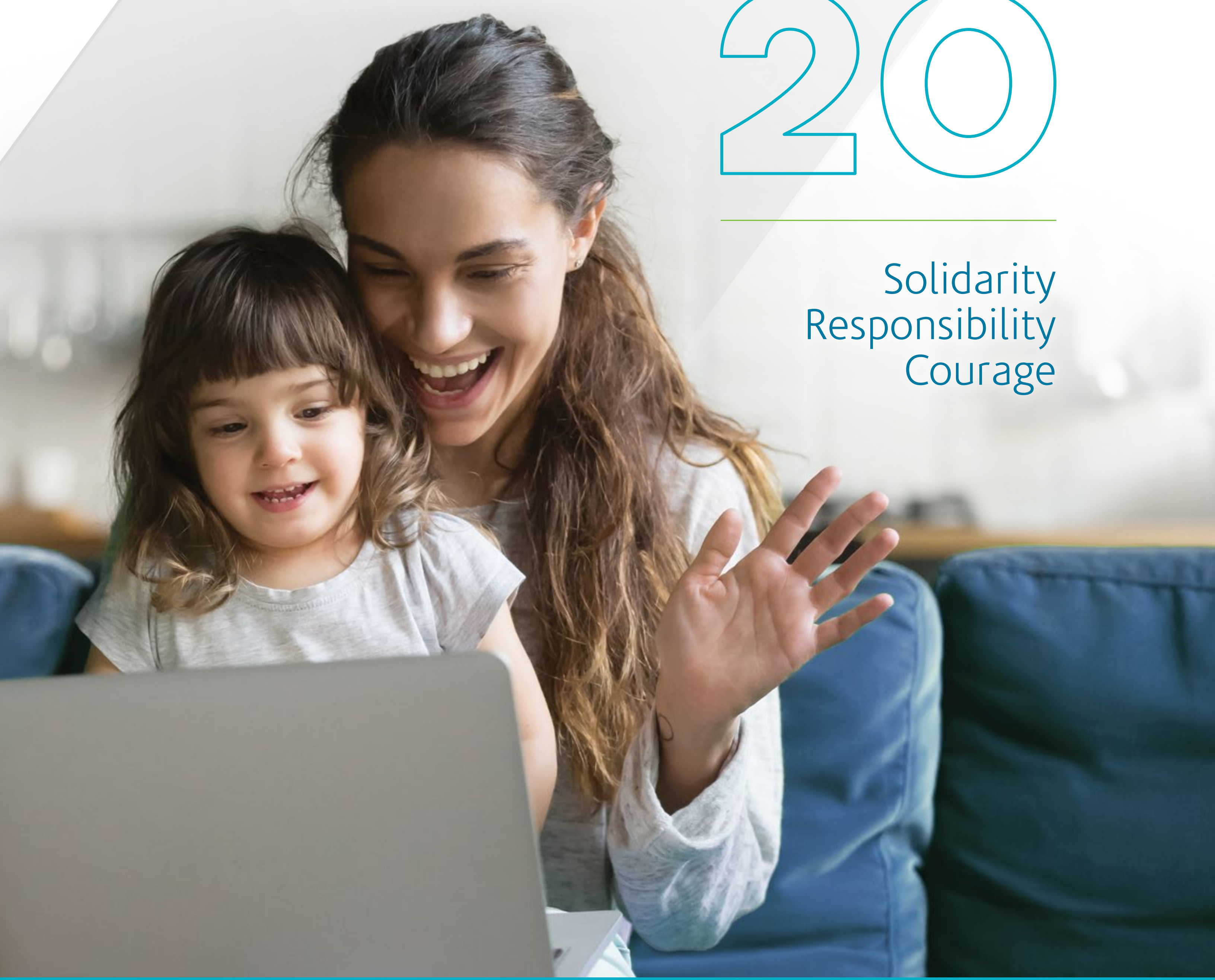
FINANCIAL COOPERATION

# Annual report 2020

Solidarity
Responsibility
Courage



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

# Table of **contents**



# Year **in brief**

UNI Financial Cooperation is a financial cooperative that focuses on the sustainable prosperity of UNI and its members. For nearly 85 years, UNI has contributed to the economic stability of the communities in which it operates. Through its cooperative mission, it encourages and promotes citizen participation in a changing world.

**155,000** members and clients

**900** employees

**43** business locations and offices

## FINANCIAL RESULTS

**$4.8B** in assets
up **8%**

Surplus of **$23.5M**
up **11.1%**

**$221.4M** in operating income
up **4,8%**

## COMMUNITY IMPACT

We invest in initiatives and causes that create and enhance local prosperity and vitality.

**$1.6M** in donations, sponsorships and scholarships

**36 members** on **3 regional cooperative committees**

# What **drives us**

Our purpose defines us and gives meaning to our actions.

**UNI**ted for the sustainable prosperity of UNI and its members

Our core values are the guiding lights we follow to achieve our purpose.

- Solidarity
- Responsibility
- Courage

## At UNI,

- **Solidarity** means we are UNIted in the pursuit of a common goal
- **Responsibility** means we lead and take ownership for our decisions, even in challenging times
- **Courage** means we reject complacency, we resolve to move forward, especially when it is most difficult.

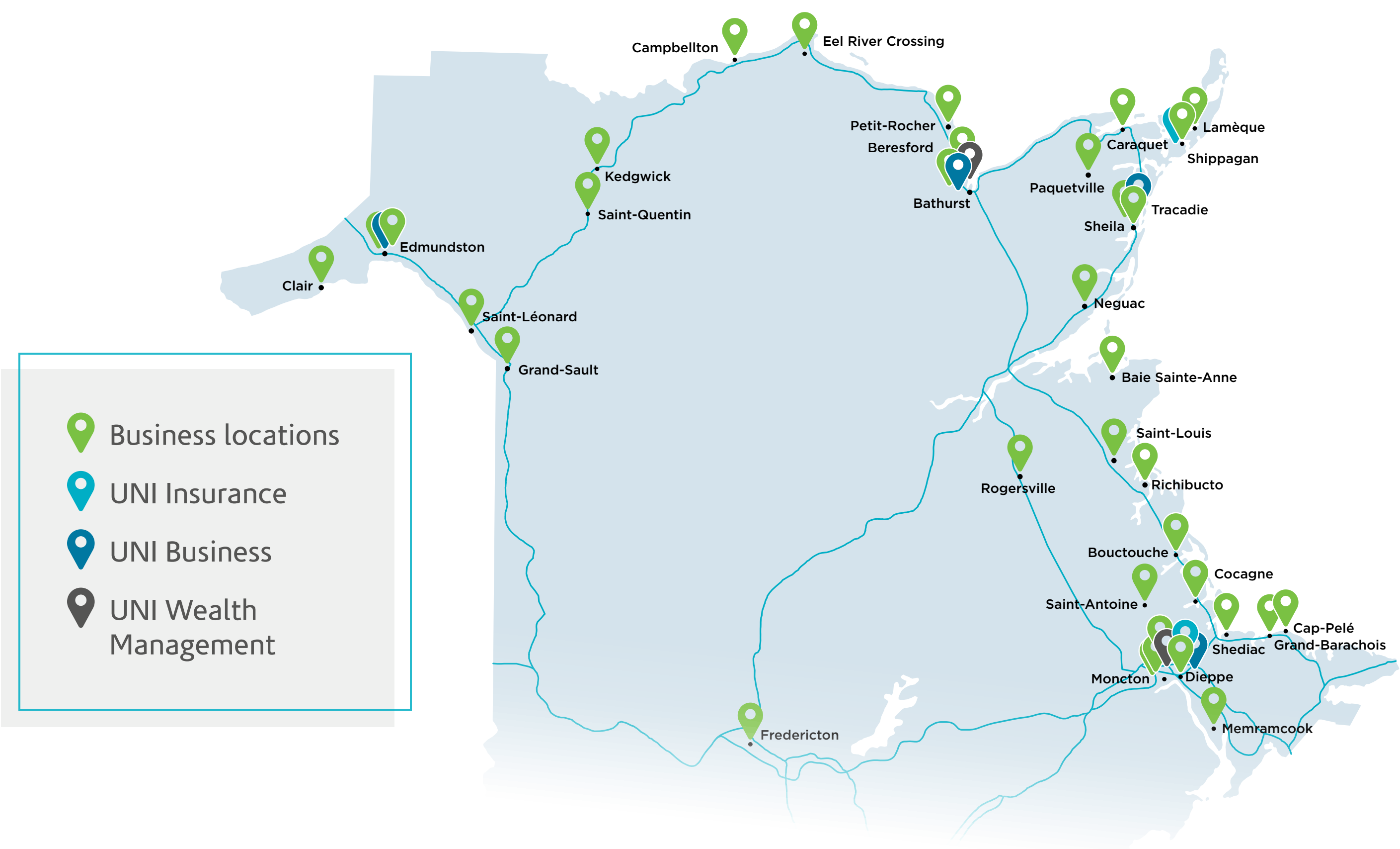
# Solidly rooted across **the province**

uni AssisT™ uni.ca/en/uniassist

ONLINE AND MOBILE SERVICES AVAILABLE AROUND THE CLOCK, 365 DAYS A YEAR.

**ONLINE SERVICES**
Log in
24/7

**CLIENT CONTACT CENTRE**
1-888-359-1357
Monday to Friday | 9 a.m. to 5 p.m.




## Or find us at

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

**Robert Moreau,**
Chief Executive Officer

# Message from the **chief executive officer**

## DEAR MEMBERS AND CLIENTS,

Last year was anything but ordinary. With the entire world in the grip of a pandemic, UNI sprung into a leadership role as an essential service. Our employees demonstrated solidarity, responsibility and courage by implementing safe and innovative solutions to serve our members and clients. Despite the tough times, I must say that I am incredibly proud of our employees' achievements and our excellent financial results in 2020.

### Staying connected while pursuing change

In 2020 we trained our employees in our newly unveiled purpose and core values to instill their importance and, more importantly, facilitate our culture change. *UNIted for the sustainable prosperity of UNI and its members* expresses UNI's fundamental purpose, the root of our actions and our ultimate goal.

The core values of solidarity, responsibility and courage were inspired by our employees' choices, sustain their engagement and guide our decisions and actions. I am convinced that the new purpose and values will put UNI on a sustainable path.

### The right strategy for our times

At a time when many companies have been forced to re-examine their strategies, ours remains relevant and well calibrated—we have even accelerated certain projects. In 2020 UNI acquired a $150 million mutual fund portfolio. The transaction brings our total assets under management to $897 million. We are always looking for opportunities to do more for our members and clients, and we pursued this important acquisition to put ourselves in a favourable position in the New Brunswick asset management market. In keeping with our strategic plan, we continue to modernize by seizing opportunities in rapidly growing markets. Furthermore, our partner Aviso Wealth has informed us that UNI ranked first in asset growth among its Canadian clientele in 2020.

We have expanded our portfolio of investment solutions for a responsible and sustainable economy. All our advisors are certified in responsible investment by the Responsible Investment Association (RIA) of Canada.

We opened our new Petit-Rocher business location in fall 2020. The space has been designed to try out new approaches and new ways of interacting with clients, and to imagine the caisse of tomorrow. Everything is focused on our core business: offering personalized, straightforward service and advice with a human touch. I want to congratulate the Petit-Rocher team and everyone who had a hand in creating this new space. The past and future meet in Petit-Rocher, where our first caisse opened in 1936.

## Agility and kindness in a global crisis

We had to learn quickly in 2020. Rolling up our sleeves, we took stock of what we do best in order to adapt and reinvent ourselves.

In March, we made our work spaces safe in compliance with public health requirements, and nearly 250 of our employees switched to working from home. These safety measures, while essential for everyone's health, demanded tremendous flexibility from both our employees and our clientele.

We fast tracked a number of digital projects to safely support our members and clients. We can now meet members and clients virtually, and they can sign documents electronically. Our mortgage advisors are now fully mobile and can meet with members and clients whenever and wherever is best for them. Aware of the financial challenges the pandemic presented to both individuals and businesses, we made it easier to request payment holidays and access government assistance programs.

> « *It was important to us to contact the thousands of our members and clients in vulnerable situations to tell them how we can help with their day-to-day transactions and avoid unnecessary travel. We set up a call centre to walk members and clients through routine financial transactions.* »

We also set up UNI Telehealth, a virtual medical clinic for our employees and their families. It was crucial for us to make sure they had remote access to healthcare professionals, especially during a pandemic.

## Exceptional financial results

I am also extremely proud of our excellent financial results, because in addition to offering our members and clients top-notch financial services, we want their financial cooperative to be sound, responsible and engaged.

UNI's total assets rose to $4.8 billion, up 8% from 2019. Our financial results improved substantially in 2020. Surplus earnings before other items at December 31, 2020, stood at $23.46 million, up $2.34 million from 2019.

The improvement shows that our sustained efforts are generating tangible benefits. Our solid financial performance means we can continue investing in talent acquisition, training our employees, enhancing the experience of members and clients, embracing the digital transformation and pursuing our business development.

## Celebrating and encouraging provincial entrepreneurs

Last fall, we met with a group of New Brunswick entrepreneurs to hear what they had to say. The grit and resourcefulness with which they have kept their businesses going and thriving was truly inspiring. Christened "The Art of the Pivot," their stories of resilience found a loyal audience on social media.

Being an entrepreneur takes courage, perseverance and resilience in the face of uncertainty. I firmly believe that because of their vision, their courage and the fact that they take nothing for granted, they will continue to adapt their business models and get the provincial economy back up and running. It is a privilege to work with them.

Plans to recognize employee efforts proved to be a resounding success, with more than $328,800 channelled into local businesses in just two months. Through the *100% Here: UNI Together for Local Prosperity* initiative, we reimbursed employee purchases of up to $500 made at local businesses in December 2020 and January 2021. Imagine the impact we could have if each of us bought locally all year long.

## Supporting our communities' prosperity and vitality

UNI exerts considerable leverage and actively contributes to the economic development ecosystem in New Brunswick. We paid out $1.6 million in donations, sponsorships and scholarships.

In 2020, UNI launched the Voilà! Projects that Unite Us contest, in which organizations and engaged residents were encouraged to submit sustainable projects that drive change and contribute to the wellbeing of the community. UNI members voted, and 15 winning candidates from around the province split $300,000 in prize money.

One project that stood out was the renovation of the former Inkerman business location into a community health cooperative. This is a real citizen-driven effort. I am thrilled that a new cooperative is picking up the torch and offering community health services. We transferred ownership of the building, valued at $200,000, to the new cooperative to further its community-building mission.

At the end of the year, UNI donated $102,000 to provincial food banks and the centres for victims of violence they serve so they can continue their mission of helping those in need. It was vitally important for us to support these organizations, because among the challenges the pandemic has thrown at them is a woeful lack of financial resources.

## UNIted

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, both globally and in our organization.

I also want to emphasize the importance of our employees, who have demonstrated unfailing engagement day in and day out. Thanks to their enthusiasm and hard work in the face of challenges, we are making the changes needed to stay relevant.

I also sincerely thank our members and clients for the trust they place in us. We are honoured to stand at their side as they pursue their life projects.

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

*UNIted for a prosperous UNI.*

Robert Moreau

ROBERT MOREAU

# 2020 achievements

We efficiently executed the actions slated for 2020 in the three-year strategic plan. Despite the global pandemic, our strategic priorities remain relevant, and we even accelerated certain initiatives to help members and clients during these unprecedented times.

## **Our objectives** • Strategies for achieving our ambitions

### 1 GROW OUR BUSINESS AND DEVELOP OUR OFFERING

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 ENHANCE ORGANIZATIONAL PERFORMANCE AND DEVELOP MEMBER AND CLIENT INTERACTION CHANNELS

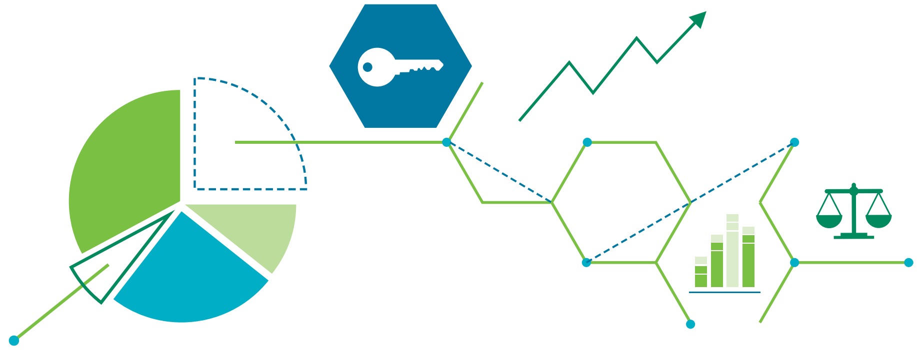
Improve our performance to interact even more effectively with our members and clients

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

### 3 DEVELOP OUR TALENT AND EFFECT CULTURAL CHANGE

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***



# Accomplishing **our priorities**

## Grow and invest in asset management: $150 million portfolio acquisition

This acquisition has been a real success for UNI, leaving us better equipped than ever to help our members and clients manage their savings and investments.

### Simplify finances with experienced, personal service

Thanks to our acquisition of the firms *Haché Dumaresq Gaudet Services financiers* and *Léger Gaudet Stewart Services financiers*, members and clients can call on the proven expertise of 13 financial planners and 30 wealth management advisors.

### Offer responsible investment

Responsible investment gives members and clients an easy way to diversify their portfolio without compromising their values. The *Priority Terra, Women's Impact and Sustainable Water Management market-linked guaranteed investments* are responsible investments that generate returns from companies that care about the environment and protecting investors' capital.

### Certify responsible investment advisors

All our investment fund advisors are certified in responsible investment by the Responsible Investment Association (RIA) of Canada.

### Invest independently with Qtrade Investor

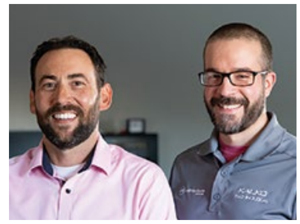
Our new partnership with online broker Qtrade Investor gives members and clients who want to manage their own investments the freedom and qualified assistance they need to do so.

Online brokerage services are offered through Qtrade Investor, a division of Credential Qtrade Securities Inc. Qtrade is a registered mark owned by Aviso Wealth Inc.

# Celebrating the courage of our business community

*"The Art of the Pivot"* is a series of testimonials from business owners and employees who have been innovative, courageous and agile in adapting quickly to recent changes in order to position their companies to survive and even thrive while also continuing to help drive the local economy. Discover inspiring stories of entrepreneurs, employees and their families.

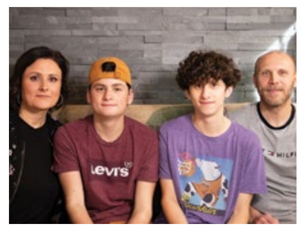
THE ART OF THE
PIVOT



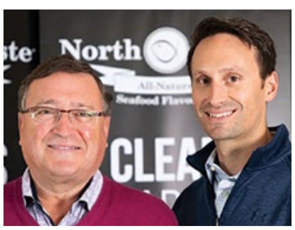
**Éric Robichaud & Michel Goupil**
KALKO TECHNOLOGIE
SHIPPAGAN, NB

**Serge Basque**
CAVOK BREWING
DIEPPE, NB

**Annie Couture**
GREY ROCK QUALITY HOTEL AND CONFERENCE CENTRE
EDMUNDSTON, NB



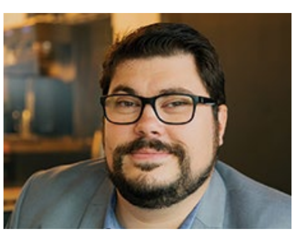
**Cécile, Jérôme, Baptiste & Benjamin Beuzeville**
AUBERGE D'ANJOU-COCOONING CAFÉ
PETIT-ROCHER, NB




**Julien & Joel Albert**
NORTH TASTE FLAVOURINGS INC.
ANSE-BLEUE, NB

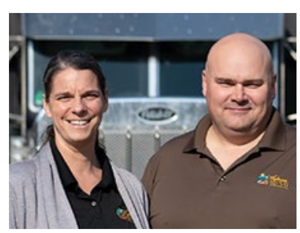
**Jérémie Gautreau & Jean-Rémi Laplante**
GROUND CARE ESTATE MANAGEMENT
DIEPPE, NB


**Nathalie & Marco Couturier**
PISCINES JACK & JILL POOLS
EDMUNDSTON, NB



**Michael Petrovici**
PITA PIT & KAFFEINE ESPRESSO BAR
BATHURST, NB

**Francis Bérubé**
L'ATELIER DES COPAINS
SAINT-FRANÇOIS-DE-MADAWASKA, NB



**Liane Jean & Gaetan Coulombe**
ANDERSON SIDING HAULING
SAINT-QUENTIN, NB


## Rethink our spaces to further personalize our approach: New location now open

**We opened our new Petit-Rocher business location in November 2020. The space has been designed to try out new approaches and new ways of interacting with clients, and to imagine the caisse of tomorrow. Everything is focused on our core business: offering personalized, straightforward service and advice with a human touch. Thanks to document digitization, the location uses considerably less paper.**

## Rethink our purpose and core values

To continue the work begun in 2019 and move our culture change forward in 2020, we trained every employee in our purpose and values to help them take root. Sustainable prosperity, trust, solidarity, responsibility and courage are now part of UNI's shared vocabulary and know-how.

# Simplifying **connectivity**

In the global pandemic, we accelerated a number of initiatives aimed at finding new ways to help members and clients with their finances.

## UNIAssisT™: The new virtual business location

In this new virtual space, clients can find tutorials and tools for managing their finances simply and securely anytime, anywhere.

## Signing documents and contracts remotely

Clients can now securely sign documents and contracts with an electronic signature. Not only does this save our clients a trip to their business location, it is also better for the environment because there is no need to print the documents.

## Secure virtual meetings

Clients can now access their advisor's suggestions and expertise securely without the need to meet in person.

## Doing business over the phone and saving a trip

We quickly set up a client call centre in the spring of 2020 to serve members and clients less at ease with online technology. The client call centre continues to improve its offerings and its agility in dealing with clients' day-to-day financial needs.

## Postponing payments to ease the stress of financial uncertainty and facilitate access to government assistance programs

We granted personal and business members and clients thousands of payment holidays to ease their financial stress. We played a vital and proactive role as a conduit to numerous government assistance programs targeting both households and businesses.

## Staying in touch, with new forms of communication

**We made more than 2,000 calls—**
it was crucial that we contact our most vulnerable members and clients and support them so they could perform their day-to-day transactions and avoid unnecessary travel.

## Keeping employees and clients safe in physical spaces

Because UNI provides essential services, we adapted our business locations to meet all public health and safety requirements. This included plexiglass screens, social distancing floor markers, mask-wearing, and cleaning and disinfecting protocols. We created guides and set up monitoring to make sure that our premises remain safe and clean.

# Having an impact **in the community**

From the beginning, UNI has been committed to making a positive impact on the lives of individuals, businesses and the community. Our new positioning underlines how important supporting sustainable development is to the community impact we want to have.

**We want to invest more in the initiatives and causes that create and enhance local prosperity and vitality in New Brunswick.**

## Be central to local prosperity

### Prospering together

- Support organizations committed to working together for the local economy
- Encourage buying locally by showcasing the diversity of local products and services
- Attract partners and businesses that want to invest in our local prosperity and vitality efforts

### Creating vibrant communities together

**Support organizations committed to making our communities more vibrant through arts and culture, sports and recreation, education, environment, health and social and economic initiatives and ensure that our investments directly or indirectly support local prosperity.**

**Ensure that our investments directly or indirectly support local prosperity.**

## Working with the community

2020 was a very different year with respect to community actions. The organizations that work to promote vibrant communities had to revise their schedules, meaning many activities were cancelled or postponed. At UNI, we wanted to support and even boost certain local initiatives.


### Voilà!

#### Your ideas come true

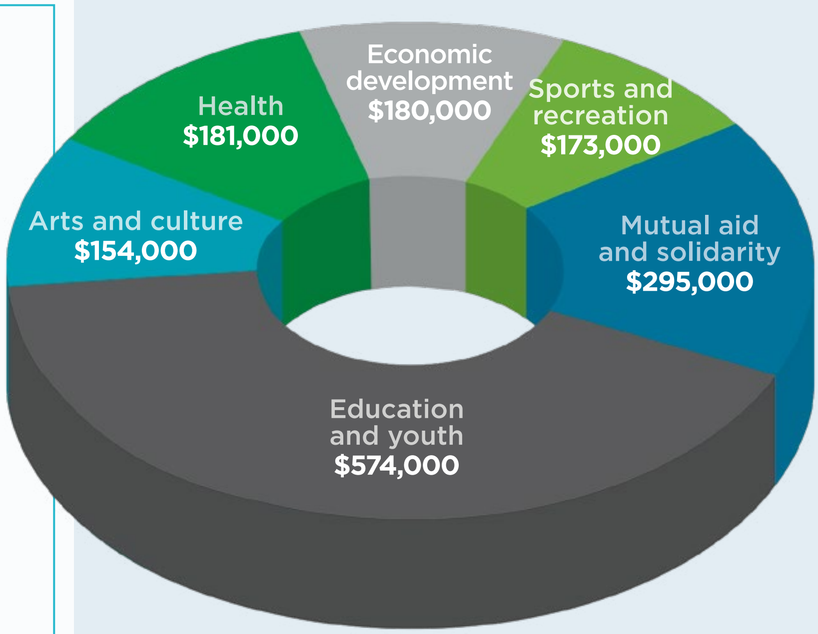
This community undertaking in support of homegrown businesses included nearly $300,000 in award money and saw 177 projects submitted, 15 finalists chosen and 5 grand prize winners selected by a vote by members and clients.


### 100% Here

#### The true meaning of solidarity

What started off as a way to recognize UNI employees turned into something much bigger. In just two short months, more than $328,800 was funnelled to local businesses hit hard by the pandemic.

- **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 research for a better quality of life
- **Sports and recreation**
  Contributing to community vitality




**$1.6M** In donations, sponsorships **and scholarships**

In the last five years, UNI Financial Cooperation has given back close to **$7 million** to its members and their communities.

**36 members** on cooperative committees

Cooperative committee members are attuned to the specific needs of each region and ensure the successful completion of projects.

To learn more about our social mission, please visit **uni.ca/communityimpact**

# Accelerating the transformation **with our employees**

With a three-year strategic plan and a renewed purpose, UNI rallied its employees around common goals designed to transform the cooperative. Employees drew on an inspiring business culture rooted in our core values to overcome tumultuous public health and economic conditions and provide our members and clients with sound financial advice and personalized service in a variety of forms.

With a shared vision, recognition of the task at hand, dedication and a willingness to develop new skills, our employees have transformed our institution to meet the changing needs of our clientele. We hope that our cultural transformation will allow them to flourish and help meet our organizational goals in a constantly changing environment.

## Lessons learned as an essential service during the pandemic

When the World Health Organization declared COVID-19 a pandemic, UNI swiftly tackled the challenge and adopted New Brunswick's public health recommendations to ensure a safe space for its personnel and clientele.

Three main ideas guided our response: leadership, risk management and performance.

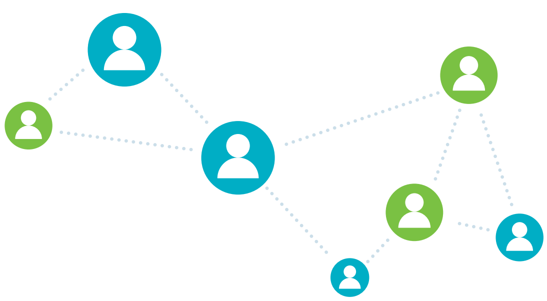
We rose to the occasion to ensure health and safety and mitigate risks. Employees sprung into action to adapt workspaces, share knowledge and ensure compliance with regulations. We rapidly adapted our technology to allow work from home, adopting new working methods and modifying our processes as a result.

In just a few weeks, we issued laptop computers and set up videoconferencing platforms and safety protocols to encourage shorter face-to-face meetings.

## Purpose and core values

An organization's culture evolves in response to its interactions, opportunities, challenges and successes. In 2020 our choice to pursue a more agile, highly collaborative culture proved to be a significant competitive advantage. Responsibility, solidarity and courage: our core values are the guiding lights for our decisions and conversations, and they prime us to achieve our shared goals.

In 2021 this ongoing work will continue, with employee "ambassadors" regularly organizing activities to shape our reflexes and behaviours so that our purpose and core values infuse our actions day in and day out.



## Employees' experience

The three-year strategic plan was launched at the January 2020 annual managers meeting, along with key projects and priorities for the year. Managers subsequently relayed the operating plans to their respective teams.

In addition to measures aimed at keeping employees safe, we moved ahead with initiatives based on our employees' experience. At the start of 2020 they took part in multidisciplinary workshops and proposed new approaches and ways to improve our processes. Employees' ideas and contributions formed the basis for the organizational development strategy.

We implemented a program to help employees and their families. UNI is a good place to work, and we believe that employee wellness is vital to a top-performing organization. The program offers support for employees' mental, physical, social and financial health available at any time, confidentially, using a variety of resources to help them balance their work and home life.

## UNI Télésanté

**The telemedicine program available to our employees and their families is highly flexible and lets them quickly see a doctor or nurse practitioner to keep them healthy and well.**

# Recognizing years of service

At UNI, we are fortunate to have many employees who have enjoyed long tenure with our organization. In October we gathered virtually to recognize the years of service of 148 employees, 45 of whom have now spent 25 years or more with UNI.

## Here are some of them:

Amélie Haché
**15 years of experience**

Anise Mercure
**25 years of experience**

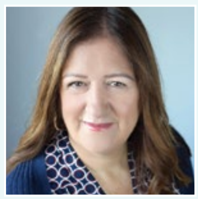
Anne Durepos
**35 years of experience**

Armande Savoie
**30 years of experience**

Aurélie Juste
**5 years of experience**

Bernise Thériault
**30 years of experience**

Brigitte Dignard
**30 years of experience**



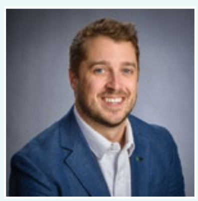
Carole Lanteigne
**35 years of experience**

Caroline Daigle Martin
**30 years of experience**

Danielle Roy
**15 years of experience**

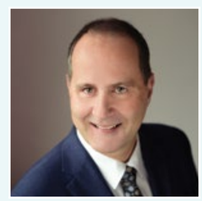
Diane Bouchard
**25 years of experience**

Francine Harpin
**30 years of experience**

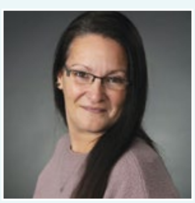


François Levesque
**10 years of experience**

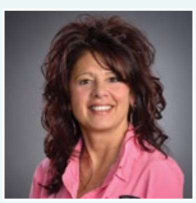
Ginette Chiasson
**25 years of experience**



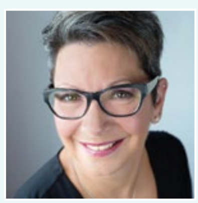
Guy Viel
**25 years of experience**



Isabelle Lanteigne
**10 years of experience**

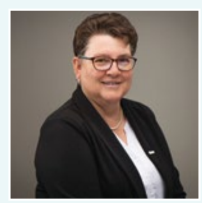


Johanne Nadeau
**30 years of experience**

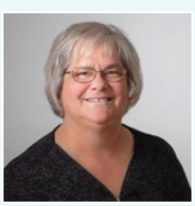


Jocelyne Doiron
**20 years of experience**

Jonatan Godin
**15 years of experience**

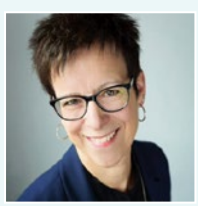


Julie Mallais
**25 years of experience**

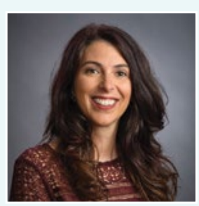


Lise Belliveau
**20 years of experience**

Lloyd Ross
**20 years of experience**



Marthe Hébert
**40 years of experience**



Maryse Lizotte
**20 years of experience**

Michella Roy
**30 years of experience**

## Listening to employees for an engaging workplace

Employee engagement is an indicator that opens up dialogue between managers and employees. The results of engagement and satisfaction surveys are available at any time on Officevibe, an online platform that helps employers assess and improve employee engagement. Quick surveys and feedback flows offer a swift, simple and reliable way to continuously share information and foster a positive work culture and higher levels of engagement. As a guide for managers, the tool makes certain suggestions for creating a healthy, positive workplace where motivated employees flourish.

õfficevibe

**According to Officevibe, UNI's overall score of 78% and 71% participation rate are "very good" and above average for our industry and for Officevibe clients across all industries.**

## Pursuing employee development

We continued investing in our employees' development and skills by assigning them to certain projects and offering online training, virtual meet-ups, coaching with management and webinars. Employees all have LinkedIn Learning accounts, and managers actively participate in the Coaching Ourselves program.

## Highly adaptable employees

Our employees have demonstrated an incredible ability to adapt. In uncharted territory, they successfully:

- Worked from home while maintaining real relationships with their colleagues
- Motivated apprehensive colleagues and facilitated collaboration under unusual circumstances
- Maintained a high level of customer service while moving key projects forward

Communication proved crucial during this time of crisis. Attentiveness, dialogue and affinity between teams, versatility, and clear and transparent information sharing helped keep our people focused and working toward the successful completion of projects.

UNI is proud of its employees and their agility, resilience and perseverance during a period that will mark the history of the entire world. Thanks to them, UNI remains a remarkable place to work. Over the coming months, we will continue to do everything we can to make sure they stay healthy and have everything they need to properly serve our members and clients.

## IMPACT OF COVID-19

Global economic and financial market environments 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, led many governments to put in place exceptional measures to slow its spread. This event led to a turnaround in economic conditions and created a great deal of uncertainty for the global economy while causing significant fluctuations in the financial markets. Although the crisis has affected our results, UNI will be able to recover given its strong financial position. UNI is among the strongest credit unions in Canada.

# Management's discussion and analysis

YEAR ENDED DECEMBER 31, 2020

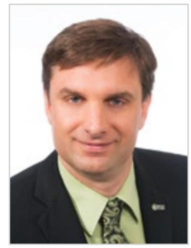
## NOTE TO THE READER

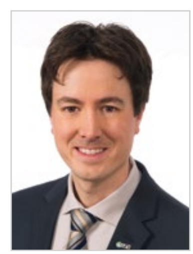
This management report provides a general overview of UNI Financial Cooperation. It complements the information provided in the combined financial statements of Caisse populaire acadienne ltée. It should therefore be read together with these statements and accompanying notes for the year ended December 31, 2020.

This report also presents the results analysis and main modifications made to UNI Financial Cooperation's balance sheet for the fiscal year ended December 31, 2020. Further information on UNI Financial Cooperation is available at www.uni.ca.

# Table of contents

# Board of **Directors**

| | | | | | | |
|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |
| | **Pierre-Marcel Desjardins,** ICD.D<br>CHAIR | **Wanita McGraw,** FCPA, CA, ICD.D<br>VICE-CHAIR | **Brian L. Comeau**<br>DIRECTOR | **Roland T. Cormier**<br>DIRECTOR | **Sébastien Deschênes,** DBA, CFA, CPA, CA, ICD.D<br>DIRECTOR | **Gilles Godin**<br>DIRECTOR |
| **COMMITTEES** | • Performance Evaluation & Remuneration of the Chief Executive Officer, **Chair** | • Audit, **Chair**<br>• Nomination, **Chair**<br>• Performance Evaluation & Remuneration of the Chief Executive Officer Risk Management | • Conduct Review & Governance<br>• Performance Evaluation & Remuneration of the Chief Executive Officer,<br>• Nomination | • Audit<br>• Nomination<br>• Pension Plan, **Chair**<br>• Human Resources, **Chair** | • Audit<br>• Risk Management<br>• Pension Plan | • Conduct Review & Governance<br>• Performance Evaluation & Remuneration of the Chief Executive Officer<br>• Nomination |
| **TERM** | **2018 – 2021** | **2020 – 2023** | **2020 – 2023** | **2019 – 2022** | **2020 – 2023** | **2019 – 2022** |

| | | | | | | |
|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |
| | **Caroline Haché,** MBA<br>DIRECTOR | **Guy Ouellet**<br>DIRECTOR | **Diane Pelletier**<br>DIRECTOR | **Guy J. Richard,** IAS.A<br>DIRECTOR | **Allain Santerre**<br>DIRECTOR | **Jean-François Saucier,** M.Sc., CPA, CA<br>DIRECTOR |
| **COMMITTEES** | • Conduct Review & Governance<br>• Risk Management<br>• Human Resources | • Conduct Review & Governance<br>• Human Resources<br>• Nomination | • Risk Management<br>• Human Resources<br>• Conduct Review & Governance | • Audit<br>• Pension Plan<br>• Risk Management, **president** | • Audit<br>• Pension Plan<br>• Performance Evaluation & Remuneration of the Chief Executive Officer | • Audit<br>• Conduct Review & Governance<br>• Human Resources |
| **TERM** | **2018 – 2021** | **2019 – 2022** | **2020 – 2023** | **2018 – 2021** | **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 & EXECUTIVE DIRECTOR OF ACADIA LIFE**
- Life & Health Insurance
- General Insurance
- Sales Support

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

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

**Éric St-Pierre,**
CPA, CMA
**VICE-PRESIDENT, FINANCE**
- Accounting
- Supply & Building
- Supply Management & Business Intelligence
- Treasury

**UNI FINANCIAL COOPERATION**
operated
35 business locations

**UNI BUSINESS**
operated
4 regional offices

**UNI WEALTH MANAGEMENT**
operated
2 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

# Financial position as at **December 31, 2020**

## Financial position

| *($000s and %)* | 2020 | 2019 |
|---|---|---|
| **Profitability and productivity** | | |
| Productivity index | 78.0% | 82.5% |
| Surplus earnings before other items | $23,457 | $21,121 |
| Equity | $466,030 | $431,675 |
| Return on equity | 4.4% | 4.5% |
| **Business development** | | |
| Assets | $4,795,827 | $4,440,719 |
| Business volume | $11.0B | $10.3B |
| Business volume growth | 6.2% | 5.0% |
| **Risk** | | |
| Credit losses | $14,662 | $7,815 |

# Economic and **financial outlook**

## Canada

Like every other country around the world, Canada felt the impact of the COVID-19 pandemic in 2020. The first case was confirmed in Toronto on January 25. Cases spread rapidly in Ontario, Quebec and Alberta. In mid-March, federal and provincial authorities began making media appearances asking Canadians to wash their hands, social distance and limit non-essential activities. While “flatten the curve” was the mantra for authorities, the public rallied spirits with “it’s going to be OK!” The events highlighted the precarious situation of the most vulnerable and the fragility of our healthcare system and residential care facilities in the face of the pandemic, not to mention that of our economy. Starting in March, the Canadian government created programs offering financial support to those out of work because of the pandemic. The Canada Emergency Business Account (CEBA) was set up to bolster Canadian businesses. If repaid before December 31, 2022, 33% of the interest-free CEBA loans will be forgiven.

Canada’s GDP declined 5.5% compared with the previous year. The slowing caused by the pandemic was detrimental to the entire economy. Numerous sectors were hobbled by public health restrictions: arts and entertainment, hotels and restaurants and the transport sector. The only sectors to post growth in 2020 were finance, insurance, real estate, agriculture, forestry and fishing. The economic recovery is expected to gain steam as vaccination programs advance, the spread of the virus dwindles and consumer spending picks up.

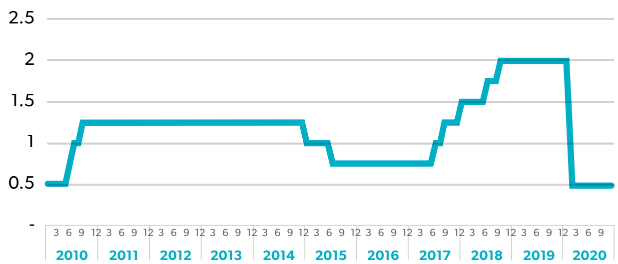
The Bank of Canada cut its key interest rate on three occasions in March, from 2.0% to 0.5%. Employment declined by 5.2% in 2020. The unemployment rate—which had fallen to a 40-year low of 5.4% in May 2019—rose to 9.5% in 2020.

In March, the Canadian dollar reached a 17-year low against the U.S. dollar, at $0.69, before gradually recovering to $0.78 in December. An oil price war between Russia and Saudi Arabia, combined with weakened global demand, sent crude tumbling in March.

### *US Stock Market*

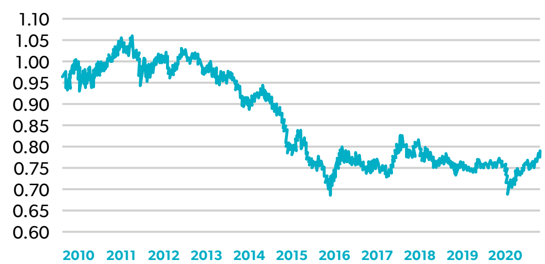
*After plunging 37% in March, the S&P/TSX index reversed course and ended the year up 2.17%. The TSX was supported by tech companies, as in 2019, as well as the pharmaceutical industry. By contrast, the energy sector took a hit from the events of 2020.*

## Bank of Canada Bank Rate, 2010–2020




*Source: Bank of Canada*

## Canadian Dollar vs. U.S. Dollar, 2010–2020




*Source: Bank of Canada*

## New Brunswick

The premier called a snap election in August. The Progressive Conservative Party won 27 seats, allowing them to form a majority government. Despite New Brunswick's success in containing the pandemic within its borders, the province's GDP contracted by 4.3% in 2020. Inflation was slightly lower than the national rate, with the CPI at 0.4% in New Brunswick compared to 0.7% in Canada as a whole. Housing starts in the province increased 18.7% in 2020, while they grew by 4.4% nationally. The 39.8% growth in multi-family housing accounted for much of the increase in the province. The slowdown in single-family housing starts, down 13.7% compared with 2019, clearly contributed to the success of existing home sales in New Brunswick: the number of units sold rose 13%, and total value increased 25% year on year.

Exports fell 21.4% provincially, with the United States remaining the province's biggest international market at 90.9%, followed by China with 1.4%. Imports decreased 25.6% in 2020 and came mainly from the United States (56.7%), Saudi Arabia (16.3%) and Norway (3.2%).

The number of New Brunswickers with a job decreased by 2.6% in 2020. The number of jobs in the province fell by 9,500, of which 7,000 full time and 2,500 part time. The northeast added 1,000 jobs, entirely due to the increase in part-time employment (+1,300 jobs). The northwest was down 600 jobs, losing close to 1,200 full-time jobs and gaining over 500 part-time jobs. The southern part of the province experienced the biggest job losses, with 500 jobs lost in the southeast, 6,700 in the southwest and 2,700 in the central part of the province. The southeast added close to 2,300 full-time jobs but lost over 2,700 part-time jobs. The provincial unemployment rate rose from 8.1% to 10.0%. The northeast had the highest unemployment rate, at 14.3%, the fourth-highest rate of Canada's 76 economic regions.

| | Unemployment (%) | | Jobs ('000) | |
|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 |
| Northwest | 7.2 | 8.2 | 36.3 | 35.7 |
| Northeast | 13.0 | 14.3 | 60.1 | 61.1 |
| Southeast | 7.1 | 8.9 | 109.2 | 108.7 |
| Southwest | 7.1 | 10.0 | 87.5 | 80.8 |
| Centre | 6.8 | 8.7 | 68.1 | 65.4 |
| New Brunswick | 8.1 | 10.0 | 361.1 | 351.6 |

*Statistics Canada. Table 14-10-0393-01 Labour force characteristics*

# Review of **financial results**

## Surplus earnings in 2020

Consolidated financial results continued to improve in 2020 despite the pandemic. Surplus earnings before other items at December 31, 2020, were $23.5 million, an increase of $2.3 million compared with 2019. See the table below for a more in-depth analysis.

| *($ thousand)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Life and health insurance | $1,662 | $8,641 | $10,218 |
| Personal and business | 21,794 | 12,480 | 6,591 |
| **Surplus earnings before other items** | **$23,457** | **$21,121** | **$16,809** |

More specifically, the profitability of operations in the personal and business lines increased by $9.3 million to $21.8 million, compared with $12.5 million in 2019. Adding a new source of revenues in 2020 enabled UNI to achieve its best financial results of the past six years.

The life and health insurance line contributed $1.7 million to surplus earnings in 2020, compared with $8.6 million in 2019. Lower interest rates were a significant headwind for our Acadia Life subsidiary.

Surplus earnings before other items for the fiscal year were $23.5 million at December 31, 2020, while net surplus earnings totalled $20.6 million. This difference is due to taxes for 2020 and a number of other factors. The other factors consisted of a change in the market value of our derivatives, which in 2020 generated a gain of $5.1 million, mainly due to changes in market interest rates and the amortization of capital gains from the interest rate swap portfolio. We paid $8.0 million in income tax in 2020, representing approximately 27.9% of our surplus earnings before taxes.

# 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 $141.6 million at the end of 2020, up $4.1 million from $145.7 million in 2019. 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. Declining interest rates had a negative impact on UNI's net financial income in 2020 and will remain a headwind as loan assets reach maturity.

In the pages that follow, we set out a more in-depth analysis of the changes in net financial income based on major asset and liability categories.

## Net financial income on assets and average liabilities

| *($ thousand)* | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest | Average rate | Average balance | Interest | Average rate |
| **Assets** | | | | | | |
| Interest-bearing assets | | | | | | |
| Cash and securities | $927,935 | $38,524 | 4.2% | $742,652 | $46,779 | 6.3% |
| Loans | 3,462,865 | 139,703 | 4.0% | 3,351,575 | 140,335 | 4.2% |
| Total interest-bearing assets | 4,423,847 | 178,227 | 4.0% | 4,094,227 | 187,114 | 4.6% |
| Other assets | 227,523 | | | 237,372 | | |
| Total assets | $4,618,322 | $178,227 | 3.9% | $4,331,599 | $187,114 | 4.3% |
| **Liabilities and equity** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Deposits | $3,726,191 | $32,826 | 0.9% | $3,518,213 | $37,941 | 1.1% |
| Borrowings and bank overdraft | 153,755 | 3,783 | 2.5% | 134,536 | 3,450 | 2.6% |
| Total interest-bearing liabilities | 3,879,946 | 36,609 | 0.9% | 3,652,749 | 41,392 | 1.1% |
| Other liabilities | 289,315 | | | 237,797 | | |
| Equity | 449,062 | | | 421,053 | | |
| Total liabilities and equity | 4,618,322 | 36,609 | 0.8% | 4,311,599 | 41,392 | 1.0% |
| Net financial income | | $141,618 | 3.1% | | $145,722 | 3.3% |

## Financial income

Financial income totalled $178.2 million in 2020, down $8.9 million from the previous year. It consisted of $38.5 million in revenue on cash assets and investments and $139.7 million on the loan portfolio.

### Cash assets and investments

Income from cash assets and securities decreased by $8.3 million over that of the previous year, from $46.8 million in 2019 to $38.5 million in 2020.

## Investment income

| *($ thousand)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Investment income from interest and dividends | $19,444 | $20,111 | $16,321 |
| Market value of investment gains (losses) – UNI | 2,696 | 2,908 | (3,722) |
| Market value of investment gains (losses) – Acadia Life | 16,441 | 23,760 | (6,746) |
| **Total investment income** | **$38,524** | **$46,779** | **$5,853** |

The decrease largely stems from stock market weakness and lower interest rates in 2020. The gain in the market value of UNI investments was mainly attributable to bond sales during the year to meet liquidity needs arising from stock portfolio losses. The gain in the market value of Acadia Life investments, on the other hand, was chiefly due to the bond portfolio used for liability matching. Acadia Life's portfolio, unlike UNI's, is composed of bonds with longer duration to match actuarial reserves, and declining interest rates have a greater positive impact on the market value of its investments. We are seeing an inverse movement of roughly the same magnitude in actuarial reserves, which offsets the increase in investment income. While the investment portfolio grew in 2020, investment income excluding gains in market value dipped slightly, by $0.7 million.

### Loans

Interest income on UNI's loan portfolio, including interest rate swaps, fell by $0.6 million compared with 2020 despite a $109 million increase in our corporate loan portfolio. Interest income amounted to $139.7 million in 2020 compared with $140.3 million in 2019. The decrease was attributable to the impact of the pandemic on interest rates in 2020. That impact will likely continue to be felt in the coming years, as maturing loans are renewed at lower interest rates. Furthermore, government assistance programs (the Canada Emergency Business Account program, emergency corporate loans, etc.) allowed individuals and companies to access funds without taking bank loans.

## Financial expenses

Financial expenses amounted to $36.6 million, down $4.8 million over fiscal year 2019. They consisted of $32.9 million in interest on the deposit portfolio and $3.7 million in interest on loans from other institutions. Once again, the decrease was attributable to lower market interest rates.

### Deposits

Interest expenses on members' and clients' deposits fell from $37.9 million in 2019 to $32.7 million in 2020. The drop was due to the decline in interest rates caused by the pandemic and the product choices made by members and clients. Our pricing remains competitive, as reflected in the $276.8 million growth of this deposit portfolio in 2020.

### Borrowing

UNI has had an active securitization program since 2014. The first five-year plan reached maturity in 2019, which means that repayment of principal has begun. In 2020, two tranches reached maturity: a $25 million tranche in June and a $15 million tranche in December. UNI issued $57 million of new loan securitizations in 2020. The decline in interest rates early in the year lowered the interest expense of the securitization program by reducing the average borrowing rate by 25 basis points.

## Other income

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

| *($ thousand)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Deposit and payment services charges | $16,233 | $18,368 | $17,426 |
| Net insurance and annuity premiums | 18,762 | 18,477 | 18,612 |
| Gain on the disposal of securitized mortgages | 15,193 | — | — |
| Commissions | 10,548 | 12,277 | 12,925 |
| Foreign exchange income | 678 | 935 | 744 |
| Sales of related services | 2,794 | 2,793 | 2,713 |
| Other income | 2,216 | 1,974 | 1,795 |
| **Total other operating income** | **$66,424** | **$54,773** | **$54,215** |

UNI has created a program for buying and securitizing residential and multi-residential mortgages that generated income of $15.2 million. Because the program structure eliminates any material risk associated with the program, accounting rules allow UNI to derecognize the mortgages that are bought and securitized. Derecognition also allows UNI to book net income from Day 1 for the entire duration of the transaction. The volumes to be included in this program over the coming years will be determined by several factors, chiefly market conditions (interest rates, the Canadian economy, etc.). Thus, it is clear that the amount recorded in 2020 may be significantly different in 2021.

We remain competitive with respect to our expense management. Transaction volumes at the counter and at banking machines are still declining and are being replaced by automated transactions. This transition has accelerated during the pandemic, mainly due to the public health measures applicable to services.

## Provision for credit losses

The provision for credit losses totalled $14.7 million, up $7.8 million from 2019. Since January 1, 2018, it has been calculated as per the IFRS 9 accounting standard, which sets out requirements concerning the classification, evaluation and depreciation of financial instruments. The standard is based on information on expected credit losses (forward-looking information). With this standard, our loan portfolios are segmented into three separate stages, based on risk trends. The stages are each assigned different default probabilities based on their risk. Mortgage and commercial loan products in Stage 3 are calculated in the same way as the former individual provisions.

For Stages 1 and 2 loans, provision expenses amounted to $5.19 million in 2020, compared with $2.55 million in 2019. The increase in the expense in 2020 was related to the pandemic's negative impact on households' and businesses' short- and medium-term incomes. While government assistance and the payment holidays granted by UNI have provided vital support for our members and clients, we expect many to emerge from the crisis in a more precarious financial situation. To take this into account, we recorded a substantial additional provision expense. 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 remaining 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 $9.47 million at December 31, 2020, an increase of $4.21 million over 2019 for individual provisions. As with the provision for Stages 1 and 2, the increase in Stage 3 was also attributable to the pandemic. Loans for which UNI granted payment holidays of over six months at December 31 were considered to be in default, which had a significant impact on provisions. The sector granted the most payment holidays, by far, was the hotel sector.

# Operating expenses

## Salaries and employee benefits

Since UNI is a service-based company, its payroll is its biggest expense. Expenses related to employee salaries and benefits increased by $1.8 million in 2020 to $71.0 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 members and clients.

## Other operating expenses

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

| *($ thousand)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Employee travel, training and wellness | **$1,800** | $2,776 | $3,084 |
| Professional fees | **7,247** | 7,086 | 5,466 |
| IT costs and telecommunications | **24,737** | 23,408 | 22,208 |
| Building and equipment rental, maintenance and depreciation | **14,809** | 15,683 | 12,790 |
| Cash management and compensation | **2,184** | 2,127 | 2,088 |
| Dues and regulatory fees | **2,465** | 2,460 | 2,348 |
| Promotion, advertising, donations and sponsorship | **4,397** | 7,044 | 4,646 |
| Office expenses and postage | **2,319** | 2,053 | 2,232 |
| Governance | **658** | 870 | 938 |
| Insurance | **1,306** | 1,028 | 1,066 |
| Other | **2,361** | 2,855 | 2,755 |
| | **$64,283** | **$67,479** | **$59,620** |

Total operating expenses decreased by about $3.2 million compared with the previous fiscal year. First, employee travel expenses fell substantially because the pandemic made virtual meetings preferable in 2020. After increasing in 2019 owing to UNI's strong financial results, donations and sponsorships returned to a level in line with previous years.

## Life and health insurance

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 significantly weaker in 2020 than in previous years, at $1.7 million compared with net income of $8.6 million in 2019. This poor performance was mainly attributable to stock market weakness in 2020 and declining interest rates on bond investments. There were also changes in certain actuarial assumptions and valuation methods, which increased actuarial liabilities by around $0.6 million, whereas in 2019 the changes created a gain of $1.0 million.

The individual life insurance business line collected $11.2 million in premiums, up $0.4 million from 2019, whereas premiums for group life insurance decreased $0.2 million to $7.3 million. Mortgage disability insurance premiums also decreased by about $0.1 million, whereas the new critical illness insurance product brought in around $50,000 in premiums.

The table below presents Acadia Life's main sources of income and fluctuations in actuarial reserves. Income from insurance premiums and commissions rose marginally in 2020 compared with 2019.

## Life insurance income

| *($ thousand)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Income from premiums | $18,762 | $18,477 | $18,612 |
| Financial income | 23,243 | 30,594 | (360) |
| Total revenues | 42,005 | 49,071 | 18,252 |
| Insurance benefits and changes in actuarial reserves | $34,633 | $34,895 | $3,584 |

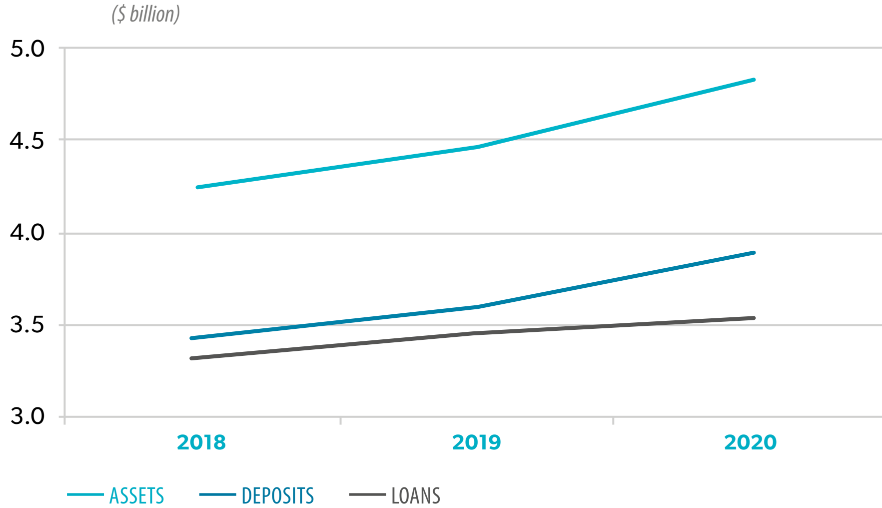
# Balance sheet **review**

## Summary balance sheet

| *($ thousand)* | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | $132,987 | **2.8%** | $184,675 | 4.1% | $198,146 | 4.7% |
| Securities | 829,196 | **17.3%** | 709,012 | 16.0% | 593,471 | 14.1% |
| Loans | 3,512,487 | **73.2%** | 3,413,242 | 76.9% | 3,307,336 | 78.4% |
| Other assets | 321,157 | **6.7%** | 133,790 | 3.0% | 123,132 | 2.9% |
| Total assets | $4,795,827 | **100.0%** | $4,440,719 | 100.0% | $4,222,085 | 100.0% |
| **Liabilities and equity** | | | | | | |
| Deposits | $3,864,613 | **80.6%** | $3,587,769 | 80.8% | $3,408,099 | 80.9% |
| Borrowings | 163,729 | **3.4%** | 143,781 | 3.2% | 125,291 | 3.0% |
| Other liabilities | 301,455 | **6.3%** | 277,494 | 6.3% | 278,659 | 6.3% |
| Equity | 466,030 | **9.7%** | 431,675 | 9.7% | 410,036 | 9.8% |
| Total liabilities and equity | $4,795,827 | **100.0%** | $4,440,719 | 100.0% | $4,222,085 | 100.0% |

### Changes in the balance sheet

*($ billion)*




### Total assets

At December 31, 2020, UNI's total assets were $4.8 billion, up $355 million or 8.0% from 2019. The increase in our securities portfolio was due to an increase in deposits. The sizeable $276.8 million increase in deposits was bolstered by the cash injected into the economy in 2020 by the Canadian government's assistance programs: the Canada Emergency Response Benefit and emergency loans to businesses.

## 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 five-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—and to ensure its liquidity risks are well managed—UNI must maintain a short-term liquidity ratio above 100%. 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 %)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Ratio | 233% | 193% | 217% |

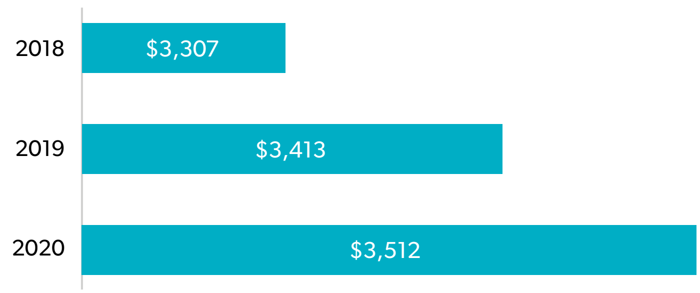
UNI's operations generated a net cash inflow of $21.6 million. This was mainly due to the fact that our loan portfolio grew more slowly than our deposit portfolio. In 2020, new member and client deposits generated an inflow of $276.8 million, and growth in the loan portfolio resulted in an outflow of $98.7 million. In addition, our new program to buy and securitize residential and multi-residential mortgages generated a total outflow of around $160 million. The traditional loan securitization program generated a net inflow of $19.9 million.

## Loans

The loan portfolio, net of provisions, continued to grow in 2020. It was $3.5 billion at December 31, 2020. Compared with 2019, this was a $99 million increase, representing a growth rate of 2.9%. Growth was split fairly evenly between the personal and business portfolios.

## Loans to members and clients net of provisions

*($ million)*



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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Personal** | | | |
| Residential mortgages | $1,680,975 | $1,656,260 | $1,653,496 |
| Consumer and other | 570,738 | 539,754 | 525,286 |
| Total personal | $2,251,713 | $2,196,014 | $2,178,782 |
| **Business** | | | |
| Real estate | 528,214 | 510,908 | 445,491 |
| Health care and related services | 150,227 | 142,981 | 142,375 |
| Construction | 65,316 | 74,644 | 76,910 |
| Forestry | 40,601 | 37,012 | 37,464 |
| Fishing and trapping | 124,334 | 96,723 | 73,320 |
| Retail | 49,014 | 56,259 | 54,679 |
| Manufacturing | 56,516 | 55,637 | 52,678 |
| Accommodation and food | 111,409 | 90,340 | 84,539 |
| Transportation and warehousing | 34,454 | 34,618 | 35,161 |
| Other | 138,435 | 146,454 | 151,928 |
| Total business | 1,298,520 | 1,245,576 | 1,154,546 |
| | 3,550,233 | 3,441,590 | 3,333,328 |
| Allowance for credit losses | (37,746) | (28,348) | (25,992) |
| Total loans by category of borrowers | $3,512,407 | $3,413,242 | $3,307,336 |

## Residential mortgages

Growth in the residential mortgage portfolio improved in 2020 with an increase of $28.1 million, compared with an increase of just $2.8 million in 2019. Despite the pandemic, this growth was spurred by a surprisingly buoyant mortgage lending market in New Brunswick, particularly in the Greater Moncton region. The total mortgage portfolio before provisions stood at $1.681 billion on December 31, 2020, versus $1.656 billion on December 31, 2019. This represents a growth rate of 1.5%.

## Consumer loans and other personal loans

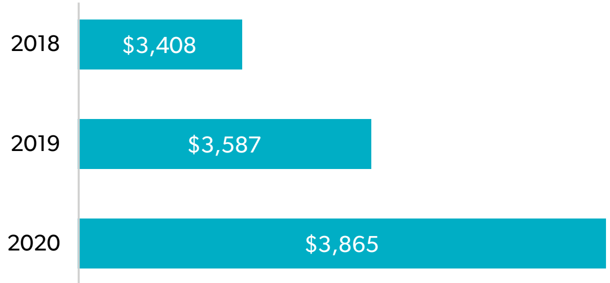
This loan portfolio increased by $31 million in 2020, outpacing the 2019 increase of $14.5 million. Notably, point-of-sale financing alone grew by $49 million.

### Business loans

The business loan portfolio experienced solid growth in 2020, up $52.9 million. The portfolio now amounts to $1.299 billion compared with $1.246 billion in 2019, a 4.2% increase. Commercial lending fared particularly well, up $35 million despite a significant decline in lines of credit of more than $36 million. Government programs helped support businesses during the pandemic, but also reduced demand for lines of credit.

### Deposits

*($ million)*




The deposit portfolio grew significantly again this year. It posted an increase of 7.8%, or $277 million, compared with 2019, bringing the total to $3.865 billion. 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. In 2020 the government assistance programs rolled out during the pandemic contributed greatly to growth in our members' and clients' deposits.

## 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 five-year capitalization plan, updated quarterly, to ensure long-term capital adequacy

UNI uses two ratios to ensure capital adequacy:

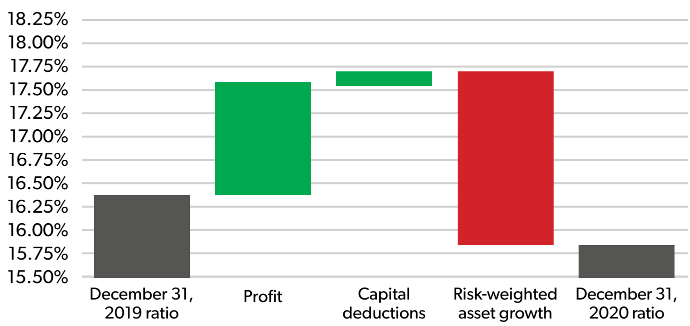
## Capital to at-risk assets ratio

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 %)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Shares | $4,305 | $4,322 | $4,367 |
| Retained earnings | 461,725 | 427,353 | 407,712 |
| **Capital stock value** | **466,030** | **431,675** | **412,079** |
| **Deduction** | (27,208) | (28,903) | (34,201) |
| **Regulatory capital (CET1)** | **438,822** | **402,772** | **377,878** |
| Tier 2 capital | 18,306 | 15,695 | 13,265 |
| **Total regulatory capital** | **$457,128** | **$418,467** | **$391,143** |
| **Risk-weighted assets** | | | |
| Credit risk | 2,229,223 | 1,967,721 | 1,799,476 |
| Operational risk | 299,162 | 268,888 | 261,822 |
| Other | 241,925 | 222,537 | 196,329 |
| **Total risk-weighted assets** | **$2,770,310** | **$2,459,146** | **$2,257,627** |
| **CET1 risk asset capital ratio** | **15.8%** | **16.4%** | **16.8%** |
| **Total risk asset capital ratio** | **16.5%** | **17.0%** | **17.3%** |

To support financial institutions during the pandemic, OSFI eased their capital requirements. In UNI's case, the measures improved the CET1 risk asset capital ratio by 0.09 percentage points (pp). The measures will be gradually eliminated starting in 2021 and into 2022.

### Annual fluctuations in the CET1 ratio – *(in %)*




The CET1 capital ratio had decreased by 0.5 pp at December 31, 2020. UNI's surplus earnings helped generate 1.2 pp of the CET1 capital ratio in 2020, and the decrease in deductions improved the CET1 capital ratio by 0.1 pp. However, the increased credit risk took up 1.8 pp of CET1 capital.

### 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 remains in compliance with OSFI requirements with a ratio of 9.7%.

| *($ thousand and %)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| **CET1** | $438,822 | $402,772 | $377,878 |
| Risk-adjusted assets | $4,537,414 | $4,380,590 | $4,140,793 |
| **Leverage ratio** | **9.7%** | **9.2%** | **9.1%** |

To support financial institutions during the pandemic, OSFI eased their leverage ratio requirements. In UNI's case, the measures improved the CET1 leverage ratio by 0.40 pp. These measures will be eliminated in 2021.

## Off-balance-sheet arrangements

In the normal course of operations, UNI manages investment portfolios for many of its members and clients, 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 $897 million on December 31, 2020, up $279 million from $618 million in 2019. This line of business has grown substantially in recent years, especially in 2020, thanks to a booming stock market and to the July 2020 acquisition of two companies managing mutual fund portfolios worth $150 million. This acquisition is in keeping with the strategic plan for growth and investment in asset management. The conditions are in place for us to offer our clientele tailored expertise and unrivalled service. UNI would like to position itself as an important player in New Brunswick's investment fund management market to better serve our members and clients and grow their assets.

UNI also offers its members and clients a range of credit instruments to meet their financing needs. These include credit commitments and standby letters of credit. At December 31, 2020, these off-balance-sheet credit instruments totalled $910 million, up $94 million from 2019.

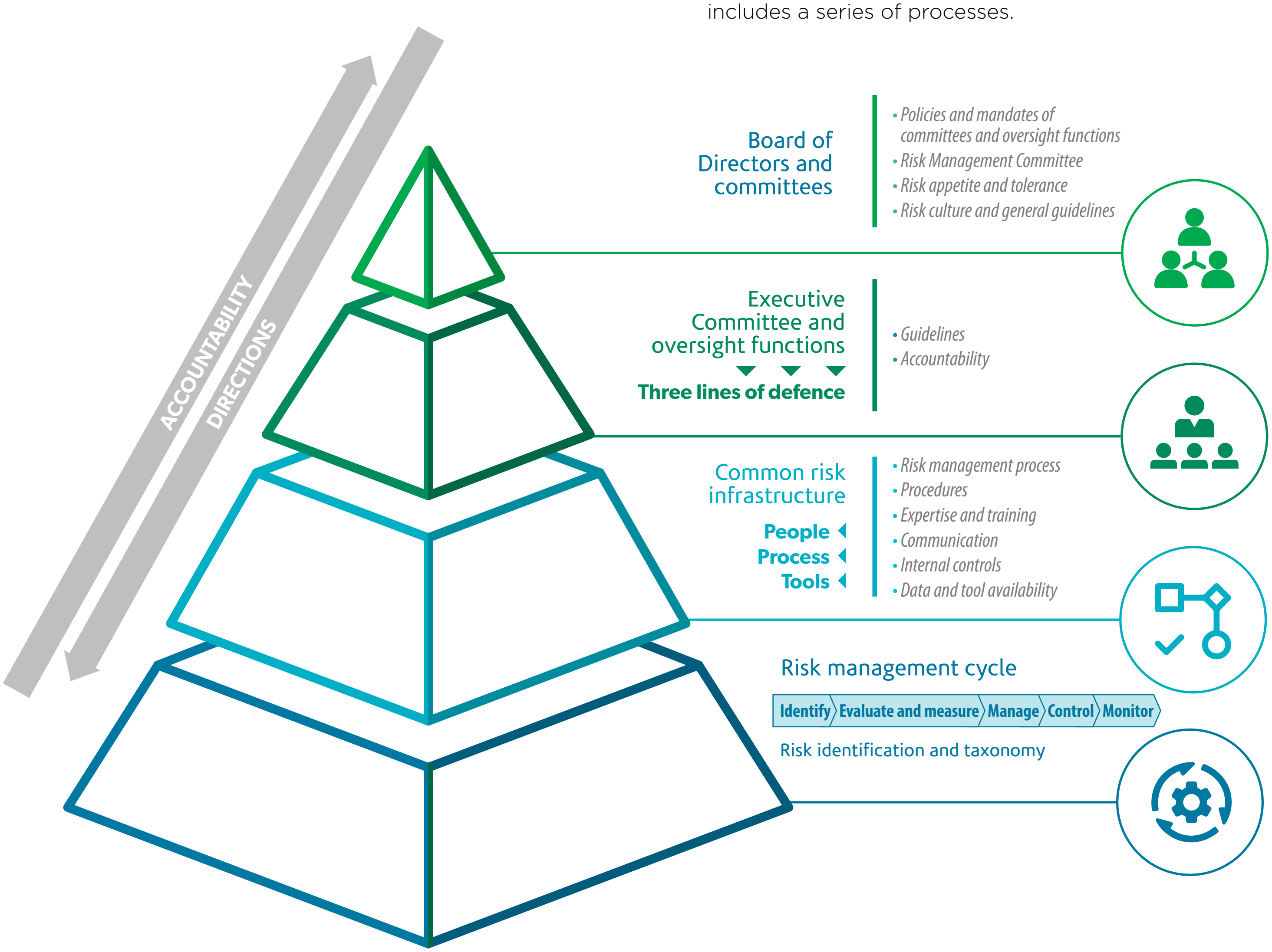
# Risk **management**

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, which are also constantly evolving.

## 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 members and clients 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

*Overall, 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 (target):

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):

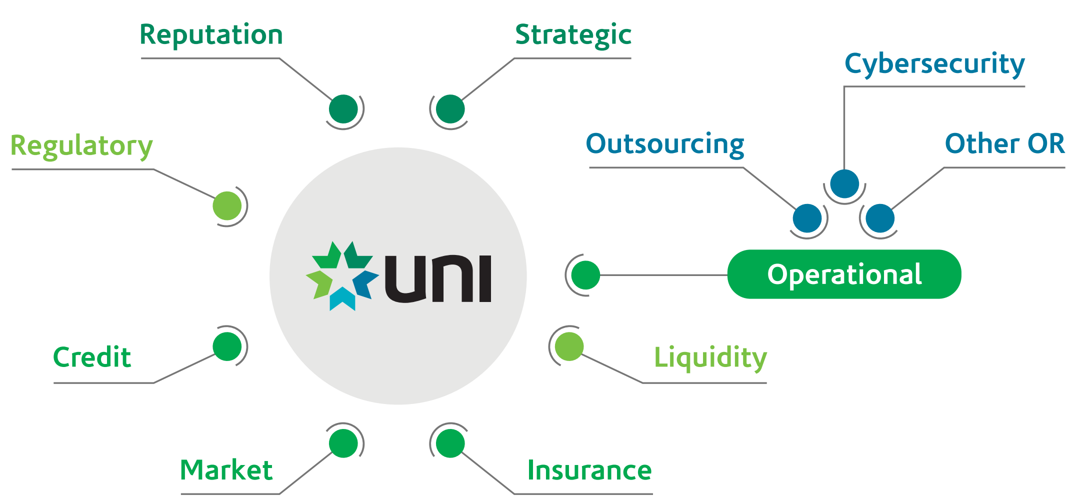
Corresponds to the threshold and limit established by taking into consideration risk-taking ability. UNI does not want to be in this zone.

### Capacity:

Corresponds to the 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 eight categories. Operational risk, due to its disparate nature, has 12 additional subcategories, including outsourcing risk and cybersecurity risk.

## 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 sectoral 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*
- *Undercapitalization, overcapitalization or inadequate use of equity*

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.

UNI maintains high levels of capital. It is proud of the financial soundness it offers its members and clients, 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 that of a severe pandemic.

## 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 its 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.

## 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 members and clients. 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 members and clients.*

UNI presents a favourable liquidity level among Canadian financial institutions. The main source is personal and business member and client 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. UNI and its life insurance subsidiary, Acadia Life, follow an asset-liability matching strategy to help ensure that inflows are commensurate with outflows. 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 to keep track of amendments to laws, rules and other regulatory requirements. When applicable, UNI adjusts its policies and procedures as promptly as possible to remain compliant. The organization's internal control and self-assessment mechanisms enable it to maintain a high level of compliance.

### *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 and FINTRAC 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.

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.

## 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 member and client 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 | Prime quality |
| 2.5 | A- to BBB+ | |
| 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 %)* | 2020 | | 2019 | |
|---|---|---|---|---|
| **Business loans** | | | | |
| Prime quality | $455,711 | 35% | $390,417 | 31% |
| Satisfactory quality | 745,062 | 57% | 779,826 | 63% |
| Under supervision | 30,218 | 2% | 49,122 | 4% |
| Impaired and defaulted loans | 67,493 | 5% | 25,317 | 2% |
| Total | $1,298,484 | 100% | $1,244,682 | 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

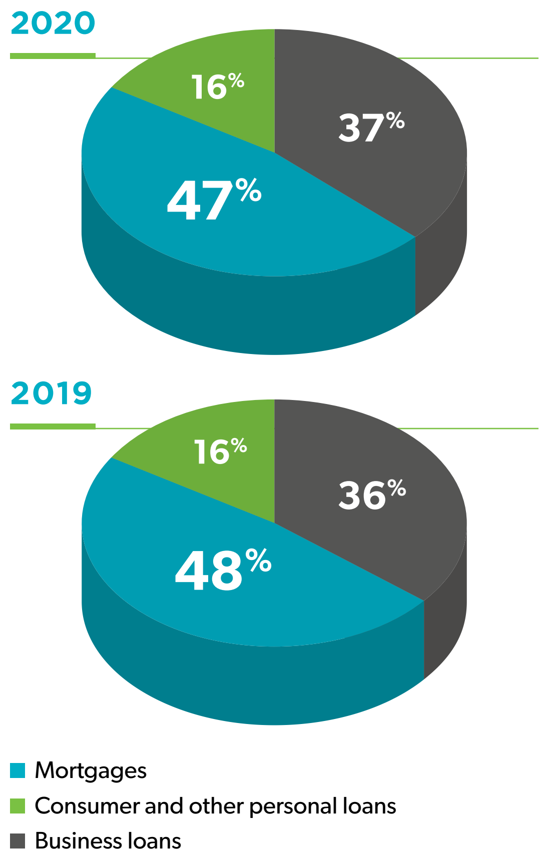
Credit is granted to medium-sized and large businesses based on a detailed analysis of the application. The financial, market and management characteristics of each borrower are analyzed using tools such as credit risk assessment models. Quantitative analysis using financial data is supplemented by a professional assessment of the application'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 member or client, UNI secures collateral for certain products in order to mitigate certain borrowers' 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

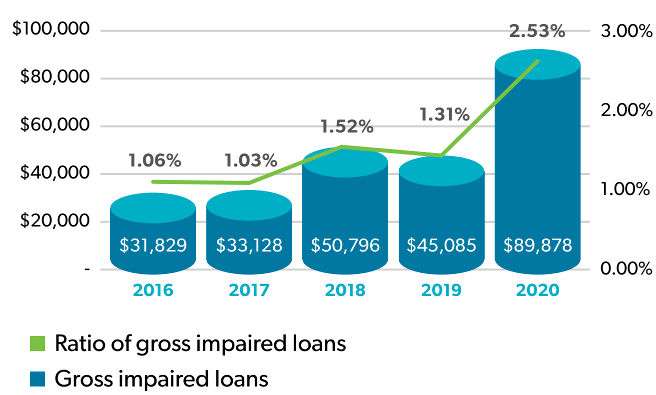
**At December 31, 2020**




## Loan portfolio quality

**At December 31, 2020**

*($ thousand and %)*



UNI's loan portfolio continues to be very sound. However, at December 31, 2020, total gross impaired loans stood at $89.9 million, an increase of $44.8 million from 2019. The sharp increase in 2020 was due to the pandemic's detrimental impact on our personal and business members and clients. We expect household finances and business balance sheets to emerge weakened from the crisis. Government assistance and the payment holidays granted in 2020 absorbed some of the impact in 2020, but many loans are still subject to payment holidays exceeding six months, and regulatory authorities' guidelines require these to be classified as impaired. The hotel sector had the largest number of payment holidays in 2020 and thus accounted for the majority of the increase in impaired loans.

UNI's operations are concentrated in New Brunswick. On December 31, 2020, the loans granted to members and clients in this province represented 95% 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 trading activity 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 U.S. dollars) required to meet the anticipated needs of its members and clients.

Acadia Life holds a limited volume of American shares in U.S. 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 the actuarial assumptions (mortality, lapse, etc.) incorporated into the planning and pricing of insurance products.*

UNI assumes life insurance risks (mortality, morbidity) 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.

### 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. The same is true of cybersecurity risk. 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.

### 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 three 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 and its key suppliers maintain excellent business relationships supported by management processes that provide for adequate risk management among other considerations.

## Cybersecurity risk

*The loss of company or member and client data and/or limited system availability as a result of impairment to the company's computer system security (e.g., computers, mobile devices, data centres, cloud storage, etc.). Losses attributable to the theft of or damage to hardware, software or data in computer systems, as well as the disruption or improper use of the technology services they supply.*

*Damage may occur as a result of network access, data or code injections. Losses may also result from social engineering, which refers to deceptive practices intended to manipulate our employees into committing fraud.*

UNI uses two computer environments. The first, used for the distribution network's banking operations, is managed by our partner, Desjardins, which is responsible for managing this risk. UNI regularly verifies that its suppliers are properly managing cybersecurity risk. For the second, used for operations at its headquarters and subsidiaries, UNI implements strategies and security and preventive mechanisms to adequately mitigate risk.

## Complaint and Dispute Management

Business locations and regional offices are the first point of contact for member and client complaints, as they are willing and able to address concerns efficiently. If a complainant feels that their complaint has not been resolved to their satisfaction, they can contact the Office of Dispute Management. If a complainant feels that they have not received a satisfactory response from the Office of Dispute Management, they can contact UNI's Office of the Complaints Commissioner. Lastly, if a complainant wishes to escalate their complaint, they can contact an external complaints handling body, either the Ombudsman for Banking Services and Investments (OBSI) or the Financial Consumer Agency of Canada (FCAC).

Details on complaints handled by the complaints commissioner in 2020:

| | |
|---|---|
| Complaints handled and resolved | 2 |
| Average processing time | 6 hours |
| Member and client satisfaction rate | 50% |

# Caisse populaire acadienne

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2020

# Table of **contents**

## 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, which 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 Committee at any time to discuss its audit and any questions related thereto, notably the integrity of the financial information provided.

Robert Moreau

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

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

Caraquet, Canada
March 18, 2021

Deloitte LLP
816 Main Street
Moncton, New Brunswick
E1C 1E6
Canada

Tel.: 506-389-8073
Fax: 506-632-1210
www.deloitte.ca

# 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, 2020, 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, 2020, 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 this auditor's 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.

**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 note 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 18, 2021

## Caisse populaire acadienne ltée

### Consolidated statement of financial position

As at December 31, 2020

(In thousands of dollars)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| Cash | | **132,987** | 184,675 |
| Securities | 22 | **829,196** | 709,012 |
| Loans | 6 | | |
| Personal | | **2,251,713** | 2,196,014 |
| Business | | **1,298,520** | 1,245,576 |
| | | **3,550,233** | 3,441,590 |
| Allowance for loan losses | | **(37,746)** | (28,348) |
| | | **3,512,487** | 3,413,242 |
| Other assets | | | |
| Accrued interest, receivables and other assets | 7 | **216,967** | 29,294 |
| Derivative financial instruments | | **52,137** | 42,536 |
| Reinsurance assets | 10 | **7,578** | 7,767 |
| Income taxes recoverable | | **—** | 614 |
| Deferred income taxes | 19 | **5,681** | 11,932 |
| Property and equipment | 8 | **30,564** | 30,892 |
| Intangible assets | 9 | **8,230** | 10,755 |
| | | **321,157** | 133,790 |
| | | **4,795,827** | 4,440,719 |
| **Liabilities** | | | |
| Deposits | | | |
| Payable on demand | | **2,365,479** | 1,795,604 |
| Payable on a fixed date | | **1,499,134** | 1,792,165 |
| | | **3,864,613** | 3,587,769 |
| Other liabilities | | | |
| Borrowings | 11 | **163,729** | 143,781 |
| Accrued interest, payables and other liabilities | 12 | **73,002** | 77,365 |
| Income taxes payable | | **5,307** | — |
| Actuarial liabilities | 10 | **216,865** | 194,503 |
| Derivative financial instruments | | **6,281** | 5,626 |
| | | **465,184** | 421,275 |
| | | **4,329,797** | 4,009,044 |
| Commitments and contingencies | 23 | | |
| **Equity** | | | |
| Share capital | 15 | **4,305** | 4,322 |
| Accumulated other comprehensive income | 16 | **14,711** | 953 |
| General reserve | | **447,014** | 426,400 |
| | | **466,030** | 431,675 |
| | | **4,795,827** | 4,440,719 |

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, 2020
(In thousands of dollars)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | **$** | $ |
| **Net financial income** | | | |
| Financial income | | **154,984** | 156,520 |
| Financial expense | | **36,609** | 41,392 |
| Net financial income | | **118,375** | 115,128 |
| Provision for loan losses | 6 | **14,662** | 7,815 |
| **Net financial income after provision for loan losses** | | **103,713** | 107,313 |
| **Other income** | | | |
| Mainly related to the administration of deposits | | **16,233** | 18,368 |
| Related to the administration of other services | | **16,236** | 17,928 |
| Gain on disposal of securitized mortgage securities | 6 | **15,193** | — |
| | | **47,662** | 36,296 |
| **Net insurance revenues and annuities** | | | |
| Financial income from insurance activities and annuities | | **23,243** | 30,594 |
| Net insurance and annuity premiums | 17 | **18,762** | 18,477 |
| Net insurance and annuity benefits | 18 | **(34,633)** | (34,895) |
| | | **7,372** | 14,176 |
| **Other expenses** | | | |
| Salaries and employee benefits | | **71,007** | 69,185 |
| General and other expenses | | **64,283** | 67,479 |
| | | **135,290** | 136,664 |
| **Income before other items** | | **23,457** | 21,121 |
| Gains related to the recognition of derivative financial instruments at fair value | | **5,140** | 5,645 |
| **Income before income taxes** | | **28,597** | 26,766 |
| Income taxes | 19 | **7,969** | 7,391 |
| **Net income for the year** | | **20,628** | 19,375 |

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, 2020
(In thousands of dollars)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | **$** | $ |
| **Net income for the year** | | **20,628** | 19,375 |
| **Other comprehensive income** | | | |
| **Items that will not be subsequently reclassified to the consolidated statement of income** | | | |
| Change in the employee benefit liability | | | |
| Change during the year | 13 | **(23)** | 265 |
| Deferred income taxes | 19 | **9** | (86) |
| Total of items that will not be reclassified to the consolidated statement of income | | **(14)** | 179 |
| **Items that will be subsequently reclassified to the consolidated statement of income** | | | |
| Unrealized changes in fair value on securities classified at fair value through other comprehensive income | | | |
| Change during the year | | **19,322** | 6,012 |
| Related income taxes | 19 | **(5,603)** | (1,744) |
| | | **13,719** | 4,268 |
| Reclassified to net income | | | |
| Realized (gains) losses on securities classified at fair value through other comprehensive income | | **(6,342)** | (2,410) |
| Related income taxes | 19 | **1,839** | 699 |
| | | **(4,503)** | (1,711) |
| Cash flow hedges | | | |
| Profit (loss) relating to the fair value of hedging instruments designated for hedging purposes | 14 | **6,397** | (327) |
| Cumulative (profit) loss resulting from hedging instruments reclassified to net income | 14 | — | — |
| Related income taxes | 19 | **(1,855)** | 95 |
| | | **4,542** | (232) |
| Total of items that will be subsequently reclassified to the consolidated statement of income | | **13,758** | 2,325 |
| Total other comprehensive income, net of income taxes | | **13,744** | 2,504 |
| **Comprehensive income for the year** | | **34,372** | 21,879 |

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, 2020
(In thousands of dollars)

| | Note | Share capital | Accumulated other comprehensive income | Distributable net income | General reserve | Total equity |
|---|---|---|---|---|---|---|
| | | | | | | **2020** |
| | | **$** | **$** | **$** | **$** | **$** |
| Balance, beginning of year | | **4,322** | **953** | **—** | **426,400** | **431,675** |
| Net income for the year | | **—** | **—** | **20,628** | **—** | **20,628** |
| Other comprehensive income | | **—** | **13,758** | **—** | **(14)** | **13,744** |
| Comprehensive income | | **—** | **13,758** | **20,628** | **(14)** | **34,372** |
| Net transfer to the general reserve | 20 | **—** | **—** | **(20,628)** | **20,628** | **—** |
| Net change in share capital | | **(17)** | **—** | **—** | **—** | **(17)** |
| | | **(17)** | **—** | **(20,628)** | **20,628** | **(17)** |
| Balance, end of year | | **4,305** | **14,711** | **—** | **447,014** | **466,030** |

| | Note | Share capital | Accumulated other comprehensive income | Distributable net income | General reserve | Total equity |
|---|---|---|---|---|---|---|
| | | | | | | 2019 |
| | | $ | $ | $ | $ | $ |
| Balance, beginning of year | | 4,367 | (1,372) | — | 407,041 | 410,036 |
| IFRS 16 adoption | | — | — | — | (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 |

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, 2020
(In thousands of dollars)

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Income before income taxes | **28,597** | 26,766 |
| Adjustments to determine cash flows | | |
| Depreciation of property and equipment and amortization of intangible assets | **7,147** | 8,337 |
| Loss on disposal of property and equipment and intangible assets | **137** | 375 |
| Impairment of other assets | — | 564 |
| Amortization of premiums and discounts on securities | **1,174** | (1,564) |
| Net change in actuarial liabilities | **22,362** | 21,571 |
| Change in investment contract liabilities | — | (2) |
| Provision for loan losses | **14,662** | 7,815 |
| Gain on disposal of securitized mortgage securities | **(15,193)** | — |
| Gains on securities | **(13,229)** | (29,431) |
| Gains related to the recognition of derivative financial instruments at fair value | **(5,140)** | (5,645) |
| Change in the employee benefit liability | **(2,931)** | (2,819) |
| Change in reinsurance assets | **189** | 362 |
| Net change in interest receivable and payable | **(186,314)** | (3,033) |
| Net change in loans | **(98,714)** | (113,721) |
| Net change in deposits | **276,844** | 179,670 |
| Net change in derivative financial instruments | **(1,118)** | (18,463) |
| Net change in other assets and liabilities | **(5,502)** | (11,733) |
| Income taxes paid during the year | **(1,407)** | (4,217) |
| | **21,564** | 54,832 |
| **Investing activities** | | |
| Acquisitions of securities | **(1,551,739)** | (950,184) |
| Proceeds from disposal of securities | **1,462,987** | 868,349 |
| Acquisitions of property and equipment and intangible assets | **(4,607)** | (4,582) |
| Proceeds from disposal of property and equipment and intangible assets | **436** | 480 |
| | **(92,923)** | (85,937) |
| **Financing activities** | | |
| Net increase in borrowings | **19,878** | 17,868 |
| Borrowing repayments | **(190)** | (189) |
| Net change in share capital | **(17)** | (45) |
| | **19,671** | 17,634 |
| **Net decrease in cash** | **(51,688)** | (13,471) |
| Cash, beginning of year | **184,675** | 198,146 |
| **Cash, end of year** | **132,987** | 184,675 |
| ***Other cash flow information relating to operating activities*** | | |
| Interest received | **156,715** | 156,299 |
| Interest paid | **36,060** | 41,039 |
| Dividends received | **967** | 1,406 |

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

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(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 18, 2021.

## 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 a historical cost basis, except for the remeasurement of certain financial assets and liabilities at fair value, notably 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 statement of 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 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, which is also the Caisse's functional currency.

*Statement of compliance*

The Caisse's consolidated financial statements are established according to the IFRS in effect on December 31, 2020.

**Caisse populaire acadienne ltée**

**Notes to the consolidated financial statements**

December 31, 2020

(In thousands of dollars)

## 3. Significant accounting policies

*Basis of consolidation*

The Caisse's consolidated financial statements include the financial statements of the Caisse and its wholly owned subsidiaries, i.e., 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 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. Actual results could differ from these estimates.

*Considerations related to the COVID-19 pandemic*

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. As a result of the heightened uncertainty associated with the unprecedented nature of the COVID-19 pandemic, developing reliable estimates and applying judgment has become even more challenging. Expected credit loss ("ECL") accounting has become particularly difficult in the current circumstances and requires significant judgment. The ECL model is forward-looking and is based on a probability-weighted approach. Measurement of ECLs reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. During this period of greater economic uncertainty, it is very difficult to forecast future events and the macroeconomic inputs used in ECL modelling. Determining macroeconomic scenarios and assigning probabilities to these scenarios requires significant judgment. Consideration is given both to the effects of COVID-19 and the significant government support measures. The Caisse applies expert credit judgment to adjust modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit rating and modelling process. As a result of COVID-19 and the recent economic downturn, significant measurement uncertainty exists in determining ECLs, and measurement is subject to significant judgment.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 3. Significant accounting policies (continued)

*Use of estimates and judgment (continued)*

The main items for which management had to make estimates include insurance contract liabilities and reinsurance assets, the allowance for loan losses, the measurement of financial instruments at fair value, income taxes, and 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. 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, 2020
(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 that depends 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.

*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.

*Derecognition of financial assets*

In determining the application of derecognition to financial assets, judgment is exercised in determining whether the Caisse has transferred substantially all the risks and rewards of the rights by transferring the assets to another entity, or whether the rights to the cash flows from the asset have expired.

**Caisse populaire acadienne ltée**

**Notes to the consolidated financial statements**

December 31, 2020

(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 at fair value through profit or loss, at fair value through other comprehensive income or at 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 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 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 were designated at fair value through other comprehensive income.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(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 subsequently 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, 2020
(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 and term deposits. Income from securities is accounted for on an accrual basis.

Money market securities matched with actuarial liabilities of Acadia Life are designated 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.

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, 2020
(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 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 loan losses. The allowance for losses on impaired loans is charged immediately to net income.

Other assets

With the exception of derivative financial instruments and certain lines of credit receivable, 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**
December 31, 2020
(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.

*Derecognition of financial assets and securitization*

A financial asset is considered for derecognition when the Caisse has transferred contractual rights to receive the cash flows or assumed an obligation to transfer these cash flows to a third party. The Caisse derecognizes a financial asset when it considers that substantially all the risks and rewards of ownership of the asset have been transferred or when the contractual rights to the cash flows of the financial asset expire. When the Caisse considers that it has retained substantially all the risks and rewards of ownership of the transferred asset, it continues to recognize the financial asset and, if applicable, recognizes a financial liability on the consolidated statement of financial position. If, due to a derivative financial instrument, the transfer of a financial asset does not result in derecognition, the derivative financial instrument is not recognized on the consolidated statement of financial position.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 3. Significant accounting policies (continued)

*Derecognition of financial assets and securitization (continued)*

When derecognizing only part of a financial asset, the Caisse allocates the carrying amount of the financial asset between the portion it will continue to recognize and the portion it no longer recognizes based on the portions' relative fair values on the date of transfer. The difference between the carrying amount assigned to the portion no longer recognized and the amount of the consideration received for the portion no longer recognized is recognized on the consolidated statement of income.

As part of its liquidity and capital management strategy, the Caisse participates in two Canada Mortgage and Housing Corporation ("CMHC") securitization programs: the Mortgage-Backed Securities Program under the *National Housing Act* ("NHA") and the Canada Mortgage Bond ("CMB") Program. Under the first program, the Caisse issues NHA securities backed by insured residential mortgage loans and, under the second, the Caisse sells NHA securities to Canada Housing Trust ("CHT").

In some of these transactions, the Caisse retains substantially all of the risks and rewards of ownership of the transferred mortgages. As a result, where the Caisse retains substantially all the risks and rewards of ownership of the transferred mortgages, the insured mortgages securitized under the CMB program continue to be recorded as Loans on the Caisse's consolidated statement of financial position. 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 CHT for the loans that do not meet the derecognition criteria. For its part, the CHT funds these purchases by issuing CMBs to investors. The cash received for these transferred assets is treated as a secured borrowing, and a corresponding liability is recorded in Borrowings on the consolidated statement of financial position. The legal guarantee of third parties holding CMB is limited to the transferred assets.

When the transaction is structured in such a way that the Caisse transfers substantially all of the risks and rewards of ownership of the mortgage loans sold, the Caisse derecognizes the portion of the loans sold. The portion that the Caisse continues to recognize represents the interest margin receivable, which is intended to be the present value of the difference between the interest payments on the underlying mortgages and the interest on the NHA security. The interest margins receivable are classified either at amortized cost or at fair value through profit or loss depending on the strategy used to achieve derecognition.

*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, 2020
(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-month 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 of the financial instrument.

**Caisse populaire acadienne ltée**

**Notes to the consolidated financial statements**

December 31, 2020

(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 information; to the extent that these affect the assessment of the probability of default of the instrument. The criteria used to determine the significant increase in 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 the Caisse 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 provision 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, 2020
(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 the 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**
December 31, 2020
(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. 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, 2020
(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 statement of income.

The Caisse discontinues 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, 2020

(In thousands of dollars)

## 3. Significant accounting policies (continued)

*Hedge accounting (continued)*

*Cash flow hedges (continued)*

The Caisse discontinues 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 amount exceeds the recoverable amount, the carrying amount is adjusted and an impairment loss is recognized in profit or loss.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(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.

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, 2020
(In thousands of dollars)

## 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, 2020
(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 period 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**
December 31, 2020
(In thousands of dollars)

## 3. Significant accounting policies (continued)

*Insurance and investment contract liabilities (continued)*

*ii) Insurance contract liabilities*

Actuarial liabilities represent the amounts that, 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 "Income related to the administration of other services."

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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 distributable net income 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 distributable net income 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, 2020
(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, 2020.

*Conceptual framework for financial reporting*

On March 29, 2018, the IASB published a revised version of the Conceptual Framework for Financial Reporting. The IASB had 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 policies when no IFRS is applicable to a specific situation. The provisions apply prospectively to financial statements beginning on or after January 1, 2020.

The Caisse has determined that this revision had no impact 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 to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment, Definition of Material, clarifies the definition of material in IAS 1 as well as the explanation accompanying that definition and aligns the definitions used across IFRS standards. The provisions of this amendment apply prospectively to financial statements beginning on or after January 1, 2020.

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

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 4. Changes in accounting policies (continued)

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

*Amendments to IFRS 3 Definition of a Business*

In the current year, the Caisse adopted the amendments to IFRS 3 for the first time. The amendments clarify that while businesses usually have outputs and an integrated set of activities and assets, they are not required to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business or not. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 5. Future accounting changes

Presented below are accounting standards and amendments issued by the IASB but not yet in effect as at December 31, 2020.

*IFRS 17, Insurance Contracts*

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* (IFRS 17), a new standard that replaces IFRS 4, the current insurance contract accounting standard. IFRS 17 introduces a new accounting framework that will improve the comparability and quality of financial information. IFRS 17 provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. In June 2020, amendments to IFRS 17 were issued and included a two-year deferral of the effective date along with other changes aimed at addressing concerns and implementation challenges identified after IFRS 17 was published in 2017. IFRS 17, as amended, is effective retrospectively for annual periods beginning on or after January 1, 2023, with earlier application permitted. If full retrospective application to a group of insurance contracts is impractical, the modified retrospective approach or the fair value approach may be used.

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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 5. Future accounting changes (continued)

*IAS 1, Classification of Liabilities as Current or Non-current*

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

*IFRS 3, Business Combinations – Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 5. Future accounting changes (continued)

*Amendments to IAS 16, Property, Plant and Equipment – Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

*IAS 37, Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 5. Future accounting changes (continued)

*Amendment to IFRS 16, Impact of the initial application of COVID-19-Related Rent Concessions*

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
- There is no substantive change to other terms and conditions of the lease.

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

*Interest rate benchmark reform – Phase 2*

In August 2020, the IASB finalized its response to the ongoing reform of interbank offered rates (IBOR) and other interest rate benchmarks by issuing amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 – *Insurance Contracts* and IFRS 16. The amendments complement those issued in 2019 and focus on the effects on financial statements once existing benchmark rates are replaced with alternative benchmark rates. The amendments in this final phase relate to changes to contractual cash flows, hedge accounting, and disclosures. These amendments are expected to come into force for fiscal years beginning on or after January 1, 2021, with early application permitted. The Caisse is currently evaluating the impact of this change on its consolidated financial statements.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan 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** | | | **2020** |
|---|---|---|---|---|---|---|---|---|
| | **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 | **1,580,148** | **1,414** | **84,712** | **966** | **16,115** | **1,209** | **1,680,975** | **3,589** |
| Personal – Consumer and other | **532,893** | **4,453** | **31,541** | **3,607** | **6,304** | **2,904** | **570,738** | **10,964** |
| Business | **985,799** | **2,822** | **243,268** | **6,512** | **69,453** | **13,859** | **1,298,520** | **23,193** |
| Total loans | **3,098,840** | **8,689** | **359,521** | **11,085** | **91,872** | **17,972** | **3,550,233** | **37,746** |
| Total credit commitments | **855,703** | **838** | **38,756** | **272** | **15,369** | **—** | **909,828** | **1,110** |

| | Not impaired | | | | Impaired | | | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan 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 | 2020 |
|---|---|---|---|---|
| | 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 | 1,558 | 1,200 | 1,406 | 4,164 |
| Transfer to measurement of expected credit losses for: | | | | |
| Next 12 months | 652 | (508) | (144) | – |
| Lifetime – Loans not impaired | (117) | 150 | (33) | – |
| Lifetime – Impaired loans | (22) | (50) | 72 | – |
| Remeasurement | (166) | (216) | 645 | 263 |
| New exposures | 256 | 141 | 20 | 417 |
| Derecognition | (667) | 272 | (312) | (707) |
| Write-offs | – | – | (445) | (445) |
| As at December 31 | 1,494 | 989 | 1,209 | 3,692 |
| Total on loans | 1,414 | 966 | 1,209 | 3,589 |
| Total on credit commitments | 80 | 23 | – | 103 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Allowance for credit losses (continued)*

Personal – Residential mortgages (continued)

| | Not impaired | | Impaired | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Allowance for credit losses (continued)*

Personal – Consumer and other

| | Not impaired | | Impaired | 2020 |
|---|---|---|---|---|
| | 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 | 3,866 | 3,737 | 3,360 | 10,963 |
| Transfer to measurement of expected credit losses for: | | | | |
| Next 12 months | 1,911 | (1,509) | (402) | – |
| Lifetime – Loans not impaired | (308) | 462 | (154) | – |
| Lifetime – Impaired loans | (68) | (323) | 391 | – |
| Remeasurement | (79) | (524) | 2,820 | 2,217 |
| New exposures | 1,496 | 872 | 183 | 2,551 |
| Derecognition | (1,940) | 999 | 247 | (694) |
| Write-offs | – | – | (3,541) | (3,541) |
| As at December 31 | 4,878 | 3,714 | 2,904 | 11,496 |
| Total on loans | 4,453 | 3,607 | 2,904 | 10,964 |
| Total on credit commitments | 425 | 107 | – | 532 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Allowance for credit losses (continued)*

Personal – Consumer and other (continued)

| | Not impaired | | Impaired | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Allowance for credit losses (continued)*

Business

| | Not impaired | | Impaired | 2020 |
|---|---|---|---|---|
| | 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 | 1,662 | 3,671 | 8,470 | 13,803 |
| Transfer to measurement of expected credit losses for: | | | | |
| Next 12 months | 554 | (554) | — | — |
| Lifetime – Loans not impaired | (117) | 117 | — | — |
| Lifetime – Impaired loans | (41) | (570) | 611 | — |
| Remeasurement | 746 | 2,032 | 3,016 | 5,794 |
| New exposures | 913 | 1,375 | 3,236 | 5,524 |
| Derecognition | (562) | 583 | (724) | (703) |
| Write-offs | — | — | (750) | (750) |
| As at December 31 | 3,155 | 6,654 | 13,859 | 23,668 |
| Total on loans | 2,822 | 6,512 | 13,859 | 23,193 |
| Total on credit commitments | 333 | 142 | — | 475 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Allowance for credit losses (continued)*

Business (continued)

| | Not impaired | | Impaired | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 6. Loans and allowance for loan losses (continued)

*Gross loans, past due but not impaired*

| | | | | | **2020** |
|---|---|---|---|---|---|
| | **From 1 to 29 days** | **From 30 to 59 days** | **From 60 to 89 days** | **90 days and greater** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| Personal | | | | | |
| Residential mortgages | **16,913** | **6,352** | **1,538** | **5,216** | **30,019** |
| Consumer and other | **6,949** | **3,170** | **831** | **3,333** | **14,283** |
| Business | **5,252** | **1,571** | **364** | **4,655** | **11,842** |
| | **29,114** | **11,093** | **2,733** | **13,204** | **56,144** |

| | | | | | 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 |

*Loan securitization*

The following table presents the securitized loans that were not derecognized as well as the related liabilities:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Securitized mortgage loans | **159,270** | 175,338 |
| Related liabilities (Note 11) | **163,037** | 143,159 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 7. Accrued interest, receivables and other assets

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Accrued interest | **18,884** | 14,349 |
| Interest margin receivable | **180,200** | — |
| Prepaid expenses | **10,080** | 9,023 |
| Receivables | **3,137** | 4,681 |
| Assets foreclosed | **696** | 475 |
| Other | **3,970** | 766 |
| | **216,967** | 29,294 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 8. Property and equipment

| | Land | Buildings | Equipment and other | Lease asset | Total |
|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ |
| December 31, 2018 | 7,437 | 49,872 | 39,467 | — | 96,776 |
| Impact of changes in accounting policy – IFRS 16 | — | — | — | 1,032 | 1,032 |
| 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 |
| Acquisitions | **90** | **484** | **2,920** | **260** | **3,754** |
| Disposals and write-offs | **(248)** | **(2,017)** | **(1,563)** | **(117)** | **(3,945)** |
| Reclassification | **(384)** | **425** | **(41)** | — | — |
| December 31, 2020 | **6,459** | **48,903** | **37,221** | **1,033** | **93,616** |
| **Accumulated depreciation** | | | | | |
| December 31, 2018 | — | 31,163 | 32,746 | — | 63,909 |
| Impact of changes in accounting policy – IFRS 16 | — | — | — | 517 | 517 |
| January 1, 2019 | — | 31,163 | 32,746 | 517 | 64,426 |
| Depreciation | — | 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 |
| Depreciation | — | **1,295** | **2,060** | **169** | **3,524** |
| Disposals and write-offs | — | **(1,877)** | **(1,393)** | **(117)** | **(3,387)** |
| December 31, 2020 | — | **34,018** | **28,431** | **603** | **63,052** |
| **Book value** | | | | | |
| December 31, 2020 | **6,459** | **14,885** | **8,790** | **430** | **30,564** |
| December 31, 2019 | 7,001 | 15,411 | 8,140 | 339 | 30,892 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 8. Property and equipment (continued)

*Leases*

The Caisse leases office space under leases expiring in 2021, 2022, 2023 and 2034. 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, 2020 was $45 ($16 as at December 31, 2019) 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 |
| Depreciation | (122) | (74) | (196) |
| December 31, 2019 | 259 | 80 | 339 |
| Acquisitions | **234** | **26** | **260** |
| Depreciation | **(110)** | **(59)** | **(169)** |
| December 31, 2020 | **383** | **47** | **430** |

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

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 9. Intangible assets

| | Acquired software | Internally generated software | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Cost** | | | |
| 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 |
| Acquisitions | **1,113** | **—** | **1,113** |
| Disposals and write-offs | **(15)** | **—** | **(15)** |
| December 31, 2020 | **20,398** | **1,200** | **21,598** |
| **Accumulated amortization** | | | |
| 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 |
| Amortization | **3,500** | **123** | **3,623** |
| December 31, 2020 | **12,210** | **1,158** | **13,368** |
| **Net book value** | | | |
| December 31, 2020 | **8,188** | **42** | **8,230** |
| December 31, 2019 | 10,590 | 165 | 10,755 |

Acquired software includes an amount of $978 (2019 – $0) for software that was not amortized since it was not in use as at December 31, 2020.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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 a margin to each assumption 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:

| | | | **2020** |
|---|---|---|---|
| | **Actuarial liabilities** | **Reinsurance assets** | **Net amount** |
| | **$** | **$** | **$** |
| Personal life insurance | **140,380** | **6,886** | **133,494** |
| Group insurance | **(9,727)** | **692** | **(10,419)** |
| Annuities | **86,212** | **—** | **86,212** |
| | **216,865** | **7,578** | **209,287** |

| | | | 2019 |
|---|---|---|---|
| | Actuarial liabilities | Reinsurance assets | Net amount |
| | $ | $ | $ |
| Personal life insurance | 124,939 | 7,038 | 117,901 |
| Group insurance | (9,278) | 729 | (10,007) |
| Annuities | 78,842 | — | 78,842 |
| | 194,503 | 7,767 | 186,736 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

*b) Composition (continued)*

The assets covering the actuarial liabilities include the following:

| | | | **2020** |
|---|---|---|---|
| | **Life insurance** | **Annuities** | **Total** |
| | **$** | **$** | **$** |
| Bonds and short-term securities | **107,356** | **86,212** | **193,568** |
| Investment funds | **15,719** | **—** | **15,719** |
| Reinsurance assets | **7,578** | **—** | **7,578** |
| | **130,653** | **86,212** | **216,865** |

| | | | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

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 $1,066 in the actuarial liabilities (2019 — $582).

*Morbidity*

The morbidity assumption is based on the experience of the Caisse 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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

c) *Actuarial assumptions (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 contain 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 $27,200 (2019 — $24,200) and a decrease in the corresponding liabilities of $31,000 (2019 — $28,300), resulting in a net positive impact of $3,800 (2019 — $4,100) 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 $32,300 (2019 — $28,900) and an increase in the corresponding liabilities of $38,100 (2019 — $32,700), resulting in a net negative impact of $5,700 (2019 — $3,800) 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 $317 (2019 — $277).

*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 experience of the Caisse and the industry.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

*d) 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.

*e) Change in insurance contract liabilities*

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

| | **2020** | 2019 |
|---|---|---|
| | **Actuarial liabilities** | Actuarial liabilities |
| | **$** | $ |
| Balance, beginning of year | **194,503** | 172,932 |
| Normal increase (decrease) for: | | |
| Existing contracts | **22,270** | 24,356 |
| New contracts | **(1,124)** | (1,744) |
| Changes in assumptions and methods | **1,216** | (1,041) |
| | **22,362** | 21,571 |
| Balance, end of year | **216,865** | 194,503 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

*e) Change in insurance contract liabilities (continued)*

| | 2020 | 2019 |
|---|---|---|
| | Reinsurance assets | Reinsurance assets |
| | $ | $ |
| Balance, beginning of year | 7,767 | 8,129 |
| Normal increase (decrease) for: | | |
| Existing contracts | (155) | (242) |
| New contracts | (77) | (78) |
| Changes in assumptions and methods | 43 | (42) |
| | (189) | (362) |
| Balance, end of year | 7,578 | 7,767 |

*f) 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 insurance contract liabilities of changes made to assumptions for the years ended December 31:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Modelling of non-forfeiture guarantees | (2,055) | — |
| Mortality | 2,408 | 1,544 |
| Contract cancellation rates | (1,350) | (5,587) |
| Operating expenses of liabilities | 2,753 | 500 |
| Asset management fees | (1,325) | — |
| Ultimate credit spread | — | (363) |
| Changes in methods | 742 | 2,907 |
| | 1,173 | (999) |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 10. Actuarial liabilities (continued)

*f) 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 2020, some assumptions were thus updated, in addition to some improvements to the valuation model. We note among other things:*

*Modelling of non-forfeiture guarantees*

Previously, an approximation was used to reflect the cost of the reduced paid-up insurance option of certain former products. In 2020, the approximation was replaced by obtaining and explicitly coding the values of the reduced paid-up insurance in the valuation system.

*Mortality*

A mortality study of term products was carried out in 2020 based on the findings of the "Report on Lapse and Mortality Experience of Post-Level Premium Period Term Plans," published by the Canadian Institute of Actuaries in December 2020.

The mortality assumption was also revised for annuitants based on the findings in the report "Canadian Group Annuitant Mortality Experience — Calendar Years 2007–2016," published by the Canadian Institute of Actuaries in March 2019.

*Contract cancellation rates*

In 2020, a new lapse experience study was conducted of permanent life insurance products, and lapse rates were found to be higher than expected in the advanced terms, resulting in lower actuarial liabilities given the nature of these products.

In 2020, the lapse rates on renewals of term products (years 10, 11, 20 and 21 for T10 and years 20 and 21 for T20) were also revised following the publication of the "Report on the Lapse and Mortality Experience of Post-Level Premium Period Term Plans" published by the Canadian Institute of Actuaries in December 2020.

*Operating expenses for liabilities*

The liability management expenses were reviewed using the usual methodology, and this revealed an increase in expenses for some business lines. The modelling of annuitant charges was also modified to better project the charges into the future.

*Asset management fees*

The asset management fees assumption was reviewed and compared to the terms and conditions of the current contract with the asset manager. The assumption has therefore been revised downward in general and now differentiates fees by asset class, using a conservative estimate of the amounts invested in each class.

*Methods and other*

Various minor corrections were made to the model in light of certain observations.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 11. Borrowings

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Securitized borrowings, guaranteed by mortgage loans as described in Note 6, repayable at maturity, interest payable semi-annually at rates varying from 0.95% to 2.90%, maturing at various dates from December 2021 to December 2025 | **163,037** | 143,159 |
| Lease liability | **692** | 622 |
| Total | **163,729** | 143,781 |

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

| | |
|---|---|
| 2021 | 3,969 |
| 2022 | 19,818 |
| 2023 | 39,302 |
| 2024 | 39,315 |
| 2025 | 60,633 |

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 0.60% and renewable in December 2021, a revolving term loan with an authorized amount of $100,000, bearing interest at the cost of funds plus 0.92% and renewable in December 2023, and a revolving term loan with an authorized amount of $100,000, bearing interest at the cost of funds plus 1.02% and renewable in December 2025. As at December 31, 2020 and 2019, these facilities were undrawn.

*Lease liability*

The following table presents the change in the lease liability:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | **622** | — |
| IFRS 16 adoption | **—** | 791 |
| Amounts added | **260** | 20 |
| Repayments | **(190)** | (189) |
| Balance, end of year | **692** | 622 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 11. Borrowings (continued)

*Lease liability (continued)*

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

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Less than one year | **507** | 438 |
| Over one year to five years | **748** | 655 |
| Over five years | **1,011** | — |
| Total undiscounted amounts | **2,266** | 1,093 |

The "Financial expense" item in the consolidated statement of income for the year ended December 31, 2020 includes an amount of $365 (2019 – $322) in interest on the lease liability. The Caisse has recognized a rental expense of $53 (2019 – $72) for its short-term and low-value leases. The Caisse's total cash outflow for its leases in 2020 represents an amount of $557 (2019 – $583).

## 12. Accrued interest, payables and other liabilities

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Accrued interest | **17,164** | 16,055 |
| Payables | **37,256** | 40,730 |
| Deferred revenue | **563** | 474 |
| Employee benefit liability (Note 13) | **15,556** | 18,464 |
| Liabilities for pending and unreported claims | **1,323** | 1,029 |
| Other | **1,140** | 613 |
| | **73,002** | 77,365 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 13. Employee benefit liability

Until December 31, 2013, the Caisse had 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:

| | **2020** | 2019 |
|---|---|---|
| Discount rate | **2.53%** | 3.05% |
| Expected rate of salary increases | **3.50%** | 3.50% |
| Mortality | **CPM 2014-MI-2017 Public** | CPM 2014-MI-2017 Public |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Change in the defined benefit plan obligation** | | |
| Defined benefit plan obligation, beginning of year | **4,720** | 5,250 |
| Current service cost | **185** | 175 |
| Interest expense | **142** | 174 |
| Benefits paid | **(348)** | (364) |
| Actuarial losses (gains) arising from | | |
| Plan experience | **(12)** | (762) |
| Changes in financial assumptions | **269** | 247 |
| Defined benefit plan obligation, end of year, accounting deficit and defined benefit plan liability | **4,956** | 4,720 |

*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:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Current service cost | **185** | 175 |
| Interest expense | **142** | 174 |
| Expense recognized in the statement of income | **327** | 349 |

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

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Gains (losses) for the year | **(257)** | 515 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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 key assumptions (all other assumptions unchanged) on the defined benefit plan obligation as at December 31:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| *Discount rate* | | |
| Increase of 1% | **(494)** | (438) |
| Decrease of 1% | **613** | 536 |
| *Expected rate of salary increase* | | |
| Increase of 1% | **123** | 109 |
| *Mortality rate* | | |
| Decrease of 10% | **42** | 31 |

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

*Expected contributions for 2021*

The Caisse expects to contribute $348 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.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Liability, beginning of year | **11,244** | 13,592 |
| Interest expense recorded in the statement of income | **246** | 402 |
| Actuarial gains (losses) recognized in other comprehensive income | **(234)** | 250 |
| Contributions paid | **(3,000)** | (3,000) |
| Liability, end of year | **8,256** | 11,244 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 13. Employee benefit liability (continued)

*Other retirement benefits*

The Caisse also offers certain employees a retirement benefit by way of a lump-sum payment. 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 $2,344 (2019 — $2,500).

*Amount recognized under "Employee benefit liability"*

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

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Liability for pension plans | **4,956** | 4,720 |
| Liability for temporary contributions | **8,256** | 11,244 |
| Liability for other retirement benefits | **2,344** | 2,500 |
| | **15,556** | 18,464 |

*Shared-risk pension plan*

During the year, the Caisse contributed $4,974 (2019 — $4,970) to the shared-risk pension plan.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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.

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.

| | | | | | | **2020** |
|---|---|---|---|---|---|---|
| | **Remaining term** | | | | **Fair value (1)** | |
| | **Under 1 year** | **1 to 5 years** | **Over 5 years** | **Total** | **Assets** | **Liabilities** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Fair value hedges** | | | | | **992** | |
| Notional amount | **—** | **39,237** | **—** | **39,237** | | |
| Average fixed rate | **—** | **1.44%** | **—** | **1.44%** | | |
| **Cash flow hedges** | | | | | | |
| Notional amount | **—** | **183,363** | **—** | **183,363** | **6,383** | |
| Average fixed rate | **—** | **1.69%** | **—** | **1.69%** | | |

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Remaining term | | | | Fair value (1) | |
| | Under 1 year | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| | $ | $ | $ | $ | $ | $ |
| **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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 14. Hedging activities (continued)

*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.

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.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **As at December 31** | | |
| Carrying amount of hedged items (1) | **40,246** | 24,005 |
| Cumulative amount of adjustments to active hedges (2) | **1,009** | (232) |
| **For the year ended December 31** | | |
| Gains (losses) on hedged items for the purpose of measuring ineffectiveness | **(1,241)** | 232 |
| Gains (losses) on hedging instruments for the purpose of measuring ineffectiveness | **1,213** | (221) |
| Ineffectiveness of hedging relationships (3) | **(28)** | 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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 14. Hedging activities (continued)

*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.

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 of the risk being hedged by the hedging instrument, the Caisse uses a hedge ratio of 100% for this type of hedge.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 14. Hedging activities (continued)

*Cash flow hedges (continued)*
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.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **As at December 31** | | |
| Accumulated other comprehensive income on active hedges | **6,070** | (327) |
| Accumulated other comprehensive income on discontinued hedges | — | — |
| **For the year ended December 31** | | |
| Gains (losses) on hedged items for the purpose of measuring ineffectiveness | **(6,443)** | 369 |
| Gains (losses) on hedging instruments for the purpose of measuring ineffectiveness | **6,699** | (315) |
| Ineffectiveness of hedging relationships (1) | **302** | 12 |
| Gains (losses) recorded in other comprehensive income | **6,397** | (327) |
| Gains (losses) reclassified to net income (2) (3) | — | — |

(1) Ineffectiveness is presented under Other income in the statement of income.
(2) Gains or losses reclassified to net income are presented under Other in the statement of income.
(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 a reconciliation of accumulated other comprehensive income attributable to cash flow hedges.

| | **2020** | **2019** |
|---|---|---|
| | **$** | $ |
| Beginning of year | **(232)** | **—** |
| Gains (losses) for the year | **6,397** | **(327)** |
| Income taxes | **(1,855)** | **95** |
| End of year | **4,310** | **(232)** |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Membership shares | **4,305** | 4,322 |

## 16. Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Unrealized gain (loss) on securities at fair value through other comprehensive income | **14,650** | 1,670 |
| Fair value gain/(loss) on hedging instruments | **6,070** | (327) |
| Related income taxes | **(6,009)** | (390) |
| | **14,711** | 953 |

## 17. Net insurance and annuity premiums

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Gross insurance and annuity premiums | **20,577** | 20,325 |
| Premiums ceded to reinsurers | **(1,815)** | (1,848) |
| | **18,762** | 18,477 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 18. Net insurance and annuity benefits

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Gross insurance benefits | **9,334** | 10,485 |
| Benefits ceded to reinsurers | **(1,606)** | (2,112) |
| Annuity benefits | **4,354** | 4,590 |
| Net change in actuarial liabilities | **22,362** | 21,571 |
| Change in reinsurance assets | **189** | 361 |
| | **34,633** | 34,895 |

## 19. Income taxes

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

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **Consolidated statement of income** | | |
| Current | | |
| Income tax expense for the year | **4,260** | 2,682 |
| Deferred | | |
| Creation and reversal of temporary differences | **3,709** | 4,709 |
| **Total income tax expense** | **7,969** | 7,391 |
| **Other comprehensive income** | | |
| Current | **3,068** | 234 |
| Deferred | **2,542** | 802 |
| **Total income taxes included in other comprehensive income** | **5,610** | 1,036 |

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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Income taxes at the statutory rate | **8,293** | **29.0** | 7,762 | 29.0 |
| Non-deductible expenses | **6** | **—** | 62 | 0.2 |
| Non-taxable revenues | **(602)** | **(2.1)** | (608) | (2.3) |
| Other | **272** | **1.0** | 175 | 0.7 |
| | **7,969** | **27.9** | 7,391 | 27.6 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 19. Income taxes (continued)

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

| | | | | 2020 |
|---|---|---|---|---|
| | Deferred tax assets (liabilities) as at January 1 | Change through equity | Change through profit or loss | Deferred tax assets (liabilities) as at December 31 |
| | $ | $ | $ | $ |
| **Deferred tax assets (liabilities), net amount** | | | | |
| Property and equipment and intangible assets | (1,577) | — | 564 | (1,013) |
| Securities and derivative financial instruments | (541) | (1,855) | (1,479) | (3,875) |
| Allowance for loan losses | 5,106 | — | 1,297 | 6,403 |
| Employee benefit liability | 5,383 | 9 | (970) | 4,422 |
| Non-capital losses | 4,364 | (696) | (2,336) | 1,332 |
| Actuarial liabilities | 17 | — | (5) | 12 |
| Lease liability | 230 | — | (154) | 76 |
| Other | (1,050) | — | (626) | (1,676) |
| | 11,932 | (2,542) | (3,709) | 5,681 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 19. Income taxes (continued)

| | | | | | 2019 |
|---|---|---|---|---|---|
| | Deferred tax assets (liabilities) as at January 1 | Impact of IFRS 16 adoption as at January 1 | Change through equity | Change through profit or loss | Deferred tax assets (liabilities) as at December 31 |
| | $ | $ | $ | $ | $ |
| **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 loan 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 |

## 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 has been transferred to the general reserve.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Loans | **1,185** | 2,005 |
| Deposits | **769** | 924 |

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. This personnel 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 was as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Short-term benefits | **4,951** | 4,138 |
| Post-employment benefits | **349** | 412 |
| | **5,300** | 4,550 |

## 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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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.

The 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.

*Interest margin receivable*

The fair value of the interest margin receivable is determined by discounting the remaining contractual cash flows until maturity of the contract.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 22. Fair value of financial instruments (continued)

*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.

*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 borrowings, fair value equals the book value because they bear interest either at a variable rate or at rates that approximate the market rate.

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 instrument standards.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 22. Fair value of financial instruments (continued)

| | At fair value through profit or loss | | | | | 2020 |
|---|---|---|---|---|---|---|
| | Designated at fair value through profit or loss | Classified at fair value through profit or loss | Classified at fair value through other comprehensive income | Amortized cost | Total | Fair value |
| | $ | $ | $ | $ | $ | $ |
| **Financial assets** | | | | | | |
| Cash | — | — | — | 132,987 | 132,987 | 132,987 |
| Securities | | | | | | |
| Money market securities | 1,699 | — | 51,998 | — | 53,697 | 53,697 |
| Bonds | 193,455 | — | 489,926 | — | 683,381 | 683,381 |
| Term deposits | — | — | — | 15,105 | 15,105 | 15,105 |
| Equities | — | 3,001 | — | — | 3,001 | 3,001 |
| Investment funds and other | — | 74,012 | — | — | 74,012 | 74,012 |
| | 195,154 | 77,013 | 541,924 | 15,105 | 829,196 | 829,196 |
| Loans | — | — | — | 3,512,487 | 3,512,487 | 3,587,537 |
| Derivative financial instruments | | | | | | |
| Foreign exchange contracts | — | 255 | — | — | 255 | 255 |
| Interest rate swaps | — | 16,704 | 6,383 | — | 23,087 | 23,087 |
| Options | — | 28,795 | — | — | 28,795 | 28,795 |
| Interest margin receivable | | 158,015 | — | 22,185 | 180,200 | 180,200 |
| Other assets | — | — | — | 22,021 | 22,021 | 22,021 |
| **Total financial assets** | 195,154 | 280,782 | 548,307 | 3,704,785 | 4,729,028 | 4,804,078 |
| **Financial liabilities** | | | | | | |
| Deposits | — | — | — | 3,864,613 | 3,864,613 | 3,886,882 |
| Borrowings | — | — | — | 163,037 | 163,037 | 163,037 |
| Derivative financial instruments | | | | | | |
| Foreign exchange contracts | — | 255 | — | — | 255 | 255 |
| Interest rate swaps | — | 6,026 | — | — | 6,026 | 6,026 |
| Accrued interest, payables and other liabilities | — | — | — | 56,883 | 56,883 | 56,883 |
| **Total financial liabilities** | — | 6,281 | — | 4,084,533 | 4,090,814 | 4,090,814 |
| Net realized and unrealized gains | 15,318 | (2,580) | 19,322 | — | 32,060 | n.a. |
| Financial income | 6,736 | 1,317 | 12,251 | 135,249 | 155,553 | n.a. |
| Financial expenses | — | — | — | (36,609) | (36,609) | n.a. |
| Dividends | — | 967 | — | — | 967 | n.a. |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 22. Fair value of financial instruments (continued)

| | At fair value through profit or loss | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Designated at fair value through profit or loss | Classified at fair value through profit or loss | Classified at fair value through other comprehensive 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 | n.a. |
| Financial income | 5,488 | (1,680) | 11,270 | 143,569 | 158,647 | n.a. |
| Financial expenses | — | — | — | (41,392) | (41,392) | n.a. |
| Dividends | — | 1,406 | — | — | 1,406 | n.a. |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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.

*Interest margin receivable*

The Caisse establishes the fair value of the interest margin receivable using instruments with similar characteristics; it is therefore classified at Level 2.

*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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 22. Fair value of financial instruments (continued)

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

| | | | | 2020 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| **Financial instruments recorded at fair value** | | | | |
| **Assets** | | | | |
| Securities | | | | |
| Money market securities | — | 53,697 | — | 53,697 |
| Bonds | 376,931 | 306,450 | — | 683,381 |
| Equities | — | — | 3,001 | 3,001 |
| Investment funds and other | — | 73,973 | 39 | 74,012 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | — | 255 | — | 255 |
| Interest rate swaps | — | 23,087 | — | 23,087 |
| Options | — | 28,795 | — | 28,795 |
| Interest margin receivable | — | 158,015 | — | 158,015 |
| **Liabilities** | | | | |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | — | 255 | — | 255 |
| Interest rate swaps | — | 6,026 | — | 6,026 |
| **Financial instruments for which fair value is disclosed in the notes** | | | | |
| **Assets** | | | | |
| Loans | — | — | 3,587,537 | 3,587,537 |
| **Liabilities** | | | | |
| Deposits | — | 3,886,882 | — | 3,886,882 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 22. Fair value of financial instruments (continued)

| | | | | 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 in the notes** | | | | |
| **Assets** | | | | |
| Loans | — | — | 3,434,842 | 3,434,842 |
| **Liabilities** | | | | |
| Deposits | — | 3,547,600 | — | 3,547,600 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 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 24.

*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.

## 24. 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 risk management objective 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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. Financial instrument risk management (continued)

*Credit risk (continued)*

*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.

*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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. 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 capital assets. 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 41% (2019 — 43%) of the residential mortgage portfolio.

*Maximum credit risk exposure*

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Recognized on the consolidated statement of financial position** | | |
| Cash | **94,431** | 151,416 |
| Securities | **752,183** | 588,348 |
| Loans | | |
| Personal | **2,247,600** | 2,192,163 |
| Business | **1,284,661** | 1,236,191 |
| Collective allowance | **(19,774)** | (15,112) |
| Derivative financial instruments | **52,137** | 42,536 |
| Other financial assets | **202,221** | 19,030 |
| | **4,613,459** | 4,214,572 |

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Off the consolidated statement of financial position** | | |
| Standby letters of credit | **8,732** | 5,769 |
| Credit commitments | **909,828** | 816,358 |
| | **918,560** | 822,127 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. 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.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Money market securities** | | |
| R1-H | **53,697** | 50,259 |
| | **53,697** | 50,259 |
| **Bonds** | | |
| AAA | **177,863** | 152,679 |
| AA | **193,109** | 199,242 |
| A | **235,102** | 113,259 |
| BBB | **61,465** | 48,942 |
| BB | **15,842** | 13,967 |
| | **683,381** | 528,089 |

*Allowance for loss on investments*

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

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Balance, beginning of year** | **118** | 128 |
| (Decrease) increase in the allowance on the liquidity portfolio | **54** | (10) |
| **Balance, end of year** | **172** | 118 |

*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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. 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 entitled "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:

| | | | | **2020** |
|---|---|---|---|---|
| | **Under 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
| | **$** | **$** | **$** | **$** |
| Deposits | **3,159,887** | **704,212** | **514** | **3,864,613** |
| Borrowings, excluding lease liabilities | **3,969** | **159,068** | **—** | **163,037** |
| Other financial liabilities | **56,883** | **—** | **—** | **56,883** |
| Credit commitments | **909,828** | **—** | **—** | **909,828** |
| Standby letters of credit | **8,732** | **—** | **—** | **8,732** |
| Derivative financial instruments with net settlement | **1,948** | **4,333** | **—** | **6,281** |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. Financial instrument risk management (continued)

| | | | | 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 |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24 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 this 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 10-basis-point increase or decrease in interest rates on the economic value of the Caisse's equity:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Impact of an increase | **79** | 177 |
| Impact of a decrease | **(65)** | (118) |

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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. 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.

| | | | | | | | 2020 |
|---|---|---|---|---|---|---|---|
| | Term to maturity or rate change | | | | | | |
| | Floating rate | 0 to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-sensitive or without maturity | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | | |
| Cash and securities | 59,772 | 30,273 | 102,026 | 284,090 | 335,794 | 150,228 | 962,183 |
| Loans | 543,372 | 430,711 | 856,551 | 1,695,313 | 24,286 | (37,746) | 3,512,487 |
| Other assets | — | 10,287 | 29,327 | 118,401 | — | 163,142 | 321,157 |
| | 603,144 | 471,271 | 987,904 | 2,097,804 | 360,080 | 275,624 | 4,795,827 |
| **Liabilities and equity** | | | | | | | |
| Deposits | 635,926 | 819,349 | 652,729 | 1,756,095 | 514 | — | 3,864,613 |
| Actuarial liabilities | — | — | — | — | 216,865 | — | 216,865 |
| Borrowings | — | — | 3,969 | 159,760 | — | — | 163,729 |
| Other liabilities | — | — | — | — | — | 84,590 | 84,590 |
| Equity | — | — | — | — | — | 466,030 | 466,030 |
| | 635,926 | 819,349 | 656,698 | 1,915,855 | 217,379 | 550,620 | 4,795,827 |
| Sensitivity gap in items recognized in the consolidated statement of financial position | (32,782) | (348,078) | 331,206 | 181,949 | 142,701 | (274,996) | — |
| Sensitivity gap in derivative financial instruments according to notional amounts | — | (30,800) | (65,300) | 148,900 | (52,800) | — | — |
| **Total sensitivity gap** | (32,782) | (378,878) | 265,906 | 330,849 | 89,901 | (274,996) | — |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. Financial instrument risk management (continued)

*Market risk (continued)*

*Interest rate risk management (continued)*

| | | | | | | | 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 according to 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) | — |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. 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 risk. 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 $1,341,000 (2019 – $1,309,385).

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:

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 24. Financial instrument risk management (continued)

*Market risk (continued)*

*Foreign exchange risk management (continued)*

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Cash | **22,852** | 76,710 |
| Securities | — | 9,218 |
| Loans | **24** | 93 |
| Deposits | **(23,321)** | (77,227) |
| Other liabilities | **(1)** | (5) |

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:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Increase of $0.01 of the U.S. dollar | **(4)** | 68 |
| Decrease of $0.01 of the U.S. dollar | **4** | (68) |

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

## 25. 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 categories of insurance risk:

*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.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 25. 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-than-expected expenses.

*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 with a single reinsurer. The Caisse's main reinsurer has a credit rating of AA- according to the Standard & Poor's rating agency.

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.

## 26. 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. A summary of the ratios is presented below.

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 26. Capital management (continued)

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Regulatory capital, net of deductions | | |
| CET1 | **438,822** | 402,772 |
| T2 | **18,306** | 15,695 |
| Total | **457,128** | 418,467 |
| Risk-weighted assets | **2,770,310** | 2,459,146 |
| Capital ratios | | |
| CET1 | **15.8%** | 16.4% |
| Total | **16.5%** | 17.0% |
| Assets used in the calculation of leverage ratio | **4,537,414** | 4,380,590 |
| Leverage ratio | **9.7%** | 9.2% |

**Caisse populaire acadienne ltée**
**Notes to the consolidated financial statements**
December 31, 2020
(In thousands of dollars)

## 26. Capital management (continued)

*Acadia 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 annually perform 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, 2020 and 2019, the Company presented a LICAT that met the requirements.

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Tier 1 capital | **51,289** | 47,173 |
| Tier 2 capital | **8,063** | 9,151 |
| Total LICAT available capital | **59,352** | 56,324 |
| Surplus allowance and eligible deposits | **53,721** | 49,414 |
| Base solvency buffer | **62,945** | 55,469 |
| Total LICAT ratio | **179.6%** | 190.6% |
| Core LICAT ratio | **141.2%** | 147.4% |

## 27. Acquisition

On July 24, 2020, the Caisse acquired companies 607843 N.B. Inc. and 717560 N.B. Inc., operating under the names Haché Dumaresq Gaudet Services Financiers and Léger Gaudet Stewart Services Financiers, respectively. These entities are specialized in the sale of mutual funds.

UNI
FINANCIAL COOPERATION

uni.ca