	820,277	1,293,194	13,359	(24,530)	3,184,700
Other assets	—	—	—	—	—	128,479	128,479
	704,453	421,043	886,553	1,530,971	213,994	244,134	4,001,148
Liabilities and equity							
Deposits	450,981	500,607	711,551	1,585,131	32	—	3,248,302
Actuarial liabilities	—	—	—	—	181,286	—	181,286
Borrowings	—	—	—	86,314	—	—	86,314
Other liabilities	—	—	—	—	—	89,268	89,268
Equity	—	—	—	—	—	395,978	395,978
	450,981	500,607	711,551	1,671,445	181,318	485,246	4,001,148
Sensitivity gap in items recognized in the consolidated statement of financial position	253,472	(79,564)	175,002	(140,474)	32,676	(241,112)	—
Sensitivity gap in derivative financial instruments by notional amounts	—	(477,760)	137,800	338,560	1,400	—	—
Total sensitivity gap	253,472	(557,324)	312,802	198,086	34,076	(241,112)	—

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25. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk management (continued)

The net gap position on the consolidated statement of financial position is based on maturity dates or, if they are closer, the interest rate revision dates of fixed-rate assets and liabilities. This gap position represents the difference between the total assets and the total liabilities and equity for a given period.

The above tables show year-end balances, except in the case of certain non-interest rate-sensitive assets and liabilities for which the average monthly balance is provided as it is used for managing sharply fluctuating daily balances.

The impact attributable to derivative financial instruments represents the cumulative net notional amount related to interest rate swaps used to control interest rate risks. At year-end, the conditions for these swaps were such that they had offsetting impacts for some periods reported in the table. Swaps are transactions under which two parties exchange fixed- and variable-rate payments, based on a notional amount. At year-end, this notional amount totalled $1,309,385 (December 31, 2018 – $1,578,310 and January 1, 2018 – $1,708,110).

A positive total gap for a given period indicates that a sustained rise in interest rates would have the effect of increasing the net financial income of the Caisse, while a sustained decline in interest rates would decrease net financial income. The reverse occurs when the gap is negative.

Foreign exchange risk management

Foreign exchange risk arises when the actual or expected value of assets denominated in a foreign currency is higher or lower than that of liabilities denominated in the same currency.

Certain components have adopted specific policies to manage foreign exchange risk. The Caisse, except for Acadia Life, limits the gap between the assets and liabilities denominated in U.S. dollars by validating its position on a daily basis and by purchasing/selling U.S. dollars, as needed. Exposure of Acadia Life to this risk is limited, since the majority of transactions are conducted in Canadian dollars. However, the Caisse's overall exposure to this risk is limited because the majority of its transactions are conducted in Canadian dollars.

The statement of financial position includes the following amounts in Canadian dollars with respect to financial assets and liabilities with cash flows denominated in U.S. dollars:

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25. Financial instrument risk management (continued)

Market risk (continued)

Foreign exchange risk management (continued)

	December 31, 2019	December 31, 2019	January 1, 2018
	$	$	$
Cash	**76,710**	67,645	17,130
Securities	**9,218**	4,408	10,074
Loans	**93**	43	154
Other assets	**—**	—	22
Deposits	**(77,227)**	(67,697)	(17,200)
Other liabilities	**(5)**	—	(20)

The following table presents the potential pre-tax impact on net income of an immediate and sustained $0.01 increase and decrease of the U.S. dollar on the Caisse's capital:

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	
Increase of $0.01 of the U.S. dollar	**68**	46	102
Decrease of $0.01 of the U.S. dollar	**(68)**	(46)	(102)

The change in the exchange rate would have no impact on other comprehensive income.

26. Insurance and reinsurance risk management

In the normal course of business, the Caisse is exposed to insurance risk. It is defined as the risk that initial pricing is inadequate or becoming so; it results from the risk's selection, the settlement of claims and the management of contractual clauses.

In general, the Caisse is exposed to the following:

Mortality risk

Risk of loss due to the fact that the policyholder dies earlier than expected.

Morbidity risk

Risk of loss due to the fact that the health of the policyholder differs from the forecast.

Longevity risk

Risk of loss due to the fact that an annuitant lives longer than expected.

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26. Insurance and reinsurance risk management (continued)

Investment return risk

Risk of loss due to current yields being lower than expected.

Expense risk

Risk of loss due to higher expenses than expected.

Risk of policyholder's decisions

Risk of loss due to the fact that the policyholder's decisions (lapse and redemption) differ from the forecasts.

In order to properly manage these risks, the Caisse conducts regular experience studies to be as up-to-date as possible with the industry's data and the Caisse's internal data.

The Caisse has also put in place a supply management guidance to prudently manage and control the risks associated with the design and pricing of its products. This guidance allows insurance work tables to provide uniform oversight in setting pricing for insurance products.

The Caisse also has reinsurance agreements with two main objectives:

1. the sharing of financial risk with a reinsurer, and
2. to benefit from the expertise of these reinsurers in the design of insurance products.

Reinsurance is mainly carried out to a single reinsurer. This main reinsurer has a credit rating of AA- according to the rating agency Standard & Poor's.

The Caisse attempts to limit the risk of loss to a single insured or a catastrophic event affecting multiple policyholders and to recover a portion of benefits paid through reinsurance arrangements.

In the event that reinsurers are unable to meet their contractual obligations, the Caisse would be liable for any potential risks associated with the retrocession.

27. Capital management

The objective of the Caisse's capital risk management is to ensure that the level and mix of capital of the Caisse and its subsidiaries are adequate when compared to the risks taken by the organization, the profitability and growth goals and the requirements of the regulators. Furthermore, the Caisse must optimize the capital allocation and the internal circulation mechanisms while supporting the growth, development and risk management of its assets.

The minimum capital requirements that the Caisse must comply with are defined in the OSFI guidelines titled "Capital Adequacy Requirements" and "Leverage Requirements Guideline." The Caisse met its regulatory requirements throughout the year. The summary of the ratios is presented below.

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27. Capital management (continued)

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	
Regulatory capital, net of deductions			
CET1	**402,772**	377,878	382,052
T2	**15,695**	13,265	—
Total	**418,467**	391,143	382,052
Risk-weighted assets	**2,459,146**	2,257,627	2,098,009
Capital adequacy requirements			
CET1	**16.4%**	16.7%	18.2%
Total	**17.0%**	17.3%	18.2%
Assets used in the calculation of leverage ratio	**4,380,590**	4,140,794	3,895,478
Leverage ratio	**9.2%**	9.1%	9.8%

Services Financiers Acadie Inc.

The Company manages its capital to meet regulatory requirements imposed by the Mutual Fund Dealers Association of Canada. Under the rules prescribed by the Mutual Fund Dealers Association of Canada, the Company must maintain a minimum amount of risk-adjusted capital, based on the nature of its assets and operations.

Risk-adjusted capital is a measure of the Company's working capital and liquidity.

	December 31, 2019	December 31, 2018	January 1, 2018
	$	$	$
Total allowable assets	**4,630**	3,964	3,150
Less: Total current liabilities	**52**	1,081	2,156
Less: Amount due to related parties	**412**	—	—
Minimum capital required	**75**	75	75
10% of long-term liabilities	**7**	8	9
Securities owned and sold short	**49**	49	48
Financial institution bond deductible (greatest under any clause)	**5**	5	5
Risk-adjusted capital	**4,030**	2,746	857

The Company met its regulatory requirements as at December 31, 2019, December 31, 2018 and January 1, 2018.

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27. Capital management (continued)

Acadie Life

The Company's capital consists of its equity. The New Brunswick Financial and Consumer Services Commission, which is the regulatory authority of Acadia Life, requires that it comply with the Office of the Superintendent of Financial Institutions ("OSFI") guideline defining the Life Insurance Capital Adequacy Test ("LICAT"). This guideline establishes standards, based on a risk-based approach, that are used to measure a life insurer's specific risks and to aggregate the results of the risk measurement to calculate the amount of regulatory capital required to cover those risks.

The professional standards of the CIA also require that the designated actuary perform annually a dynamic review of capital adequacy. This review serves to show management the changes in the surplus and the threats to the Company's solvency. This process requires the actuary to analyze and project, using scenarios, trends in the Company's financial situation, considering the current circumstances, its recent past and its business plan.

Within this process, regulatory formulas are used as standards for capital adequacy. Currently, the required minimum LICAT is 90%.

As at December 31, 2019 and 2018, the Company presented a LICAT that met the requirements.

	December 31, 2019	December 31, 2018
	$	$
Tier 1 capital	**47,173**	43,928
Tier 2 capital	**9,151**	4,137
Total LICAT available capital	**56,324**	48,065
Surplus allowance and eligible deposits	**49,414**	44,131
Base solvency buffer	**55,469**	48,843
Total LICAT ratio	**190.6%**	188.8%
Core LICAT ratio	**147.4%**	153.2%

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28. Restatement of comparative information

During the year, the Caisse concluded that actuarial liabilities should be recognized on individual life insurance proceeds referred to as savings insurance. The Caisse reflected this change on a retrospective basis, as required under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The following table presents the impact of restatement on the Caisse's financial position as at January 1, 2018 and December 31, 2018.

	December 31, 2017	Impact of restating	**January 1, 2018 (restated)**
	$	$	**$**
Assets			
Deferred income taxes	18,386	1,070	**19,456**
Liabilities			
Deposits			
Payable on demand	1,718,316	(7,240)	**1,711,076**
Actuarial liabilities	170,427	10,859	**181,286**
Equity			
General reserve	390,344	(2,549)	**387,795**

	December 31, 2018	Impact of restating	**December 31, 2018 (restated)**
	$	$	**$**
Assets			
Deferred income taxes	16,457	905	**17,362**
Liabilities			
Deposits			
Payable on demand	1,647,495	(7,240)	**1,640,225**
Actuarial liabilities	162,644	10,288	**172,932**
Equity			
General reserve	409,184	(2,143)	**407,041**

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28. Restatement of comparative information (continued)

	December 31, 2018	Impact of restating	**December 31, 2018 (restated)**
	$	$	**$**
Net insurance and annuity revenues			
Net insurance and annuity premiums	18,709	(97)	**18,612**
Net insurance and annuity benefits	4,252	(668)	**3,584**
Income taxes	5,659	165	**5,824**
Other comprehensive income	14,293	406	**14,699**

29. Subsequent event

The global economic context and that of the financial markets have changed since the beginning of 2020. The COVID-19 virus, classified as a pandemic by the World Health Organization (WHO) on March 11, 2020, has forced many governments to implement exceptional measures to control the spread of the disease. These events are expected to result in an economic turnaround and are creating much uncertainty for the global economy, leading to significant fluctuations on the financial markets that have caused changes to the fair value of investments and equity between the year-end date, i.e., December 31, 2019 and the date the financial statements were approved on March 19, 2020.

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