

**When you
choose Desjardins,**
you're making
change happen.



Desjardins
Insurance

LIFE • HEALTH • RETIREMENT

When you choose Desjardins Financial Security,

you're opting for solid
expertise and a people-
focused approach.



Our wide range of life and health insurance and savings and investment solutions allows us to meet the changing needs of individuals, groups and businesses. More than five million Canadians are counting on our solid expertise and our people-focused approach at every stage of life.

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NOTE

This Financial Review presents the financial results of Desjardins Financial Security Life Assurance Company (Desjardins Financial Security, Desjardins Insurance or the "Company") for the year ended December 31, 2017.

VERSION EN FRANÇAIS

Cette Revue financière est disponible en français et peut être consultée sur notre site Internet : www.desjardinsassurancevie.com.

Pour obtenir un exemplaire ou des renseignements, communiquez avec nous :
Par téléphone : 418 838-7800 ou
1 877 828-7800, poste 5587796

Par courriel : info@dsf.ca

When you choose Desjardins Financial Security, you're...

Teaming up with a partner you can trust

- A wide range of life and health insurance and savings and investment solutions
- 4,811 employees and 11,300 representatives and brokers at your service
- A life and health insurance leader: Ranked 2nd in Quebec and 5th in Canada in terms of written premiums¹
- Market-linked Guaranteed Investments: Ranked 1st in Quebec and in Canada in terms of assets under management¹
- Desjardins Funds: Ranked 2nd in Quebec in terms of assets under management², and a pioneer and leader in responsible investments in Canada
- Total assets under management and administration of \$107.1 billion

Choosing the distribution network that suits you

Our products and services are available to individuals, groups and businesses through:

- Employees at Desjardins caisses and business centres
- A team of 266 financial security advisors dedicated exclusively to caisse members
- Representatives at:
 - SFL and SFL Investments in Quebec
 - Desjardins Financial Security Independent Network and Desjardins Financial Security Investments across Canada, excluding Quebec
 - State Farm in Ontario, Alberta and New Brunswick
- Direct distribution or online services

We also maintain business relationships with a number of partners—group advisors, actuarial-consulting firms, brokers and general agents—to offer our products and services across Canada.

Gaining access to a broader range of products and services

Having a number of subsidiaries operating in related activity areas helps Desjardins Financial Security maximize the cohesion and efficiency of its actions. Its main subsidiaries are:

- **Desjardins Financial Security Investments Inc.:** Through this group savings plan broker, the representatives of our independent networks active across Canada have access to the investment products of a wide range of manufacturers. This enables them to offer their clients the products best suited to their situation and their needs.
- **Desjardins Investments Inc.:** This subsidiary manages a wide range of savings and investment solutions, including the Desjardins Funds and Market-linked Guaranteed Investments, offered across Canada through the Desjardins caisses and other distribution networks. These families of products, which have received many industry awards, enable us to meet the varied and changing needs of Canadian investors.
- **Assistel Inc.:** A pioneer in assistance services in Canada, Assistel's team of experts helps clients through difficult situations and emergencies involving travel, health, car troubles and legal issues. Assistel also offers psychological assistance programs.

1. Data based on most recently available results dated December 31, 2016.

2. Data based on most recently available results dated June 30, 2017.



Getting over a century of experience

As a result of the merger of some 20 companies and blocks of business over the years, Desjardins Financial Security boasts more than a century of experience.

Resting on solid foundations

Desjardins Financial Security is the life and health insurer of Desjardins Group, which employs close to 46,000 people and manages more than \$275 billion in assets. Ranked one of the world's strongest banks by *The Banker*, Desjardins has some of the highest capital ratios and credit ratings in the industry.

Doing business with an organization active across Canada

- Head office in Lévis
- Offices in several cities across Canada, including Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Montreal, Quebec City, Halifax and St. John's

For more details on how you can contact us, see page 78.

Message from management

WHEN YOU CHOOSE DESJARDINS FINANCIAL SECURITY, YOU'RE OPTING FOR SOLID EXPERTISE AND A PEOPLE-FOCUSED APPROACH



GUY CORMIER, MBA

President and Chief Executive Officer,
Desjardins Group

Chief Executive Officer,
Desjardins Financial Security

In 2017, our employees and distribution partners concentrated their efforts on finding solutions tailored to the specific needs of our members and clients. They helped our members and clients envision a better future for themselves and their families, and improve their lives. Desjardins, in keeping with its mission, was therefore able to enrich the lives of individuals and communities across Canada.

Always working in the best interest of our five million members and clients more effectively is a challenge that motivates us to do our best day after day. What makes this a challenge is the fact that people's needs are constantly changing and their expectations in terms of support and access to services remain very high. However, judging by our results in 2017, we are on the right track.

Ultimately what we are all striving for is to make Desjardins a provider of simple, people-focused, modern and high-performance service.

Greater simplicity

More and more people prefer to perform their transactions online. These individuals are looking for a simpler and more intuitive online experience. We addressed this need by offering them a number of innovative services in 2017.

With just a few simple questions, our Savings and Investment Assistant tool can help them set up a meeting with an advisor or find online services based on their needs. Our clients can now also access a number of their life and health insurance products online and perform various transactions.

A people-focused approach

Whether they work in sales, customer service or in any other part of the organization, our employees and our distribution partners across Canada are passionate about our members and clients. Their attentive approach and commitment to finding the right solution help ensure member and client satisfaction.

Employers are able to contribute to employee wellness thanks to a program we offer free of charge to our group insurance clients to help improve employee sleep quality and productivity.

In addition, we partner with the YMCAs of Québec Foundation to offer youth in vulnerable situations an inclusive environment in which they can feel at home.

A modern approach

We use cutting-edge technologies for the benefit of our members and clients. In Group Retirement Savings, for example, online financial education videos help participants reach their retirement goals by creating personalized scenarios based on their data.

In Group Insurance, our real-time online support platform offers advice to participants experiencing problems at home or at work. After this initial level of intervention, participants can then meet with a professional through one of our employee assistance programs, if they choose.



GREGORY CHRISPIN, CFA, ICDD

Executive Vice-President, Wealth Management
and Life and Health Insurance,
Desjardins Group

President and Chief Operating Officer,
Desjardins Financial Security

Key achievements in 2017

A high-performance offer

Individuals and businesses can choose the distribution method that suits them best from our various networks available across Canada. With the help of an advisor or by using our online services, they will find what they need in our wide range of products and services. Desjardins is the only financial institution in Quebec that offers insurance coverage directly at its points of service.

Results show we're on the right track

At the end of a year filled with great accomplishments and results, we would like to take this opportunity to thank the five million Canadians who chose to put their trust in Desjardins. We will continue to work hard to enhance their financial security by being proactive and thorough in everything we do.

Strengthening our service-driven member and client culture will remain the focus of our action plan in 2018. Our many employees and distribution partners, to whom we are greatly indebted for their commitment, will continue to dedicate themselves every day to meeting the expectations of our members and clients and providing them with the highest standards of service.

Net income
\$689.6M
a significant increase of
\$185.1M

In-force insurance
\$313.9B
Up 3%

Total financing
covered with
loan insurance
(life coverage)
\$75.6B

Gross insurance
premiums
\$4.2B
Up 5%

Group and business
gross insurance sales
\$260.0M
Up 39%

Return on
shareholder equity
22.3%

Excellent financial
stability

Strict
expense control

Assets under management
and administration
\$107.1B
crossing the \$100B mark

Total net sales of
savings products
\$4.8B

Record net sales
Desjardins Funds
\$2.5B
Up 32%

When you choose Desjardins Financial Security, you're benefitting from innovative offers

Savings

Savings and investment assistant

Designed to make life easier for users, this online assistant complements our advisors' inventory of services. Depending on member or client preferences and needs, the online assistant will help them set up a meeting with an in-caisse advisor or find an online investment solution on AccèsD.

Online financial education

Our group retirement savings plan participants benefit from a one-of-a-kind experience thanks to our innovative online educational videos. An industry first, these videos contain the participants' data and create a personalized scenario of their situation, making it even easier for them to achieve their retirement goals.

First Desjardins report on shareholder engagement

Produced for the first time in 2017, this report shows how Desjardins exercises its leadership in responsible investing, particularly in the area of shareholder engagement. Discussions are held with the companies in which we invest, through our SocieTerra portfolios for example, to encourage them to improve their environmental, social and governance results (ESG factors).

Investment solutions that stand out

- As a pioneer and leader in responsible investing, we regularly enhance our product offering to continue to meet the changing needs of our clients. The Desjardins SocieTerra Canadian Equity Fund is one example of a recent addition to our investment options.
- Our Market-linked Guaranteed Investments are very popular because they offer investors the potential of stock market growth while protecting their invested capital. The proof is that over the product's 20-year history, we have accumulated \$20 billion in assets under management.

Insurance

New participating life insurance

In response to consumers' growing interest in this type of product, we launched a new permanent participating life insurance product. Geared to the needs of a mass-affluent clientele in particular, the product combines life insurance coverage with a tax-effective investment component. Plus, insured clients may also be entitled to dividend payments, enabling them to maximize their estate or surrender values.

A program to promote better sleep quality

In keeping with our role as a leader in optimal health management, we are offering our group insurance clients a program to improve employee sleep quality and productivity, completely free of charge. The program has different levels of intervention: Awareness raising, screening, diagnosis and treatment.

Offered in four Canadian cities and by webcast, our Forum 360° events are designed to raise our clients' and partners' awareness of sleep disorders and inform them of the most recent discoveries and solutions in this field.

Artificial intelligence at your service with Epsylio

With Epsylio, we have become the first insurer to use artificial intelligence to offer personalized support to group insurance clients who are not yet ready to take advantage of our 360° Employee Assistance Program (EAP). Epsylio gives them access to real-time online support so they can deal with personal or professional issues without having to go through an intermediary.

Other noteworthy achievements

Helping comes from the heart

As a life and health insurer, we care about people's health and take concrete steps to help them protect it. Our partnership with the Heart and Stroke Foundation of Canada (HSFC) enables us to join forces in public activities that are held to promote healthy lifestyles. In 2017 for example, we participated in the Ride for Heart (ride, run, walk, in Toronto) and in Big Bike (in Barrie and Mississauga, Ontario). For Heart Month in February, we set up information booths for our employees to promote the risk assessment tool.

Contributing to the Healthy Enterprise standard

We are proud to take part in the review of the Healthy Enterprise standard in Quebec and its eventual rollout across Canada. Created to maintain and improve workplace health in a sustainable way, this standard helps employers implement an effective prevention and health promotion process for their employees.

Offering peace to YMCA youth

Children are the future of our society and we have a duty to support those in vulnerable situations. That's why we are partners of the YMCAs of Québec Foundation. Most of our financial support goes into the YMCA Peace Medals Gala Dinner, which raised \$330,000 in 2017. This tidy sum will be used to assist more young people by helping to create a climate of peace for them, one that fosters fairness, empathy, and respect for diversity.

Awards and recognition for our products

We are very proud of the awards and industry recognition we received in 2017, an indication that our clients' investments are in good hands. They include:

- International recognition for our Market-linked Guaranteed Investments (MLGI): For the 6th year in a row, the MLGI took home the award for Best Distributor, Canada at the Americas Wealth Management & Derivatives Awards.
- Recognition underscoring the technological innovation of My Savings Plan: This savings tool designed for those aged 13 to 30 received an OCTAS award in the Large Business category from Réseau Action TI at the 31st OCTAS Gala in 2017.





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Responsibility for financial reporting

The Consolidated Financial Statements of Desjardins Financial Security Life Assurance Company (the Company) and the information contained in its Financial Review have been prepared by the Company's management. These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards described in the notes thereto and contain amounts that are based on management's best judgment within reasonable limits of materiality.

To discharge its responsibilities for the reliability and integrity of the financial data, management has established systems to ensure strict control over accounting records, operations, and the various systems used.

The Company's Board of Directors approves the information contained in the Financial Review and, as part of its responsibilities, oversees management's preparation of the financial statements and maintenance of appropriate internal control systems. The Board of Directors exercises this responsibility primarily through its Audit and Risk Management Committee, whose members are neither management nor employees of the Company. The Audit and Risk Management Committee regularly meets with management, the appointed actuary, the internal auditor and the independent auditor. The independent auditor's representatives may, if they deem it necessary, request meetings with the Audit and Risk Management Committee. The Board of Directors, through its Investment Committee and Audit and Risk Management Committee, approves the Company's investment policies and monitors the activities governed by these policies. The Board of Directors also oversees the Company's transactions with interested parties and with persons related to its members and officers through its Ethics Committee, to which all major transactions of this nature must be submitted for approval.

In accordance with sound corporate governance practices, the Company has a governance policy (see the "Governance program" section of the Financial Review). The Board of Directors has mandated the Executive Committee to oversee governance. This Committee is responsible for evaluating the implementation of the mechanisms required to ensure efficient and effective governance.

The appointed actuary, who is appointed by the Board of Directors, is responsible for performing an annual valuation of the Company's policy liabilities in accordance with the standards of the Canadian Institute of Actuaries and the requirements of the Act respecting insurance (Quebec) and must thereafter report thereon to the Company's contract holders and shareholder. To this end, the appointed actuary may ask to meet with the Audit and Risk Management Committee as well as the Board of Directors. To perform this valuation, the appointed actuary makes assumptions as to future interest, mortality, morbidity and contract cancellation rates, underwriting experience, inflation, reinsurance recoverables, expenses and other contingencies, by taking into consideration the circumstances specific to the Company. In the appointed actuary's report, the scope of the valuation is defined and an opinion is issued. Each year, the appointed actuary is required to perform an analysis of the Company's financial position and prepare a report for the Board of Directors. This analysis tests the Company's capital adequacy for a five-year period, under adverse economic and business conditions.

The independent auditor appointed by the shareholder, PricewaterhouseCoopers LLP, is responsible for auditing the Company's Consolidated Financial Statements and has full and unrestricted access to the Audit and Risk Management Committee's meetings, as well as to any information required in order to express an audit opinion on these financial statements.

The Autorité des marchés financiers (AMF) has the authority to audit the Company's compliance with the Act respecting insurance (Quebec), which aims primarily at protecting contract holder interests and ensuring companies maintain a sound financial position.

Gregory Chrispin, CFA, IAS.A
President and Chief Operating Officer

François Drouin, CPA, CA
Senior Vice-President, Finance

Lévis, February 21, 2018

Independent auditor's report

To the contract holders and shareholder of Desjardins Financial Security Life Assurance Company

We have audited the accompanying consolidated financial statements of Desjardins Financial Security Life Assurance Company, which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of net income, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Desjardins Financial Security Life Assurance Company as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*¹

February 21, 2018
Montréal, Québec

¹ CPA auditor, CA, public accountancy permit No. A110766

Appointed Actuary's report

To the policyholders and the shareholder of Desjardins Financial Security Life Assurance Company.

I have valued the policy liabilities and reinsurance recoverables of Desjardins Financial Security Life Assurance Company for its consolidated balance sheet as at December 31, 2017, and their changes in the consolidated statement of net income for the year then ended, in accordance with accepted actuarial practice in Canada, including selection of appropriate valuation assumptions and methods.

In my opinion, the amount of the Company's policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

The valuation complies with an Act respecting insurance (Quebec) and its regulations.

Nathalie Bouchard
Fellow, Canadian Institute of Actuaries

Lévis, February 21, 2018

Consolidated statement of net income

for the years ended December 31
(in millions of Canadian dollars)

	Notes	2017	2016
Income			
Insurance premiums		\$ 4,258.8	\$ 4,058.7
Annuity premiums		338.0	336.3
Ceded premiums		(180.7)	(178.7)
Net premiums		4,416.1	4,216.3
Net investment income	3d	1,557.2	922.3
Other income		1,006.7	917.3
		6,980.0	6,055.9
Expenses			
Expenses attributable to contract holders			
Benefits		3,159.9	3,009.9
Ceded benefits		(123.1)	(105.6)
Change in actuarial liabilities	12e	1,070.1	716.9
Change in ceded actuarial liabilities	12e	(36.1)	(79.6)
Dividends and experience refunds		195.8	130.0
Interests on benefits and deposits		15.7	15.4
		4,282.3	3,687.0
Commissions		347.5	332.3
Operating expenses	24	1,385.0	1,308.4
Premium taxes		127.9	121.8
		6,142.7	5,449.5
Operating income			
Income taxes	19	837.3	606.4
		147.7	101.9
Net income		\$ 689.6	\$ 504.5
ALLOCATION OF NET INCOME			
Attributable to non-controlling interests		\$ 5.3	\$ 2.8
Attributable to participating contract holders		79.0	125.2
Attributable to the shareholder		605.3	376.5
Net income		\$ 689.6	\$ 504.5

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated statement of comprehensive income

for the years ended December 31
(in millions of Canadian dollars)

	Note	2017	2016
Net income		\$ 689.6	\$ 504.5
Other comprehensive income			
Items that will not be reclassified subsequently to the Consolidated Statement of Net Income			
Remeasurement of net defined benefit plan liabilities		(45.2)	27.2
Income taxes		11.7	(7.2)
Revaluation of properties	3c	1.1	31.8
Income taxes		(0.2)	(5.3)
		(32.6)	46.5
Items that could be reclassified subsequently to the Consolidated Statement of Net Income			
Unrealized gains on available-for-sale assets		132.0	80.0
Income taxes		(7.8)	(15.0)
		124.2	65.0
Reclassification to net income of net gains on available-for-sale assets		(113.6)	(85.6)
Income taxes		11.4	8.7
		(102.2)	(76.9)
Total other comprehensive income		(10.6)	34.6
Comprehensive income		\$ 679.0	\$ 539.1
ALLOCATION OF COMPREHENSIVE INCOME			
Attributable to non-controlling interests		\$ 5.3	\$ 2.8
Attributable to participating contract holders		78.9	127.4
Attributable to the shareholder		594.8	408.9
Comprehensive income		\$ 679.0	\$ 539.1

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated balance sheet

(in millions of Canadian dollars)

	Notes	2017 December 31	2016 December 31
ASSETS			
Investments	3		
Cash and short-term investments		\$ 1,528.1	\$ 865.5
Bonds		14,050.3	13,004.3
Mortgage and business loans		3,097.6	3,133.3
Shares		2,831.0	2,471.1
Contract loans		184.8	188.4
Investment property		2,206.7	2,060.4
Investments accounted for using the equity method		549.0	462.4
Securities borrowed or purchased under reverse repurchase agreements		188.6	438.3
Derivative financial instruments	5	155.6	310.3
Other loans and investments		47.8	39.4
		24,839.5	22,973.4
Other assets	10	740.6	743.4
Reinsurance assets	8	979.2	929.5
Deferred tax assets	19	21.8	21.6
Fixed assets	9	74.7	83.2
Segregated fund net assets	11	13,354.4	11,956.8
Total assets		\$ 40,010.2	\$ 36,707.9
LIABILITIES			
Policy liabilities			
Insurance contract liabilities			
Actuarial liabilities	12	\$ 18,837.5	\$ 17,761.4
Provisions for benefits, dividends and experience refund		479.6	394.3
Contract holder deposits		645.9	638.3
Investment contract liabilities	13	79.4	75.6
		20,042.4	18,869.6
Commitments related to securities lent or sold under repurchase agreements		690.9	538.9
Derivative financial instruments	5	95.6	68.0
Other liabilities	14	1,457.9	1,078.4
Deferred tax liabilities	19	220.8	225.3
Net defined benefit plan liabilities	15	292.2	247.8
Preferred share liabilities	16	700.0	700.0
Segregated fund net liabilities	11	13,354.4	11,956.8
Total liabilities		\$ 36,854.2	\$ 33,684.8
EQUITY			
Attributable to participating contract holders		\$ 97.1	\$ 145.9
Attributable to the shareholder		3,028.0	2,850.5
Attributable to participating contract holders and the shareholder		3,125.1	2,996.4
Non-controlling interests		30.9	26.7
Total equity		\$ 3,156.0	\$ 3,023.1
Total liabilities and equity		\$ 40,010.2	\$ 36,707.9

The accompanying notes are an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors,

Jean-Robert Laporte, BA, LLL
Chair of the Board of Directors

Robert St-Aubin, FCPA, FCA
Chair of the Audit and Risk
Management Committee

Consolidated statement of changes in equity

for the years ended December 31
(in millions of Canadian dollars)

	Retained earnings			Accumulated other comprehensive income (Note 17)		Total equity		
	Share capital (Note 16)	Participating contract holders	Shareholder	Participating contract holders	Shareholder	Participating contract holders	Shareholder	Non-controlling interests
Balance as at December 31, 2015	\$ 307.0	\$ 410.0	\$ 1,613.6	\$ 31.5	\$ 221.0	\$ 441.5	\$ 2,141.6	\$ 24.8
Net income for 2016		125.2	376.5			125.2	376.5	2.8
Other comprehensive income		1.2	18.9	1.0	13.5	2.2	32.4	
Dividends			(167.0)				(167.0)	
Acquisition (Note 25)	44.0						44.0	
Transfer from the participating fund (Note 2)		(393.0)	393.0	(30.0)	30.0	(423.0)	423.0	
Net distributions								(0.9)
Balance as at December 31, 2016	\$ 351.0	\$ 143.4	\$ 2,235.0	\$ 2.5	\$ 264.5	\$ 145.9	\$ 2,850.5	\$ 26.7
Net income for 2017		79.0	605.3			79.0	605.3	5.3
Other comprehensive income		(0.3)	(33.2)	0.2	22.7	(0.1)	(10.5)	
Dividends			(545.0)				(545.0)	
Transfer from the participating fund (Note 2)		(127.7)	127.7			(127.7)	127.7	
Net distributions								(1.1)
Balance as at December 31, 2017	\$ 351.0	\$ 94.4	\$ 2,389.8	\$ 2.7	\$ 287.2	\$ 97.1	\$ 3,028.0	\$ 30.9

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated statement of cash flows

for the years ended December 31
(in millions of Canadian dollars)

	Note	2017	2016
OPERATING ACTIVITIES			
Operating income		\$ 837.3	\$ 606.4
Income taxes paid		(159.4)	(50.2)
Items not affecting cash			
Change in net actuarial liabilities		1,034.0	637.3
Gains, losses and amortization included in investment income		(795.4)	(117.0)
Change in fair value of investment property		(76.8)	(65.6)
Depreciation, amortization and other		23.5	20.9
		863.2	1,031.8
Change in operating assets and liabilities			
Assets and liabilities held for trading and assets designated as at fair value through profit or loss		(90.4)	195.3
Other		119.2	81.4
Cash flows from operating activities		892.0	1,308.5
INVESTING ACTIVITIES			
Sales, maturities and repayments			
Available-for-sale bonds and shares		1,598.5	1,117.1
Investment property and property held for administrative purposes and fixed assets		2.9	14.9
Purchases			
Available-for-sale shares and bonds		(1,984.6)	(1,121.6)
Investment property and property held for administrative purposes and fixed assets		(78.4)	(220.3)
Net change in money market securities maturing in more than three months		(146.5)	14.6
Net change in mortgage loans, contract loans and business loans		35.3	(265.0)
Net change in other loans		(9.6)	—
Distribution received from joint ventures and subsidiaries		4.5	6.5
Investments in joint ventures and subsidiaries		(27.8)	(139.8)
Other		(3.0)	(7.0)
Cash flows used in investing activities		(608.7)	(600.6)
FINANCING ACTIVITIES			
Dividends paid to the common shareholder		(167.0)	(107.0)
Net change in commitments related to securities lending transactions and securities sold short		401.7	(503.3)
Net change in long-term debt		(0.6)	(8.7)
Other		(1.1)	(0.8)
Cash flows from (used in) financing activities		233.0	(619.8)
Increase in cash and cash equivalents		516.3	88.1
Cash and cash equivalents at beginning		659.8	276.7
Cash acquired from acquired subsidiaries	25	—	295.0
Cash and cash equivalents at end		\$ 1,176.1	\$ 659.8
Composition of cash and cash equivalents			
Cash		\$ 130.7	\$ 113.3
Demand promissory notes		236.4	236.4
Money market securities maturing in less than three months		809.0	310.1
		\$ 1,176.1	\$ 659.8
Supplemental cash flow information			
Interest paid during the year		\$ 33.3	\$ 33.4
Interest received during the year		464.1	463.0
Dividends received during the year		\$ 66.3	\$ 77.5

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the consolidated financial statements

(Tabular amounts are in millions of Canadian dollars)

Note 1 General information

Desjardins Financial Security Life Assurance Company (the Company) is incorporated under the Act respecting insurance (Quebec) and is governed by such Act and the Business Corporations Act (Quebec). The address of its Head Office is 200 rue des Commandeurs, Lévis, Quebec, G6V 6R2, Canada.

The Company is under the ultimate control of the *Fédération des caisses Desjardins du Québec* (the Federation) through Desjardins Financial Corporation Inc., a wholly-owned subsidiary of the Federation.

The Company designs, markets and distributes individual and group insurance and savings products. It is also active in the design and administration of various specialized individual and group savings products such as Desjardins Funds and market-linked guaranteed investments.

On February 21, 2018, the Company's Board of Directors approved these Consolidated Financial Statements for the year ended December 31, 2017.

Note 2 Basis of presentation and significant accounting policies

Basis of presentation

Statement of compliance

The Company's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that are described in the following significant accounting policies. These policies concern the determination of the fair value of financial instruments and investment property as well as their classification, derecognition of financial assets and liabilities, allowance for non-performing investments and impairment of available-for-sale securities. They also concern the measurement and classification of insurance contract liabilities, provisions, carrying amount of goodwill, impairment of non-financial assets, income taxes, employee benefits, consolidation of structured entities and contingencies. Actual results could differ from those estimates and assumptions.

Principles of consolidation

These Consolidated Financial Statements include the financial statements of the Company and its subsidiaries.

An entity is considered as a subsidiary when it is controlled by the Company. The Company controls an investee if it has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of its returns.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give the Company control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities. A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: restricted activities, a narrow and well-defined objective, insufficient equity to permit it to finance its activities without subordinated financial support, or financing in the form of multiple contractually linked instruments to investors.

Subsidiaries are included in the Consolidated Financial Statements from the date effective control commences until the date effective control ceases.

The financial statements of all of the Company's entities have been prepared using similar accounting policies. In addition, all intercompany transactions and balances have been eliminated upon consolidation.

a) Non-controlling interests

Non-controlling interests represent the share in profit or loss and net assets that is not held by the Company. They are presented separately in the Consolidated Statement of Net Income, the Consolidated Statement of Comprehensive Income and in equity in the Consolidated Balance Sheet. They represent the non-controlling interests in Laurentian Weloga, Limited Partnership.

b) Associate

An associate is an entity over which the Company exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. The Company's interests in associates are accounted for using the equity method. Under this method, investments are initially recognized at cost and, thereafter, the carrying amount is increased or decreased by the Company's post-acquisition share of the relevant entities' equity and profit or loss. The Company has an investment in CC&L Haldimand Solar Co-Investment Limited Partnership.

c) Joint arrangement

A joint arrangement is an arrangement of which the Company has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation. The Company holds interests in joint operations holding commercial and industrial buildings located in Quebec.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. The Company holds interests in several joint ventures, including RPADS, Primus Immobilia, L.P., 101 St. Clair and Western Canada Shopping Centres LP.

Significant accounting policies

Financial instruments

Financial instruments are initially recognized at fair value. Their subsequent recognition varies based on their classification.

Financial assets are classified according to the Company's intention and capacity to hold the invested assets and are recognized using the following methods:

- i) Assets held for trading and assets designated as at fair value through profit or loss are recognized at fair value, with changes in fair value recorded in the Consolidated Statement of Net Income.
- ii) Assets classified as available for sale are recognized at fair value. Gains and losses arising from changes in fair value are recorded in other comprehensive income until the asset is derecognized, except for impairment losses and foreign exchange gains and losses on monetary securities, which are presented in the Consolidated Statement of Net Income.
- iii) Loans and receivables, which include cash, certain money market securities, mortgage and business loans, contract loans, securities borrowed or purchased under reverse repurchase agreements, some items included in other loans and investments, premiums receivable, amounts receivable and accrued net investment income, are recognized at cost and at amortized cost, if applicable, using the effective interest method.

Assets classified as available for sale are monitored on a regular basis throughout the period to determine whether there is any objective evidence that they are impaired. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

The Company's management uses its judgment to assess each bond and determine whether there is any objective evidence of impairment indicating a credit risk with regard to the amounts due by the issuer. The impairment loss represents the cumulative loss, which is the difference between carrying amount and fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the interest rate used to discount future cash flows in order to measure the impairment loss. When, during a subsequent period, the fair value of a bond increases and that increase can be objectively related to a credit event occurring after the impairment loss had been recognized in the Consolidated Statement of Net Income, the impairment loss is reversed through the Consolidated Statement of Net Income.

For equity securities, when evidence of impairment exists, the cumulative loss (measured as the difference between acquisition cost and fair value, less any impairment loss previously recognized) is transferred out of other comprehensive income and recognized in the Consolidated Statement of Net Income. Impairment losses on equity securities recognized in the Consolidated Statement of Net Income are not reversed, and increases in fair value occurring subsequent to impairment are recorded directly in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Consolidated Statement of Net Income.

Financial liabilities are recognized at amortized cost using the effective interest method and include all liabilities not held for trading. Changes in the fair value of liabilities held for trading (derivative financial instruments and securities sold short) are recorded in the Consolidated Statement of Net Income.

Note 2 Basis of presentation and significant accounting policies (continued)

The main financial asset categories designated as at fair value through profit or loss include:

- i) Financial assets backing actuarial liabilities that would otherwise be classified as available for sale, in order to substantially reduce the accounting mismatch that would result from this classification. The impact of fluctuations in the fair value of these investments is offset by corresponding changes in actuarial liabilities.
- ii) Financial assets that are managed according to an investment strategy and whose performance is evaluated on a fair value basis.

Transaction costs for securities held for trading and designated as at fair value through profit or loss are expensed as incurred. Transaction costs for securities classified as available for sale or as loans and receivables are capitalized and amortized over the expected life of the financial instrument using the effective interest method.

Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

a) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

b) Derecognition of financial assets and liabilities

A financial asset is derecognized from the Consolidated Balance Sheet when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but the Company has the obligation to pay them to a third party, or when the Company transfers the contractual rights to receive these cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by the Company, such asset is not derecognized from the Consolidated Balance Sheet, and a financial liability is recognized for the consideration received, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Company derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, the Company continues to recognize the asset in the Consolidated Balance Sheet to the extent of its continuing involvement in that asset. When a financial asset is derecognized in its entirety, a gain or loss is recognized in the Consolidated Statement of Net Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards, management evaluates the Company's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expired. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Consolidated Statement of Net Income.

Investments

a) Cash and short-term investments

"Cash and short-term investments" includes deposit accounts with financial institutions and short-term investments. Short-term investments include demand promissory notes issued by the parent company and money market securities. Cash and promissory notes are classified as loans and receivables, whereas money market securities are recognized at fair value.

b) Bonds

Bonds are recorded at fair value in the Consolidated Balance Sheet.

The fair value of bonds is the prevailing market price, when available. When there is no active market, the Company determines fair value using valuation techniques. These techniques include the use of information available from orderly transactions between market participants, use of the fair value of another relatively identical financial instrument and discounted cash flow analysis.

For bonds classified as available for sale, interest income and amortization of premiums and discounts on acquisition are calculated using the effective interest method and recognized in the Consolidated Statement of Net Income.

c) Mortgage and business loans

Mortgage and business loans are recorded at amortized cost, less allowances for non-performing investments. Premiums or discounts on acquisition are amortized using the effective interest method.

The fair value of these loans, disclosed in Note 6, is estimated by discounting cash flows using market interest rates charged for similar new loans as at December 31, applied to expected maturity amounts.

The Company's policy is to recognize these loans as non-performing investments when, in its opinion, there is reasonable doubt as to the collectibility of a portion of the principal or interest, or where interest on a loan is contractually 90 days or more past due unless, in the Company's opinion, there is no doubt as to the collectibility of the principal and interest and collection procedures have not commenced. All investments are classified as non-performing when payment is 180 days past due, except when the investment is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government. The allowance for non-performing investments is based on the present value of estimated future cash flows, discounted at the effective interest rate of the loan. The interest recognized after the initial 90-day period is reversed and specific allowances are set up, if necessary, for the previously recognized accrued interest and to cover the risk of losses on principal.

d) Shares

Shares are recognized at fair value, which is based on the bid price when available. When there is no such price, fair value is determined using valuation techniques that are based on inputs not directly observable on the market. Dividends are recognized in the Consolidated Statement of Net Income when the Company's right to receive payment is established.

e) Contract loans

Contract loans, which are classified as loans and receivables, are presented for their unpaid balance and are fully secured by the cash surrender value of the contracts on which the loans were made.

f) Investment property

Investment property includes buildings or land held to earn rental income or to increase the value of the Company's capital.

Investment property is initially recognized at cost, including transaction costs, and subsequently recognized at fair value. Changes in fair value are recognized under "Net investment income" in the Consolidated Statement of Net Income.

The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, as well as estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefits are expected. Gains or losses on the disposal or sale are recognized under "Net investment income" in the Consolidated Statement of Net Income for the year in which they are realized.

Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer from the "Investment property" category to the "Buildings" category of fixed assets, the deemed cost of the property is the fair value at the date of change in use. If a building held and occupied by the Company becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

g) Other loans and investments

Other loans and investments include term loans and finance lease receivables, which are classified as loans and receivables, and investments in the Company's segregated funds classified as available for sale.

h) Securities lending

Securities borrowed or purchased under reverse repurchase agreements

Securities borrowed or purchased under reverse repurchase agreements are not recognized in the Consolidated Balance Sheet, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheet.

As part of securities borrowings, the Company pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements". When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities lent or sold under repurchase agreements

Securities lent or sold under repurchase agreements are not derecognized from the Consolidated Balance Sheet, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements".

Note 2 Basis of presentation and significant accounting policies (continued)

As part of securities loans, the Company receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements". When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

i) Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates and financial indexes. The vast majority of derivative financial instrument contracts are negotiated by mutual agreement between the Company and the counterparty and include interest rate, credit risk, and foreign exchange contracts, stock index and currency futures and total return swaps. The types of contracts used are defined in Note 5.

Derivative financial instruments are initially recognized at fair value. Gains and losses in value are recognized in the Consolidated Statement of Net Income.

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, credit risk and yield curves. The fair value of derivative financial instruments is presented without taking into account the impact of master netting agreements, and requires management to make assumptions.

j) Hedging activities

The Company holds derivative financial instruments that allow it to use hedge accounting. To qualify for hedge accounting, the hedge relationship must be designated and documented at its inception and throughout the life of the contract. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows attributable to the risk being hedged.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

The Company uses hedge accounting to hedge against changes in the fair value of certain available-for-sale assets. Changes in the fair value of the hedging derivative financial instrument and changes associated with the hedged risk are recognized under "Net investment income". Changes in the fair value associated with the unhedged risk are recognized in other comprehensive income.

The designation of a hedging relationship is discontinued in the following cases: the hedged item or the hedging instrument is sold, matures or is terminated; the hedge is no longer effective; or the Company terminates the designation of the hedge. When a hedging relationship is discontinued, hedge accounting is discontinued prospectively.

Embedded derivatives

An embedded derivative is a component of a host contract that has the effect that some of the cash flows of the host contract vary in a way similar to a stand-alone derivative, according to an interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives must be separated from the host contract and recognized at fair value if: their economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, the embedded derivative has the same terms as a stand-alone derivative; or the host contract itself is not recognized at fair value in the Consolidated Statement of Net Income. Embedded derivatives that meet the definition of insurance contracts are measured and recognized as insurance contracts, including variable capital life and individual life insurance products, guaranteed minimum credit rates and segregated fund minimum guarantees.

Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require the Company to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

Financial guarantees are initially recognized as liabilities in the Consolidated Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

- i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in profit or loss;
- ii) The best estimate of cash outflows required to settle any financial obligation resulting from the guarantee.

If a financial guarantee meets the definition of a derivative, it is measured at fair value at each reporting date and presented as a liability under "Derivative financial instruments".

Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument. The carrying value of guarantees does not reflect the maximum potential amount of future payments under guarantees. The Company considers these guarantees as off-balance sheet credit instruments.

Fixed assets

Fixed assets consist of land and buildings occupied by the Company, computer hardware, furniture, fixtures and other items as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful lives using the straight-line method.

The depreciation expense for fixed assets is recognized under "Operating expenses" in the Consolidated Statement of Net Income.

Fixed assets are depreciated over the following useful lives:

	Depreciation periods
Land	Non-depreciable
Buildings	5 to 80 years
Computer equipment	2 to 5 years
Furniture, fixtures and other	2 to 20 years
Leasehold improvements	Expected term of the lease

The useful life of fixed assets is generally equal to their expected useful life. When an item of fixed assets is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Fixed assets are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains or losses on the disposal or sale of fixed assets are recognized under "Operating expenses" in the Consolidated Statement of Net Income for the year in which they are realized.

Intangible assets

Intangible assets include computer software acquired or developed by the Company and distribution networks. They are initially recognized at cost. Subsequent to initial recognition, they are measured at cost less any accumulated amortization and any impairment losses. Software is amortized on a straight-line basis over finite useful lives ranging from three to five years. Other intangible assets are amortized using the same method over finite useful lives ranging from 15 to 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Operating expenses" in the Consolidated Statement of Net Income upon derecognition of the asset.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method. At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Allocating goodwill to one or more CGUs requires the Company's management to make judgments. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Goodwill is tested for impairment once a year and when events or changes in circumstances indicate that its carrying amount may not be recoverable.

The goodwill impairment test is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale, less costs of disposal, in an arm's-length transaction. The value in use is calculated using the most appropriate method, generally by discounting estimated future cash flows. Measuring the recoverable amount requires management to make judgments.

When the recoverable amount is less than the carrying amount, an impairment loss is recognized in the Consolidated Statement of Net Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit (or the group). The allocation of the impairment loss to the assets of the CGU (or group of CGUs) must however not result in their carrying amount being lower than the highest of fair value of the assets less costs of disposal, value in use and zero.

Goodwill impairment losses cannot be reversed.

Note 2 **Basis of presentation and significant accounting policies (continued)**

Impairment of non-financial assets

At each reporting date, management determines whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use, which corresponds to the discounted value of recoverable future cash flows. Any impairment loss recognized in the Consolidated Statement of Net Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Consolidated Statement of Net Income in the period in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired requires management to 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.

Classification of insurance and investment contracts

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the Company agrees to compensate the contract holder if an uncertain future event specified in the contract adversely affects the contract holder. All contracts that do not meet the definition of an insurance contract under IFRS are classified as investment contracts or service contracts. Investment contracts are contracts that comprise a financial risk but no significant insurance risk. Contracts issued by the Company that transfer a significant insurance risk are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts". All other contracts issued by the Company are classified as investment contracts in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", or service contracts in accordance with IAS 18, "Revenue".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly while it is in force. However, an investment contract may be reclassified as an insurance contract after its issuance if the insurance risk it carries becomes significant.

Insurance and investment contract liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Under an Act respecting insurance, a life and health insurance company incorporated as a business corporation may transfer, in the normal course of its operations, comprehensive income attributable to participating contract holders to the shareholder's retained earnings. When such a transfer occurs, it is presented in the Consolidated Statement of Changes in Equity.

Insurance contract liabilities

Insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will enable the Company to provide for all commitments regarding estimated future benefits, contract holder dividends, taxes (other than income taxes) and related future expenses. The Company's appointed actuary is required to determine the actuarial liabilities needed to meet these commitments. Actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheet of the assets that back them.

The calculation of actuarial liabilities requires that assumptions be made with respect to the timing of many factors such as death, disability, investment income, inflation, policy cancellations, expenses, taxes, premiums, commissions and participating contract holders' dividends as well as the amounts they represent. The Company uses assumptions that are established using the best estimates for future underwriting experience, but some of these assumptions refer to events that are likely to occur in the distant future and therefore may need to be adjusted based on information received at a later date.

Under CALM, actuarial liabilities are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards.

Cash flows used in the actuarial valuation adjust the gross contract flows to reflect the projected flows from ceded reinsurance. The cash flow impact of ceded reinsurance varies depending on the ceded amount, the structure of reinsurance treaties, the expected economic benefits from the treaty cash flows and the impact of margins for adverse deviation.

The period used for the projection of cash flows is the contract lifetime for most insurance contracts. For certain types of contracts, a shorter projection period may be used. This period is, however, limited to the term of the liability over which the Company is exposed to significant risk without the ability to adjust contract premiums or charges.

Investment contract liabilities

Investment contract liabilities are recognized at amortized cost using the effective interest method. Amounts received from clients are initially recognized as liabilities in the Consolidated Balance Sheet. Subsequently, new amounts received and withdrawals are directly recorded as liability adjustments in the Consolidated Balance Sheet. The fair value of investment contracts disclosed in Note 6 is equal to the fair value of the assets backing these commitments.

Discretionary participation features

Certain of the Company's insurance contracts contain a discretionary participation feature that allows the contract holder to participate in the profitability related to these contracts. These contracts give the right to receive additional benefits as supplement to guaranteed benefits. The Company elected not to recognize the participating portion of these contracts separately. The amount of retained earnings and accumulated other comprehensive income attributable to these contracts is presented in equity in the Consolidated Balance Sheet.

As part of its participating fund surplus management policy, the Company transfers a portion of the surplus accumulated in this fund to the shareholder's account, "Transfer from the participating fund", and thereby affects the participating contract holders' account in accordance with the provisions of the Act respecting insurance.

Reinsurance

The Company enters into 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 with respect to large-scale catastrophic events. These reinsurance agreements do not release the Company from its obligations towards its contract holders. Premiums, benefits and changes in actuarial liabilities ceded to reinsurers are presented separately in the Consolidated Statement of Net Income.

The share of reinsurers in the insurance contract liabilities is presented under "Reinsurance assets" in the Consolidated Balance Sheet at the same time as the corresponding liabilities and using a basis consistent with those used to establish the corresponding liabilities.

The reinsurance assets are tested annually for impairment. If there is objective evidence that these assets are impaired as a result of an event that occurred after initial recognition, the Company reduces their carrying amount to their recoverable amount and recognizes the resulting loss in the Consolidated Statement of Net Income.

Securities sold short

Securities sold short, which represent the Company's commitments to deliver securities not owned by the Company at the time of sale, are recognized as liabilities held for trading and presented at fair value under "Other liabilities".

Long-term debt

Long-term debt is recognized at amortized cost using the effective interest method. The fair value disclosed in Note 6 is determined by discounting contractual cash flows at the current market interest rates for loans having similar terms and risks.

Preferred share liabilities

As the preferred shares issued by the Company give the shareholder the right to retract the shares, subject to certain restrictions, they are classified as financial liabilities rather than in equity attributable to the shareholder. Dividend payments are recognized as interest expense under "Operating expenses" in the Consolidated Statement of Net Income.

Accumulated other comprehensive income

Accumulated other comprehensive income is presented in equity, net of taxes. It includes unrealized gains and losses on available-for-sale investments, except for impairment losses and exchange gains and losses on monetary securities, which are recorded in the Consolidated Statement of Net Income.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Other non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value on the Consolidated Balance Sheet are translated at the exchange rate prevailing at the reporting date. Account balances appearing in the Consolidated Statement of Net Income are translated at the exchange rate prevailing on the transaction dates. Gains and losses, whether realized or not, arising from these translations are presented in the Consolidated Statement of Net Income, except for unrealized gains and losses on non-monetary financial instruments classified as available for sale, which are recognized in other comprehensive income.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that it can be measured reliably.

Gross premiums are recognized as revenue when they become due. As soon as these premiums are recognized, actuarial liabilities are established and recorded as liabilities to ensure the matching of revenue and expenses.

Other income is recognized when services are rendered. It consists mainly of fees received for managing the assets of segregated funds and Desjardins Funds, group contract administrative services and assistance services as well as commissions on mutual fund sales. Other income also includes fees related to reinsurance treaties and income from the design and administration of market-linked guaranteed investments.

Note 2 Basis of presentation and significant accounting policies (continued)

Other provisions

Provisions, other than those related to insurance liabilities, are liabilities of uncertain timing or amount. A provision is recognized when the Company has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on the Company's management's best estimate of the amounts required to settle the obligation on the reporting date, taking into account relevant uncertainties and risks. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in the Consolidated Statement of Net Income under the items corresponding to the nature of the expenditures covered.

Income taxes

The income tax expense represents the aggregate of the current income tax expense and deferred tax expense. The calculation of this expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes, the Company's management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Company's interpretation differs from that of the taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes may increase or decrease in subsequent years.

Current and deferred income taxes related to items recorded directly in equity are recognized in equity and not in the Consolidated Statement of Net income.

a) Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured using the amount that is expected to be recovered from or paid to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

b) Deferred income taxes

Deferred taxes are recognized using the liability method for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Consolidated Balance Sheet.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

- i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and
- ii) For differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these deductible temporary differences, tax loss carryforwards and unused tax credits can be utilized, except in the following cases:

- i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, when it occurs, affects neither accounting profit nor taxable profit (or tax loss); and
- ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it seems no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of these assets to be utilized. Unrecognized deferred tax assets are re-estimated at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the assets are realized or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

a) Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

b) Post-employment benefits

Pension and post-retirement benefit plans

The Company offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. In addition, it offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Consolidated Statement of Net Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Consolidated Statement of Net Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Consolidated Statement of Net Income and are immediately reclassified to retained earnings. Remeasurements of net defined benefit plan liabilities relate to actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets that is recognized in the Consolidated Statement of Net Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

Net pension plan and other post-retirement benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Consolidated Balance Sheet.

The Company participates in defined benefit group pension plans whose risks are shared by entities under common control. The Company's share in the cost recognized and the net liabilities for the defined benefit group pension plans of Desjardins Group is mainly determined based on the funding rules described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Company's share in the cost of the group other post-retirement benefit plans of Desjardins Group is determined based on the number of active insureds of the Company compared to the total number of active insureds for Desjardins Group as a whole.

Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by the Company for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by the Company. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Consolidated Balance Sheet. Investments are measured and recognized at fair value at the reporting date, which is determined using the methods prescribed for financial instruments. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders' rights to the segregated fund net assets is also recognized separately.

The Company's variable annuity contracts offered through segregated funds have minimal guarantees for death benefits, maturity value and withdrawals during the payout period. The liabilities associated with these guarantees is recognized under "Actuarial liabilities".

The Company earns income from segregated fund management fees. This income is recognized under "Other income" in the Consolidated Statement of Net Income. Investment income earned and expenses incurred by the segregated funds are not presented separately in the Consolidated Statement of Net Income; however, they increase or decrease segregated fund net assets and liabilities.

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

When the Company is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in the Consolidated Statement of Net Income for the year during which it is earned.

When the Company is the lessee, lease payments made under operating leases are recognized as an expense on a straight-line basis until the lease expires.

Note 2 **Basis of presentation and significant accounting policies (continued)**

Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2017 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The majority of the Company's will therefore not be affected by the adoption of this standard. IFRS 15 supersedes IAS 18, "Revenue", and related interpretations. The core principle of this standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services.

In April 2016, the IASB issued amendments to IFRS 15 to further clarify revenue recognition and transition provisions with respect to initial application.

The Company will have to adopt retrospectively IFRS 15 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 15 will be recognized in the opening Consolidated Balance Sheet. The Company decided not to restate comparative periods upon adopting the provisions of IFRS 15. Consequently, the retrospective impact of applying IFRS 15 will be recognized in the Consolidated Balance Sheet as at January 1, 2018, which is the effective date of the new standard.

Effective date: January 1, 2018

The Company believes that adopting IFRS 15 should not have a material impact.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets as well as the general requirements for hedge accounting. Concurrently with the issuance of IFRS 9, IFRS 7, "Financial Instruments: Disclosures", was amended to enhance the required qualitative and quantitative disclosures, which will have to be provided for the years beginning on or after January 1, 2018.

Effective date: January 1, 2018

The Company will have to adopt retrospectively IFRS 9 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 9 will be recognized in the opening Consolidated Balance Sheet. The Company decided not to restate comparative periods upon adopting the provisions of IFRS 9. Consequently, the retrospective impact of applying IFRS 9 will be recognized in the Consolidated Balance Sheet as at January 1, 2018, which is the effective date of the new standard on financial instruments.

The Company believes that adopting IFRS 9 should not have a material impact on total equity as at January 1, 2018.

Following is a summary of the new IFRS 9 concepts.

Classification and measurement

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified as at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held.

The classification of debt instruments giving rise to cash flows that are solely payments of principal and interest will be determined, at initial recognition, based on the business model for managing these financial assets:

- Financial assets held within a business model whose objective is to collect contractual cash flows will be classified as at amortized cost.
- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be classified as at fair value through other comprehensive income.
- Financial assets managed either for trading purposes or on a fair value basis will be classified as at fair value through profit or loss.

In all cases, if a debt instrument does not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest, the financial asset will be classified as at fair value through profit or loss.

Lastly, the Company may make, at initial recognition, an irrevocable election to classify a debt instrument as at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset and if regulatory requirements are met.

Equity instruments will be classified as at fair value through profit or loss unless, at initial recognition, an irrevocable election is made, on an instrument-by-instrument basis, to classify them as at fair value through other comprehensive income. If such election is made, gains and losses will be recognized in other comprehensive income with no subsequent reclassification to profit or loss.

Certain financial assets that will be reclassified upon adopting IFRS 9 will be designated for purposes of applying the overlay approach. For more details, see the section on IFRS 4, "Insurance Contracts", below.

Derivative financial instruments will continue to be recognized at fair value through profit or loss.

For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39, without any significant difference, except for financial liabilities designated as at fair value through profit or loss, for which the change in fair value related to a change in the issuing entity's own credit risk will have to be recognized in other comprehensive income. Since the Company does not hold any financial liabilities designated as at fair value through profit or loss at the transition date, the new standard will have no impact on the classification and measurement of financial liabilities.

Impairment

IFRS 9 introduces a new single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model requires. Under the current standard, loss allowances are recognized solely when there is objective evidence of impairment (identified on an individual or collective basis), which is when a loss event occurred after initial recognition, but before the reporting date, and this has an impact of the estimated cash flows from the financial asset. Under IFRS 9, credit losses will be recognized before a loss event occurs. The impairment model under IFRS 9 is therefore more forward-looking in nature than the current impairment model. Under IFRS 9, assessing changes in credit risk since initial recognition and estimating expected credit losses must take into account the relevant information available at the reporting date, including information about past events and current conditions, as well as reasonable and supportable forward-looking information about economic conditions and future events. In addition, loss allowances for expected credit losses will reflect an unbiased amount, based on a probability-weighted present value of cash flow shortfalls.

The impairment model applies to all financial assets as well as loan commitments and financial guarantee contracts, except financial instruments measured or designated as at fair value through profit or loss and those designated as at fair value through other comprehensive income. The new expected credit loss impairment model comprises three different stages: 1) for financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized; 2) for financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized; 3) for financial assets considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

The Company believes that applying the new financial asset impairment model should not have a material impact. The Company continues to refine its processes relating to the new impairment model in preparation for reporting its financial information for the first quarter of 2018.

Hedge accounting

IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities.

However, as permitted by IFRS 9, the Company decided to continue applying the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9. However, the new disclosures resulting from amendments to IFRS 7, "Financial Instruments: Disclosures", will have to be provided.

IFRS 4, "Insurance Contracts"

In September 2016, the IASB issued amendments to IFRS 4, "Insurance Contracts", which are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9, "Financial Instruments", which is January 1, 2018, and of new IFRS 17, "Insurance Contracts".

The amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options in connection with adopting IFRS 9: deferring the initial application date of IFRS 9 to January 1, 2021 or applying the overlay approach.

The Company elected to apply the overlay approach to financial assets that are eligible and designated in accordance with certain specific criteria. The overlay approach involves reclassifying between net income and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statement of Net Income under IFRS 9 and the amount that would have been reported in the Consolidated Statement of Net Income if the Company had continued to apply IAS 39 in such a way that net income related to designated financial instruments reported in the Consolidated Statement of Net Income correspond to the amount that would have been reported if the Company had continued to apply IAS 39.

The Company will have to adopt the amendments to IFRS 4 as at January 1, 2018, which is the date of initial application of IFRS 9. According to the transition approach used for adopting IFRS 9, the retrospective impact of the overlay approach will be recognized in the Consolidated Balance Sheet as at January 1, 2018 and comparative periods will not be restated.

For financial assets reclassified from the "Available for sale" category under IAS 39 to financial assets "Classified as at fair value through profit or loss" under IFRS 9 that have been designated for purposes of applying the overlay approach, the Company estimates that adopting the amendments to IFRS 4 should result in a reclassification of approximately \$190.0 M, after taxes, from "Retained earnings" to "Accumulated other comprehensive income" as at January 1, 2018.

Note 2 **Basis of presentation and significant accounting policies (continued)**

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace IAS 17, "Leases". IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases on the balance sheet, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar.

Effective date: January 1, 2019

The Company is currently assessing the impact of adopting IFRS 16.

IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace IFRS 4, "Insurance Contracts". IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on current value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as a separate liability and recognized in profit or loss over the contract term as services are provided.

Effective date: January 1, 2021

The Company is currently assessing the impact of adopting IFRS 17.

Note 3 Investments

A) Value of investments

	December 31, 2017						Consolidated Balance Sheet total
	At fair value through profit or loss		Available for sale	Loans and receivables	Other		
	Held for trading	Designated as at fair value through profit or loss					
Cash and money market securities	\$ —	\$ 590.3	\$ 520.6	\$ 417.2	\$ —	\$ —	\$ 1,528.1
Bonds							
Government	—	7,742.7	2,196.8	—	—	—	9,939.5
Corporate	—	3,437.5	673.3	—	—	—	4,110.8
	—	11,180.2	2,870.1	—	—	—	14,050.3
Mortgage and business loans							
Residential	—	—	—	1,984.1	—	—	1,984.1
Commercial	—	—	—	1,113.5	—	—	1,113.5
	—	—	—	3,097.6	—	—	3,097.6
Shares	0.8	1,681.0	1,149.2	—	—	—	2,831.0
Contract loans	—	—	—	184.8	—	—	184.8
Investment property	—	—	—	—	2,206.7	—	2,206.7
Investments accounted for using the equity method	—	—	—	—	549.0	—	549.0
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	188.6	—	—	188.6
Derivative financial instruments	155.6	—	—	—	—	—	155.6
Other loans and investments							
Term loans	—	—	—	9.6	—	—	9.6
Investments in segregated funds	—	—	35.1	—	—	—	35.1
Finance lease receivables	—	—	—	3.1	—	—	3.1
	\$ 156.4	\$ 13,451.5	\$ 4,575.0	\$ 3,900.9	\$ 2,755.7	\$ —	\$ 24,839.5

Note 3 Investments (continued)

	December 31, 2016						Consolidated Balance Sheet total
	At fair value through profit or loss		Available for sale	Loans and receivables	Other		
	Held for trading	Designated as at fair value through profit or loss					
Cash and money market securities	\$ —	\$ 214.3	\$ 251.4	\$ 399.8	\$ —	\$ —	\$ 865.5
Bonds							
Government	—	7,545.0	1,878.8	—	—	—	9,423.8
Corporate	—	3,039.4	541.1	—	—	—	3,580.5
	—	10,584.4	2,419.9	—	—	—	13,004.3
Mortgage and business loans							
Residential	—	—	—	2,054.3	—	—	2,054.3
Commercial	—	—	—	1,079.0	—	—	1,079.0
	—	—	—	3,133.3	—	—	3,133.3
Shares	—	1,379.1	1,092.0	—	—	—	2,471.1
Contract loans	—	—	—	188.4	—	—	188.4
Investment property	—	—	—	—	2,060.4	—	2,060.4
Investments accounted for using the equity method	—	—	—	—	462.4	—	462.4
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	438.3	—	—	438.3
Derivative financial instruments	310.3	—	—	—	—	—	310.3
Other loans and investments							
Investments in segregated funds	—	—	36.3	—	—	—	36.3
Finance lease receivables	—	—	—	3.1	—	—	3.1
	\$ 310.3	\$ 12,177.8	\$ 3,799.6	\$ 4,162.9	\$ 2,522.8	\$ —	\$ 22,973.4

Government bonds and bonds rated A or higher represent 84.7% (83.4% as at December 31, 2016) of the bond portfolio.

	December 31, 2017	December 31, 2016
Government	\$ 9,939.5	\$ 9,423.8
AAA	28.9	55.3
AA	434.2	286.9
A	1,492.2	1,085.3
BBB	1,973.9	1,986.1
BB and lower	181.6	166.9
	\$ 14,050.3	\$ 13,004.3

As at December 31, the carrying amount of bonds as well as mortgage and business loans by contractual term to maturity is as follows:

	2017		2016	
	Bonds	Mortgage and business loans	Bonds	Mortgage and business loans
1 year or less	\$ 325.2	\$ 384.9	\$ 209.9	\$ 273.1
Over 1 to 5 years	1,583.9	649.1	1,684.3	848.9
Over 5 to 10 years	2,114.3	915.1	2,157.4	893.6
Over 10 years	10,026.9	1,148.5	8,952.7	1,117.7
Total	\$ 14,050.3	\$ 3,097.6	\$ 13,004.3	\$ 3,133.3

The weighted average effective interest rate is 3.8% for bonds (3.9% as at December 31, 2016) and 4.3% for mortgage and business loans (4.5% as at December 31, 2016).

B) Allowances for investments

Allowances for non-performing investments

Non-performing investments amount to \$5.5M (\$1.6M as at December 31, 2016) and allowances of \$5.5M (\$1.6M as at December 31, 2016) have been set up for such investments.

C) Investment property

The following table shows changes in investment property.

	2017	2016
Balance at beginning	\$ 2,060.4	\$ 1,761.0
Additions	49.7	204.0
Disposals	(1.0)	(14.7)
Change in fair value	76.8	65.6
Change in lease incentives	17.9	6.8
Transfers from (into) fixed assets and other ¹	2.9	37.7
Balance at end	\$ 2,206.7	\$ 2,060.4

1. For 2017, an amount of \$1.1M (\$31.8M in 2016) is included with respect to the revaluation of properties that were transferred from fixed assets.

For the year ended December 31, 2017, rental income from investment property amounted to \$226.2M (\$216.0M in 2016). Amounts recognized in net income as operating expenses for property that generated rental income during the period totalled \$115.6M (\$114.9M in 2016).

As at December 31, 2017, no amounts were included in the buildings balance for costs related to buildings under construction (\$7.0M as at December 31, 2016).

As at December 31, 2017, the Company had commitments of \$12.2M (\$28.6M as at December 31, 2016) related to the improvement of investment property.

Note 3 Investments (continued)

D) Net investment income

	2017				2016			
	At fair value through profit or loss ¹	Available for sale	Other	Total	At fair value through profit or loss ²	Available for sale	Other	Total
Cash and short-term investments	\$ 1.4	\$ 0.9	\$ 6.6	\$ 8.9	\$ 1.8	\$ 1.0	\$ 4.8	\$ 7.6
Bonds								
Interest	392.6	74.5	—	467.1	382.1	73.5	—	455.6
Gains (losses)	496.4	6.6	—	503.0	(100.1)	27.0	—	(73.1)
Mortgage and business loans	—	—	131.6	131.6	—	—	135.2	135.2
Shares								
Dividends	37.7	25.7	—	63.4	32.5	39.4	—	71.9
Gains (losses)	139.6	108.2	—	247.8	94.3	60.8	—	155.1
Impairment loss	—	(2.5)	—	(2.5)	—	(6.0)	—	(6.0)
Contract loans	—	—	12.3	12.3	—	—	12.5	12.5
Investment property ³	—	—	187.4	187.4	—	—	164.4	164.4
Share of profit or loss of investments accounted for using the equity method	—	—	63.9	63.9	—	—	43.8	43.8
Securities lending	—	—	(1.6)	(1.6)	—	—	2.1	2.1
Derivative financial instruments	(93.3)	—	—	(93.3)	(29.4)	—	—	(29.4)
Other loans and investments	—	1.7	0.3	2.0	—	4.6	(0.5)	4.1
Investment management fees	—	—	(28.3)	(28.3)	—	—	(19.5)	(19.5)
Exchange differences recognized in net income, except those arising from the fair value measurement of financial instruments through profit or loss	—	(1.8)	(2.7)	(4.5)	—	(0.6)	(1.4)	(2.0)
Total net investment income	\$ 974.4	\$ 213.3	\$ 369.5	\$ 1,557.2	\$ 381.2	\$ 199.7	\$ 341.4	\$ 922.3

1. Includes gains (losses) of \$(123.2)M on assets held for trading and gains (losses) of \$630.2M on assets designated as at fair value through profit or loss.

2. Includes gains (losses) of \$(65.9)M on assets held for trading and gains (losses) of \$(8.8)M on assets designated as at fair value through profit or loss.

3. Investment property income is presented net of operating expenses, including the amortization of certain costs.

	2017	2016
Net investment income excluding the item below	\$ 1,112.8	\$ 1,013.7
Change in fair value set off against actuarial liabilities	444.4	(91.4)
Total net investment income	\$ 1,557.2	\$ 922.3

E) Financial assets transferred but not derecognized

As part of transactions involving securities lent or sold under repurchase agreements, the Company transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Consolidated Balance Sheet as the Company retains substantially all the risks and rewards related to these assets.

The carrying amount of such financial assets transferred and related liabilities recognized in the Consolidated Balance Sheet was \$685.0M and \$690.9M, respectively (\$541.0M and \$538.9M as at December 31, 2016), and their fair value was equal to that amount.

Note 4 Interests in other entities

Subsidiaries

The main subsidiaries included in the Company's scope of consolidation have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by the Company in each of them:

Name of subsidiary	Nature of operations	As at December 31, 2017 ¹	As at December 31, 2016
Desjardins Financial Security Investments Inc. ²	Mutual fund and life and health insurance brokerage	100%	100%
Assistel Inc.	Assistance services	100%	100%
Ducani SEC	Commercial buildings	100%	100%
9188-4247 Québec Inc.	Emphyteutic lease for land	100%	100%
Desjardins Investments Inc.	Design and administration of savings products	100%	100%
Desjardins Investment Product Operations Inc.	Processing and administration of savings and investment accounts for specialized products	100%	100%
Desjardins Independent Network Insurance Inc. ²	Insurance brokerage and segregated fund distribution	100%	—
Laurentienne-Weloga, LP	Real estate development and holdings	65%	65%

1. Represents also the proportion of voting rights held by the Company.

2. On May 1, 2017, the insurance brokerage and segregated fund distribution operations of Desjardins Financial Security Investments Inc. were transferred to another subsidiary, Desjardins Independent Network Insurance Inc.

Joint operation

During fiscal 2016, the Company entered into a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Quebec. This joint arrangement is a joint operation giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests. The Company has an ownership interest of 50% in the arrangement. All decisions about the relevant activities require the unanimous consent of the joint operators. This joint operation has been incorporated in Canada and its principal place of business is in this country.

Joint ventures

RPADS LP, an entity that acquires and develops real estate portfolios, is the Company's most significant joint venture. RPADS was incorporated in Canada, where its principal place of business is located. The other joint ventures are real estate management and investment companies and are also incorporated and based in Canada.

In 2017, RPADS LP did not acquire any investment property (acquired investment property for \$113.1M in 2016).

The following tables present summarized financial information about the main joint ventures, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by the Company when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	2017					2016				
	RPADS	Primus Immobilia	101 St. Clair	Western Canada Shopping Centres	Total	RPADS	Primus Immobilia	101 St. Clair	Western Canada Shopping Centres	Total
Percentage ownership interest	50.1%	85.0%	60.0%	28.46%		50.1%	85.0%	60.0%	28.46%	
Assets	\$ 744.7	\$ 50.2	\$ 116.0	\$ 357.6	\$ 1,268.5	\$ 637.2	\$ 48.3	\$ 88.1	\$ 338.4	\$ 1,112.0
Liabilities	37.4	0.8	5.5	183.9	227.6	48.1	0.9	4.3	189.0	242.3
Equity	707.3	49.4	110.5	173.7	1,040.9	589.1	47.4	83.8	149.4	869.7
Interest in the joint venture ¹	\$ 354.4	\$ 42.0	\$ 66.3	\$ 49.4	\$ 512.1	\$ 295.1	\$ 40.3	\$ 50.3	\$ 42.5	\$ 428.2

1. Represents the carrying amount of the interest in the joint venture presented in the Consolidated Balance Sheet.

Note 4 Interests in other entities (continued)

For the years ended	December 31, 2017					December 31, 2016				
	RPADS	Primus Immobilias	101 St. Clair	Western Canada Shopping Centres	Total	RPADS	Primus Immobilias	101 St. Clair	Western Canada Shopping Centres	Total
Income	\$ 152.0	\$ 5.6	\$ —	\$ 46.9	\$ 204.5	\$ 107.0	\$ 5.3	\$ —	\$ 18.8	\$ 131.1
Operating and other expenses	55.1	2.2	—	20.8	78.1	46.3	2.0	—	7.5	55.8
Net income and comprehensive income for the year	\$ 96.9	\$ 3.4	\$ —	\$ 26.1	\$ 126.4	\$ 60.7	\$ 3.3	\$ —	\$ 11.3	\$ 75.3

Unconsolidated structured entities

The Company holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns of these funds as a result of the units held in these funds, these units do not give the Company power over the relevant activities of these funds. Accordingly, the Company does not control these funds, which are considered as unconsolidated structured entities.

Investments are made pursuant to a diversified investment policy, and the nature of the operations of these mutual funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. The Company's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

Note 5 Derivative financial instruments and hedging activities

The Company uses derivative financial instruments primarily to manage the matching of assets and liabilities, to protect itself against market, interest rate and foreign exchange rate fluctuations and to reduce the market risk associated with the sale of certain products. These instruments may also be used by the Company to obtain a desired exposure to the underlying position for the contracts, such as stock market exposure, and to express certain market views.

These derivative financial instruments, which are limited to contracts in the form of swaps, forwards, futures and call or put options, are used to manage risks within the constraints imposed by the Company's general investment policy, general policy on derivative instruments, matching policy, liquidity policy and by the maximum amount of acceptable risk it is allowed to manage.

The use of interest rate contracts to manage matching allows the Company to control its exposure to interest rate fluctuations while making it possible to realign its business segments and achieve optimum long-term returns within well-defined parameters.

The Company uses credit risk contracts to gain exposure to corporate credit, as part of its asset and liability matching strategy.

The Company uses foreign exchange contracts to manage the foreign exchange risk associated with its investments denominated in foreign currencies. Some of these contracts are designated as hedging items.

Total return swaps are also used to reduce the risk of fluctuations associated with specific policyholder liabilities.

Stock index futures are used in a hedging strategy to offset the market risk associated with the Company's segregated funds.

The following tables present the notional amount, fair value and credit risk of the Company's derivative financial instruments as at December 31, 2017 and 2016. Fair value, which has been estimated and compared with prices received from counterparties, includes accrued income.

	2017							
	Notional amount				Fair value			
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Total	Credit risk equivalent ²	Risk-weighted amount ³
Held for trading								
Interest rate contracts	\$ 460.0	\$ 1,410.3	\$ 2,320.4	\$ 4,190.7	\$ 133.9	\$ 40.5	\$ 175.8	\$ 35.2
Credit risk contracts	—	615.8	—	615.8	13.1	11.3	13.1	2.6
Foreign exchange contracts	808.3	—	—	808.3	13.8	11.6	21.8	4.4
Total return swaps	10.8	28.3	3.9	43.0	2.9	1.3	6.2	1.2
Futures	1,048.0	—	—	1,048.0	—	—	—	—
	2,327.1	2,054.4	2,324.3	6,705.8	163.7	64.7	216.9	43.4
Designated as fair value hedging items								
Foreign exchange contracts ¹	14.9	—	—	14.9	0.2	0.2	0.4	0.1
Subtotal, including accrued interest	2,342.0	2,054.4	2,324.3	6,720.7	163.9	64.9	217.3	43.5
Less accrued interest	—	—	—	—	8.3	4.9	—	—
Total	\$ 2,342.0	\$ 2,054.4	\$ 2,324.3	\$ 6,720.7	\$ 155.6	\$ 60.0	\$ 217.3	\$ 43.5

1. For the year ended December 31, 2017, no amounts related to fair value hedging activities were recognized under "Net investment income". This corresponded to a loss on hedging instruments of \$0.8M and a gain on hedged items of \$0.8M.

2. The credit risk equivalent is the sum of the replacement cost and the future credit exposure. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. The future credit exposure is an estimate of the potential increase in replacement cost over the remaining term of the contracts, as calculated using a formula established by the Autorité des marchés financiers (AMF).

3. The risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the AMF.

	2016							
	Notional amount				Fair value			
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Total	Credit risk equivalent ²	Risk-weighted amount ³
Held for trading								
Interest rate contracts	\$ 270.0	\$ 1,178.0	\$ 2,725.5	\$ 4,173.5	\$ 308.4	\$ 241.4	\$ 355.1	\$ 71.0
Credit risk contracts	—	577.4	—	577.4	8.9	8.9	8.9	1.8
Foreign exchange contracts	586.7	—	—	586.7	3.8	(0.5)	9.7	2.0
Total return swaps	9.8	22.5	3.5	35.8	3.3	2.4	6.1	1.2
Futures	1,068.5	—	—	1,068.5	—	—	—	—
	1,935.0	1,777.9	2,729.0	6,441.9	324.4	252.2	379.8	76.0
Designated as fair value hedging items								
Foreign exchange contracts ¹	4.8	—	—	4.8	—	—	—	—
Subtotal, including accrued interest	1,939.8	1,777.9	2,729.0	6,446.7	324.4	252.2	379.8	76.0
Less accrued interest	—	—	—	—	14.1	9.9	—	—
Total	\$ 1,939.8	\$ 1,777.9	\$ 2,729.0	\$ 6,446.7	\$ 310.3	\$ 242.3	\$ 379.8	\$ 76.0

1. For the year ended December 31, 2016, no amounts related to fair value hedging activities were recognized under "Net investment income". This corresponded to a loss on hedging instruments of \$0.1M and a gain on hedged items of \$0.1M.

2. The credit risk equivalent is the sum of the replacement cost and the future credit exposure. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. The future credit exposure is an estimate of the potential increase in replacement cost over the remaining term of the contracts, as calculated using a formula established by the AMF.

3. The risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the AMF.

Note 6 Fair value measurement

The Company measures certain financial and non-financial instruments at fair value.

The fair value is based on market prices when available. When there is no market to trade a financial or non-financial instrument, the Company uses the valuation techniques described in Note 2.

For each asset and liability category, the Company classifies the fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than the quoted prices used in Level 1 that are observable, either directly or indirectly, for the assets or liabilities. This level includes financial instruments whose fair value was established primarily using valuation techniques that are based on observable inputs or inputs that can be corroborated by observable inputs.

Level 3: Inputs related to assets or liabilities that are not based on observable market inputs. This level includes financial assets and liabilities whose fair value was established using valuation techniques based on estimates made by the Company.

Observable inputs are derived from independent sources. Unobservable inputs represent the Company's management best estimates as to the assumptions that would be used by market participants to determine the fair value of financial assets and liabilities as at December 31, 2017.

Fair value measurements are categorized based on the lowest level input that is significant to the entire fair value measurement.

Hierarchy of financial instruments measured at fair value

The following tables present the hierarchy for assets and liabilities measured at fair value in the Consolidated Balance Sheet as at December 31.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS								
Money market securities	\$ 5.5	\$ 515.1	\$ —	\$ 520.6	\$ 10.0	\$ 241.4	\$ —	\$ 251.4
Bonds								
Government	2,182.9	6.9	—	2,189.8	1,858.1	16.2	—	1,874.3
Corporate	—	577.9	95.4	673.3	—	440.2	100.9	541.1
Shares	906.1	228.4	14.7	1,149.2	885.9	200.4	5.2	1,091.5
Other loans and investments	35.1	—	—	35.1	36.3	—	—	36.3
Available for sale	3,129.6	1,328.3	110.1	4,568.0	2,790.3	898.2	106.1	3,794.6
Shares	0.8	—	—	0.8	—	—	—	—
Derivative financial instruments	—	155.6	—	155.6	—	310.3	—	310.3
Held for trading	0.8	155.6	—	156.4	—	310.3	—	310.3
Money market securities	54.8	535.5	—	590.3	53.4	160.9	—	214.3
Bonds								
Government	7,218.0	524.7	—	7,742.7	6,971.4	573.6	—	7,545.0
Corporate	—	2,522.7	914.8	3,437.5	—	1,998.0	1,041.4	3,039.4
Shares	1,195.0	236.5	249.5	1,681.0	1,047.9	227.3	103.9	1,379.1
Designated as at fair value through profit or loss	8,467.8	3,819.4	1,164.3	13,451.5	8,072.7	2,959.8	1,145.3	12,177.8
Money market securities	—	286.4	—	286.4	—	286.4	—	286.4
Loans and receivables	—	286.4	—	286.4	—	286.4	—	286.4
Investment property	—	—	2,206.7	2,206.7	—	—	2,060.4	2,060.4
Total	\$ 11,598.2	\$ 5,589.7	\$ 3,481.1	\$ 20,669.0	\$ 10,863.0	\$ 4,454.7	\$ 3,311.8	\$ 18,629.5
FINANCIAL LIABILITIES								
Derivative financial instruments	\$ —	\$ 95.6	\$ —	\$ 95.6	\$ —	\$ 68.0	\$ —	\$ 68.0
Other liabilities								
Securities sold short	0.8	—	—	0.8	—	—	—	—
Held for trading	\$ 0.8	\$ 95.6	\$ —	\$ 96.4	\$ —	\$ 68.0	\$ —	\$ 68.0

According to the Company's policy, transfers between fair value hierarchy levels are made at the reporting date.

In 2017, bonds with a carrying amount of \$62.3M (\$144.1M in 2016) were transferred from Level 1 to Level 2 as quoted prices were not available.

In 2017, bonds with a carrying amount of \$156.8M (nil in 2016) were transferred from Level 2 to Level 1 as quoted prices became available.

The carrying amount of certain financial instruments represents a reasonable approximation of fair value due to their short-term maturity and other characteristics. These financial instruments include the following: "Cash"; "Contract loans"; "Securities borrowed or purchased under reverse repurchase agreements"; some items included in "Other assets"; "Commitments related to securities lent or sold under repurchase agreements"; some items included in "Other liabilities" and "Preferred share liabilities".

Hierarchy of financial instruments whose carrying amount does not equal fair value

The following table presents, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

	2017		2016	
	Carrying amount	Fair value (Level 3)	Carrying amount	Fair value (Level 3)
Assets				
Mortgage and business loans				
Residential	\$ 1,984.1	\$ 2,080.1	\$ 2,054.3	\$ 2,196.5
Commercial	1,113.5	1,162.7	1,079.0	1,138.3
Total	3,097.6	3,242.8	3,133.3	3,334.8
Liabilities				
Investment contract liabilities	79.4	83.8	75.6	78.0
Other liabilities				
Long-term debt	14.9	14.7	15.5	15.2
Total	\$ 94.3	\$ 98.5	\$ 91.1	\$ 93.2

Fair value of assets and liabilities categorized within Level 3

Valuation process for assets categorized within Level 3

The Company has implemented various key controls and procedures to ensure that assets categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

For mortgage bonds, the Company developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers who use the normalized net income direct discounting and cash flow discounting techniques, which are accepted methods that comply with valuation standards in the real estate industry. These valuation methods are described in detail in Note 2f. The fair values established are generally compared with those for recent market transactions to ensure that they are reasonable. Investment property is used in its highest and best use (i.e. in a manner that maximizes its value).

Sensitivity of assets categorized within Level 3

The Company performs sensitivity analyses to measure the fair value of assets categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of assets categorized within Level 3.

Note 6 Fair value measurement (continued)

Valuation techniques and inputs used to measure the fair value of assets categorized within Level 3

The following tables present the main valuation techniques and the inputs used to measure the fair value of assets categorized within Level 3.

	2017			
	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Assets				
Mortgage bonds	\$ 1,010.2	Discounted cash flows	Credit spread ^{A, B} Comparable inputs ^{A, B}	0 pb to 300 pb 0 pb to 410 pb
Shares	264.2	Adjusted net value of the assets valued by the fund administrator	Adjusted net value of the assets valued by the fund administrator	N/A
Investment property	2,206.7	Discounted cash flows Normalized net income direct discounting	Discount and capitalization rates ^A Direct capitalization rate ^A	5.63% to 9.00% 3.75% to 4.25%
Total assets	\$ 3,481.1			

	2016			
	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Assets				
Mortgage bonds	\$ 1,142.3	Discounted cash flows	Credit spread ^{A, B} Comparable inputs ^{A, B}	0 pb to 300 pb 0 pb to 520 pb
Shares	109.1	Adjusted net value of the assets valued by the fund administrator	Adjusted net value of the assets valued by the fund administrator	N/A
Investment property	2,060.4	Discounted cash flows Normalized net income direct discounting	Discount and capitalization rates ^A Direct capitalization rate ^A	5.62% to 9.00% 4.15%
Total assets	\$ 3,311.8			

Fair value sensitivity to change in unobservable inputs

- A.** An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
- B.** There is no predictable relationship between this input and other material unobservable inputs.

Changes in fair value of assets categorized within Level 3

The following table presents the changes in fair value of assets categorized within Level 3 of the hierarchy, namely assets whose fair value is determined using valuation techniques not based mainly on observable market inputs.

	Available-for-sale assets			Assets designated as at fair value through profit or loss				Total
	Corporate bonds	Corporate mortgage bonds	Shares	Corporate bonds	Corporate mortgage bonds	Shares	Investment property	
Balance as at December 31, 2015	\$ 0.4	\$ 105.5	\$ 0.2	\$ —	\$ 1,115.3	\$ 74.7	\$ 1,761.0	\$ 3,057.1
Realized gains (losses) recognized in profit or loss ¹	—	—	—	—	—	0.5	—	0.5
Unrealized gains (losses) recognized in profit or loss ¹	—	—	—	—	(21.4)	(1.0)	65.6	43.2
Unrealized gains (losses) recognized in other comprehensive income ²	—	(2.0)	0.3	—	—	—	31.8	30.1
Purchases/Issuances	—	—	9.0	—	12.8	48.3	204.0	274.1
Sales/Settlements	(0.4)	(2.6)	(4.3)	—	(65.3)	(18.6)	(14.7)	(105.9)
Other	—	—	—	—	—	—	12.7	12.7
Balance as at December 31, 2016	\$ —	\$ 100.9	\$ 5.2	\$ —	\$ 1,041.4	\$ 103.9	\$ 2,060.4	\$ 3,311.8
Realized gains (losses) recognized in profit or loss ¹	—	—	(0.2)	—	—	(1.2)	1.0	(0.4)
Unrealized gains (losses) recognized in profit or loss ¹	—	—	—	—	(23.9)	12.8	76.8	65.7
Unrealized gains (losses) recognized in other comprehensive income ²	—	(2.8)	(0.5)	—	—	—	1.1	(2.2)
Purchases/Issuances	—	—	13.7	—	—	171.7	49.7	235.1
Sales/Settlements	—	(2.7)	(3.5)	—	(102.7)	(37.7)	(1.0)	(147.6)
Other	—	—	—	—	—	—	18.7	18.7
Balance as at December 31, 2017	\$ —	\$ 95.4	\$ 14.7	\$ —	\$ 914.8	\$ 249.5	\$ 2,206.7	\$ 3,481.1

1. These amounts are presented under "Net investment income" in the Consolidated Statement of Net Income.

2. For available-for-sale assets, these amounts are presented under "Unrealized gains on available-for-sale assets" in the Consolidated Statement of Comprehensive Income.

Note 7 Offsetting financial assets and liabilities

A financial asset and a financial liability must be offset in the Consolidated Balance Sheet when the Company has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements. These agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Consolidated Balance Sheet are met.

In addition, over-the-counter derivatives subject to the International Swaps and Derivatives Association's master netting agreements (ISDA agreements) do not meet the criteria for offsetting in the Consolidated Balance Sheet as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, the Company pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into with exchanges and clearing houses through brokers. These agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet as they give a right to set off that is enforceable only in the normal course of business.

Note 7 Offsetting financial assets and liabilities (continued)

The following tables present information about financial assets and liabilities that are not set off in the Consolidated Balance Sheet and are subject to a master netting agreement or a similar agreement.

	Gross amounts presented in the Consolidated Balance Sheet ¹	Associated amounts not set off in the Consolidated Balance Sheet		
		Financial instruments ²	Financial collateral held/pledged	Residual amounts not set off
December 31, 2017				
Financial assets				
Securities borrowed or purchased under reverse repurchase agreements	\$ 188.6	\$ 152.6	\$ 36.0	\$ —
Derivative financial instruments	163.9	57.6	100.8	5.5
Other	7.1	4.7	—	2.4
Total financial assets	\$ 359.6	\$ 214.9	\$ 136.8	\$ 7.9
Financial liabilities				
Commitments related to securities lent or sold under repurchase agreements	\$ 690.9	\$ 152.5	\$ 538.4	\$ —
Derivative financial instruments	99.0	57.6	41.4	—
Other	4.8	4.8	—	—
Total financial liabilities	\$ 794.7	\$ 214.9	\$ 579.8	\$ —

1. The Company does not set off financial instruments.

2. Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

	Gross amounts presented in the Consolidated Balance Sheet ¹	Associated amounts not set off in the Consolidated Balance Sheet		
		Financial instruments ²	Financial collateral held/pledged	Residual amounts not set off
December 31, 2016				
Financial assets				
Securities borrowed or purchased under reverse repurchase agreements	\$ 438.3	\$ 410.4	\$ 27.9	\$ —
Derivative financial instruments	324.4	41.5	273.0	9.9
Other	3.9	3.9	—	—
Total financial assets	\$ 766.6	\$ 455.8	\$ 300.9	\$ 9.9
Financial liabilities				
Commitments related to securities lent or sold under repurchase agreements	\$ 538.9	\$ 410.4	\$ 128.5	\$ —
Derivative financial instruments	72.2	41.5	30.7	—
Other	5.1	3.9	—	1.2
Total financial liabilities	\$ 616.2	\$ 455.8	\$ 159.2	\$ 1.2

1. The Company does not set off financial instruments.

2. Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

The financial collateral received and pledged presented in the above tables excludes overcollateralization and, for exchange-traded derivatives, the initial margin. Including initial margin and overcollateralization, the total value of financial collateral received for securities borrowed or purchased under reverse repurchase agreements was \$188.2M (\$440.6M as at December 31, 2016) and \$123.4M (\$276.3M as at December 31, 2016) for derivative financial instruments.

The Company pledged \$685.0M (\$543.1M as at December 31, 2016) as collateral for commitments related to securities lent or sold under repurchase agreements and \$135.2M (\$144.0M as at December 31, 2016) for derivative financial instrument liabilities.

Note 8 Reinsurance assets

Composition of reinsurance assets

	December 31, 2017	December 31, 2016
Actuarial liabilities	\$ 975.0	\$ 924.9
Provisions for benefits, dividends and experience refunds	4.2	4.6
Total reinsurance assets	\$ 979.2	\$ 929.5

Refer to Note 12 for an explanation of the main changes in actuarial assumptions.

Note 9 Fixed assets

Fixed assets are detailed as follows:

	December 31, 2017			
	Land	Buildings	Other	Total
Cost	\$ 4.5	\$ 82.7	\$ 61.0	\$ 148.2
Accumulated depreciation	—	27.9	45.6	73.5
Net value	\$ 4.5	\$ 54.8	\$ 15.4	\$ 74.7

	December 31, 2016			
	Land	Buildings	Other	Total
Cost	\$ 5.0	\$ 84.7	\$ 63.2	\$ 152.9
Accumulated depreciation	—	26.3	43.4	69.7
Net value	\$ 5.0	\$ 58.4	\$ 19.8	\$ 83.2

As at December 31, 2017 and 2016, no amounts were included in the buildings balance for costs related to buildings under construction.

As at December 31, 2017 and 2016, the Company had no commitments related to the improvement of fixed assets.

Note 10 Other assets

	December 31, 2017	December 31, 2016
Premiums receivable	\$ 258.8	\$ 248.8
Accounts receivable and other	305.9	312.0
Accrued net investment income	85.9	85.9
Intangible assets	72.4	79.1
Goodwill	17.6	17.6
	\$ 740.6	\$ 743.4

Intangible assets and goodwill

	December 31, 2017				
	Software	Distribution networks	Other ¹	Total intangible assets	Goodwill
Cost	\$ 37.0	\$ 34.7	\$ 42.6	\$ 114.3	\$ 17.6
Accumulated amortization and impairment losses	22.1	14.9	4.9	41.9	—
Net value	\$ 14.9	\$ 19.8	\$ 37.7	\$ 72.4	\$ 17.6

1. Amount related to the acquisition of the insurance contract portfolios related to the Canadian businesses of State Farm.

	December 31, 2016				
	Software	Distribution networks	Other ¹	Total intangible assets	Goodwill
Cost	\$ 34.3	\$ 34.8	\$ 42.6	\$ 111.7	\$ 17.6
Accumulated amortization and impairment losses	17.3	12.0	3.3	32.6	—
Net value	\$ 17.0	\$ 22.8	\$ 39.3	\$ 79.1	\$ 17.6

1. Amount related to the acquisition of the insurance contract portfolios related to the Canadian businesses of State Farm.

Note 11 Segregated funds

The Company gives contract holders the opportunity to invest in various types of segregated funds. The fund type depends on the composition of its investments. The following table shows the breakdown, as a percentage, of segregated fund net assets by fund type offered for the years ended December 31.

	2017	2016
Fund type		
Money market	1%	1%
Fixed income	11%	10%
Balanced	63%	64%
Equity	25%	25%
	100%	100%

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	December 31, 2017	December 31, 2016
Investments		
Money market securities	\$ 45.1	\$ 37.1
Bonds	541.2	523.2
Shares and mutual fund units	12,789.1	11,418.0
Securities borrowed or purchased under reverse repurchase agreements	32.2	26.8
Other assets	73.8	121.2
Commitments related to securities lent or sold under repurchase agreements	(32.3)	(26.7)
Other liabilities	(63.2)	(113.2)
Net assets held for segregated fund contract holders	13,385.9	11,986.4
Assets held for the Company	(31.5)	(29.6)
Total segregated fund net assets	\$ 13,354.4	\$ 11,956.8

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. For each financial instrument category, the Company categorizes the fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the measurements. A description of these hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 6.

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following: "Other assets"; "Securities borrowed or purchased under reverse repurchase agreements"; "Commitments related to securities lent or sold under repurchase agreements" and "Other liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments				
Money market securities	\$ 35.9	\$ 9.2	\$ —	\$ 45.1
Bonds	305.4	235.8	—	541.2
Shares and mutual fund units	5,517.5	7,211.3	60.3	12,789.1
Total financial instruments recognized at fair value	\$ 5,858.8	\$ 7,456.3	\$ 60.3	\$ 13,375.4

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
Money market securities	\$ 25.8	\$ 11.3	\$ —	\$ 37.1
Bonds	301.3	221.6	0.3	523.2
Shares and mutual fund units	5,004.0	6,393.9	20.1	11,418.0
Total financial instruments recognized at fair value	\$ 5,331.1	\$ 6,626.8	\$ 20.4	\$ 11,978.3

No transfers attributable to changes in the observability of market data were made between fair value measurement hierarchy levels during the years ended December 31, 2017 and 2016.

Financial assets transferred and not derecognized

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Consolidated Balance Sheet as the segregated funds retain substantially all the risks and rewards related to these assets.

The carrying amount of such financial assets transferred and related liabilities recognized in the Consolidated Balance Sheet was \$32.2M and \$32.3M, respectively (\$26.8M and \$26.7M as at December 31, 2016), and their fair value was equal to that amount.

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to \$32.2M (\$26.8M as at December 31, 2016). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled \$6.6M (\$19.2M as at December 31, 2016). Financial assets held as collateral that have been sold or repledged totalled \$0.1M (nil as at December 31, 2016).

These financial assets were received as collateral as part of transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

The Company is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Insurance risk

For more information, refer to Note 12d), "Insurance risk management – Segregated fund risk management".

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	2017	2016
Balance at beginning – Net liabilities to segregated fund contract holders	\$ 11,986.4	\$ 9,804.5
Additions		
Amounts received from contract holders	1,839.5	2,810.9
Net investment income ¹	1,183.2	803.7
	3,022.7	3,614.6
Deductions		
Redemptions and withdrawals	1,477.6	1,297.3
Management fees	145.6	135.4
	1,623.2	1,432.7
Balance at end – Net liabilities to segregated fund contract holders	13,385.9	11,986.4
Liabilities to the Company	(31.5)	(29.6)
Total segregated fund net liabilities	\$ 13,354.4	\$ 11,956.8

1. Includes realized and unrealized gains and losses on investments.

Note 12 Insurance contract liabilities

A) Composition of actuarial liabilities

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts:

	December 31, 2017				December 31, 2016			
	Group insurance	Individual insurance	Savings	Total	Group insurance	Individual insurance	Savings	Total
Gross actuarial liabilities								
Non-participating policies	\$ 3,940.8	\$ 5,992.4	\$ 4,686.4	\$ 14,619.6	\$ 3,742.7	\$ 5,591.1	\$ 4,577.4	\$ 13,911.2
Participating policies	40.4	3,971.9	205.6	4,217.9	40.6	3,602.2	207.4	3,850.2
	3,981.2	9,964.3	4,892.0	18,837.5	3,783.3	9,193.3	4,784.8	17,761.4
Amounts ceded to reinsurers	(177.2)	(795.1)	(2.7)	(975.0)	(167.2)	(754.4)	(3.3)	(924.9)
Net actuarial liabilities	\$ 3,804.0	\$ 9,169.2	\$ 4,889.3	\$ 17,862.5	\$ 3,616.1	\$ 8,438.9	\$ 4,781.5	\$ 16,836.5
Composition of assets backing net actuarial liabilities								
Bonds	\$ 1,680.1	\$ 6,698.1	\$ 2,505.6	\$ 10,883.8	\$ 1,609.9	\$ 6,250.0	\$ 2,449.0	\$ 10,308.9
Mortgage and business loans	1,148.0	79.4	1,308.5	2,535.9	1,160.2	92.8	1,530.1	2,783.1
Shares	48.4	1,020.7	462.0	1,531.1	47.4	916.6	278.3	1,242.3
Investment property	219.9	1,248.2	48.8	1,516.9	219.7	1,142.8	48.8	1,411.3
Other	707.6	122.9	564.3	1,394.8	578.9	36.7	475.3	1,090.9
	\$ 3,804.0	\$ 9,169.3	\$ 4,889.2	\$ 17,862.5	\$ 3,616.1	\$ 8,438.9	\$ 4,781.5	\$ 16,836.5

The fair value of assets backing net actuarial liabilities was \$17,989.0M (\$17,010.9M as at December 31, 2016).

B) Contractual term to maturity

The following tables present the contractual term to maturity for insurance contract liabilities. The projections in these tables are greater than the balance for insurance contract liabilities presented in the Consolidated Balance Sheet since they represent expected outflows that exclude, among others, the impact of discounting. These cash flows are presented net of expected periodic premium flows from insureds and net of reinsurance. In addition, the amounts shown in these tables represent estimated cash flows that may differ from actual cash flows.

	December 31, 2017				December 31, 2016			
	Under 1 year	1 to 5 years	Over 5 years	Total	Under 1 year	1 to 5 years	Over 5 years	Total
Insurance contract liabilities								
Actuarial liabilities	\$ 1,229.3	\$ 3,006.6	\$ 33,390.1	\$ 37,626.0	\$ 1,205.9	\$ 3,043.1	\$ 31,178.9	\$ 35,427.9
Provisions for benefits, dividends and experience refunds	337.6	—	142.0	479.6	308.0	—	86.3	394.3
Contract holder deposits	337.9	—	308.0	645.9	330.4	—	307.9	638.3
Total	\$ 1,904.8	\$ 3,006.6	\$ 33,840.1	\$ 38,751.5	\$ 1,844.3	\$ 3,043.1	\$ 31,573.1	\$ 36,460.5

C) Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must establish a margin for adverse deviation for each of these assumptions in order to mitigate the uncertainty, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by the Standards of Practice of the Canadian Institute of Actuaries (CIA). The appointed actuary establishes the appropriate margins based on the characteristics of the risks associated with the products. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Consolidated Statement of Net Income.

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the potential non-materialization of expected assumptions. The appointed actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumption, if appropriate, to take into account the current and future expected situation. Any impact resulting from such modification is immediately recognized in the Consolidated Statement of Net Income.

Mortality

The Company determines its mortality assumptions for individual life insurance based on the results of the annual studies of its recent underwriting experience. When these results cannot serve as the only source of reference due to their insufficient credibility, the mortality assumption also takes into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with CIA standards.

In the case of annuities, the Company also performs an annual study of its underwriting experience, which provides a sufficient level of credibility to establish the main basis for the assumptions. A future mortality improvement assumption is taken into account in accordance with CIA standards.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the Company uses industry-developed morbidity tables modified based on current data provided by its studies of its underwriting experience and those of the industry. These assumptions are mainly used for disability, critical illness and long-term care insurance products.

Contract cancellation rates

The Company carries out an annual study of its underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the Company's recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the Company's assumptions are not sufficiently credible. For certain types of insurance products, such as term-to-100 life insurance and universal life insurance with level mortality costs, lower than projected cancellation rates could have an adverse impact on the Company's underwriting experience. Cancellation rate assumptions may vary depending on the product type, contract term, age at issuance and premium payment method.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The Company manages the investments backing its actuarial liabilities by taking into account the characteristics of the commitments of each of its business segments, using clearly defined mechanisms set out in its matching policy. CALM is the standard set by the CIA to ensure the compliance of assets that are backing the actuarial liabilities. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the Company mitigates its sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the allowances for non-performing investments recognized through a write-down of the carrying amount of the assets as at December 31, 2017, a provision amounting to \$344.9M (\$352.6M in 2016) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The Company carries out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

Contract holder dividends

Actuarial liabilities include estimated amounts of future participating contract holder dividends. These estimated amounts are determined based on the expected future results of this block of business and the reasonable expectations of participating contract holders. Changes in the best estimate assumptions for participating insurance would result in corresponding changes in contract holder dividends and an immaterial net change in actuarial liabilities related to participating contracts.

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on net income of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2017	2016
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	\$ (49.2)	\$ (46.6)
Products for which a rate decrease increases actuarial liabilities	(23.3)	(21.1)
5% increase in future morbidity rates	(74.5)	(72.8)
10% negative change in future contract cancellation rates	(138.0)	(148.7)
5% increase in future operating expenses	\$ (44.0)	\$ (41.7)

Note 12 Insurance contract liabilities (continued)

D) Insurance risk management

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

The Company is exposed to insurance risk through the products it sells. Depending on the product, the Company may be exposed to mortality risk, morbidity risk or forfeiture risk. All products sold expose the Company to expenditure risk. The various mortality, morbidity and contract cancellation rate assumptions are described in Note 12c.

To manage insurance risk, the Company applies stringent policies, guidelines and criteria with respect to product and service development and pricing. In addition, it regularly carries out analyses to compare forecasts with actual results and revise pricing assumptions if needed. Furthermore, certain products allow for price adjustments depending on whether assumptions materialize or not. Lastly, the Company sets up actuarial liabilities in accordance with the actuarial standards prescribed by the CIA and constantly monitors the development of loss experience.

Use of reinsurance

The Company enters into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities to limit its losses. In addition, it purchases additional reinsurance protection with respect to large-scale catastrophic events.

To reduce reinsurance risk, the Company does business with reinsurers having an A.M. Best rating of at least A-, a vast majority of which holding a license issued by a Canadian authority, and a capitalization ratio greater than the required minimum standard, which is currently 150%. In addition, the solvency of the companies to which it cedes a portion of its risks is periodically examined. These reinsurance agreements do not release the Company from its obligations towards its contract holders.

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the Company. The Company offers minimal guarantees for death benefits, maturity value and withdrawals during the payout period to protect the unitholders of certain funds. These guarantees represent the main exposure of the Company.

Actuarial liabilities include amounts sufficient to pay the minimum guarantees under segregated fund contracts, which are calculated using stochastic models. These models are based on the nature of the guarantees and on assumptions related to investment return, mortality and contract forfeiture rates. Deferred acquisition costs, being the expenses incurred on the sale of individual segregated fund contracts, are recognized in actuarial liabilities and amortized over the same period as the applicable surrender fees. Actuarial liabilities take into account the fact that future income will be available to recover unamortized acquisition costs.

To reduce the potential negative impact of the segregated fund contract guarantee risk, the Company uses hedging programs aimed at offsetting the impact of unfavourable changes in stock markets and interest rates on the future cost of guarantees. These programs cover all the segregated fund contracts that include a guarantee offered to clients by the Company.

Basis risk management

Basis risk arises from the difference between the return of segregated funds and the return of the instruments used to reproduce it. This risk cannot be hedged with the hedging program and adds volatility to the Company's financial statements. However, the Company has adopted risk appetite and tolerance indicators to monitor that risk and implement measures to reduce it when limits are exceeded.

E) Change in actuarial liabilities

The change in net actuarial liabilities during the year was due to business activities and to changes in actuarial estimates, as follows:

	2017			2016		
	Net actuarial liabilities	Reinsurance assets	Gross actuarial liabilities	Net actuarial liabilities	Reinsurance assets	Gross actuarial liabilities
Balance at beginning	\$ 16,836.5	\$ 924.9	\$ 17,761.4	\$ 16,198.0	\$ 810.5	\$ 17,008.5
Change due to						
Passage of time	591.7	45.6	637.3	118.3	61.1	179.4
New business	513.5	24.9	538.4	502.9	19.8	522.7
Changes in actuarial assumptions	(71.2)	(34.4)	(105.6)	16.1	(1.3)	14.8
	1,034.0	36.1	1,070.1	637.3	79.6	716.9
Other changes	(8.0)	14.0	6.0	1.2	34.8	36.0
Balance at end	\$ 17,862.5	\$ 975.0	\$ 18,837.5	\$ 16,836.5	\$ 924.9	\$ 17,761.4

Changes in actuarial assumptions

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 of changes made to assumptions on net income for the years ended December 31.

	2017	2016
Changed assumptions		
Mortality	\$ 119.0	\$ 20.7
Morbidity	1.3	11.3
Contract cancellation rates	(165.9)	(169.4)
Investment return	74.8	29.9
Operating expenses	17.1	(19.6)
Methods and other	5.8	115.4
Impact on net income	52.1	(11.7)
Impact on operating income	71.2	(16.1)
Taxes on these items	(19.1)	4.4
	\$ 52.1	\$ (11.7)

The decrease in actuarial liabilities related to mortality reflects the update of the assumptions for individual and group insurance products as well as the integration of the new future mortality improvement table.

The increase in actuarial liabilities related to contract cancellation rates is attributable to the update of the assumptions for individual insurance products and segregated funds.

The decrease in actuarial liabilities related to investment returns is mainly attributable to the update of the assumptions for investment expenses.

The decrease in actuarial liabilities related to operating expenses is explained by the update of the assumptions for operating expenses for all business segments.

Note 13 Investment contract liabilities

A) Composition of investment contract liabilities

	December 31, 2017	December 31, 2016
Individual annuities	\$ 63.0	\$ 59.4
Group annuities	16.4	16.2
Total investment contract liabilities	\$ 79.4	\$ 75.6

Investment contract liabilities comprise term certain annuity contracts.

B) Change in investment contract liabilities

	2017	2016
Balance as at January 1	\$ 75.6	\$ 73.3
Change due to		
New deposits	16.6	13.0
Investment income	6.3	6.5
Benefits	(15.5)	(13.7)
	7.4	5.8
Other changes	(3.6)	(3.5)
Balance as at December 31	\$ 79.4	\$ 75.6

C) Contractual term to maturity

The following table presents the contractual term to maturity for investment contract liabilities. The projections in these tables are greater than the balance for investment contract liabilities presented in the Consolidated Balance Sheet since they represent expected outflows that exclude, among others, the impact of discounting.

	December 31, 2017				December 31, 2016			
	Under 1 year	1 to 5 years	Over 5 years	Total	Under 1 year	1 to 5 years	Over 5 years	Total
Investment contract liabilities	\$ 20.2	\$ 43.3	\$ 22.2	\$ 85.7	\$ 17.5	\$ 43.3	\$ 21.3	\$ 82.1

Note 14 Other liabilities

	December 31, 2017	December 31, 2016
Accounts payable, accrued liabilities and other	\$ 525.4	\$ 534.4
Income and other taxes payable	100.3	110.5
Compensation payable on sales	64.8	56.2
Deferred income - market-linked guaranteed investments	165.3	151.9
Provisions for risks and expenses	42.2	42.9
Long-term debt	14.9	15.5
Dividends payable	545.0	167.0
	\$ 1,457.9	\$ 1,078.4

Provisions for risks and expenses

Provisions for risks and expenses include provisions for litigation matters and lawsuits, except those related to insurance contracts, which are recognized under "Actuarial liabilities", if applicable. These provisions, which mature in the long-term, totalled \$42.2M (\$42.9M as at December 31, 2016).

Long-term debt

Long-term debt comprises mortgage loans associated with various investment properties, bearing interest at rates ranging from 3.40% to 5.00%, (weighted average rate of 3.54%; 3.53% as at December 31, 2016). These loans are secured by assets with a carrying amount of \$31.4M (\$31.2M as at December 31, 2016). The interest expense on long-term debt amounted to \$0.5M (\$0.7M in 2016) and is recognized as a deduction of investment income.

Note 15 Net defined benefit plan liabilities

The Company participates in various defined benefit plans. The liabilities recognized in the Company's Consolidated Balance Sheet are detailed as follows:

	December 31, 2017	December 31, 2016
Pension plan of Desjardins Group	\$ 161.0	\$ 126.4
Post-retirement benefit plan of Desjardins Group	101.1	93.3
Supplemental pension plan of Desjardins Group	11.5	9.7
Company's own pension plans	18.6	18.4
	\$ 292.2	\$ 247.8

Characteristics of the defined benefit plans

a) Group pension plan

Group pension plans are plans whose risks are shared by entities under common control. The Company participates in the pension plans of Desjardins Group, which offers a majority of its employees a group pension plan and a group supplemental pension plan, which provides pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3 % for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated subsequently.

The DGPP is governed by the Supplemental Pension Plans Act (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

b) Group post-retirement benefit plan

The Company also participates in a post-retirement benefit plan that provides medical, dental and life insurance, offered by Desjardins Group to retiring employees and their dependents through an unfunded defined benefit group plan.

c) Other plans

The other defined benefit plans offered are an unfunded defined benefit supplemental pension plans, which provide pension benefits in excess of statutory limits, whose risks are not shared by entities under common control.

d) Pension and post-retirement benefit plan risks

Defined benefit pension plans are plans for which the Company has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are generally actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to materially differ from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the members' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over the service lives of employees using accounting policies similar to those used for defined benefit pension plans.

e) Risk management

The Retirement Committee has set up a Risk Management Advisory Committee whose mandate is to analyze the main risks associated with managing the DGPP's operations. To that effect, it recommends every year the integrated risk profile and the asset allocation strategy to the Retirement Committee. The mandate of the Advisory Committee also includes issuing opinions on new investments to the DGPP's Investment Committee. The asset allocation strategy is based on the liability-driven investment principle. This approach provides for better management of the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in the volatility of contributions. The liability-driven investment principle takes into account changes in the liability and generating sufficient returns to ensure the plan's long-term funding.

In addition, the Retirement Committee adopts every year an investment policy that may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes, limits for each type of investments and limits for the allocation of assets between the various classes and risk parameters for such allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing policy is applied when the actual allocation is outside the allowed limits. Foreign exchange risk is controlled through the adoption of a hedging policy approved by the Investment Committee. Lastly, the Retirement Committee has delegated to the Investment Committee the responsibility for ensuring that the investment policy is applied, complied with and followed.

f) Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit and cover the stabilization provision. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plan's stabilization provision and deficit, if any.

Pursuant to the SPPA requirements, the DGPP's minimum funding is determined on a going-concern basis. A stabilization provision must be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years.

Note 15 Net defined benefit plan liabilities (continued)

Recognized amounts

a) Group plans

Pension plans

The Company recognizes as follows its share in the net liabilities of the group pension plans in the Consolidated Balance Sheet and its share in the pension expense in the Consolidated Statement of Net Income:

	2017		2016	
		%		%
Share in the net liabilities of the group pension plan				
Pension plan of Desjardins Group	\$ 161.0	12.14	\$ 126.4	11.92
Supplemental pension plan of Desjardins Group	11.5	8.65	9.7	7.98
	\$ 172.5		\$ 136.1	
Share in the expense of the group pension plan				
Pension plan of Desjardins Group	\$ 39.5	12.14	\$ 38.3	11.92
Supplemental pension plan of Desjardins Group	0.3	8.65	0.2	7.98
	\$ 39.8		\$ 38.5	

Post-retirement benefit plan

The Company recognizes as follows its share in the net liabilities of the group post-retirement benefit plan on the Consolidated Balance Sheet and its share in the expense of this plan in the Consolidated Statement of Net Income:

	2017		2016	
		%		%
Share in the net liabilities of the group post-retirement benefit plan of Desjardins Group	\$ 101.1	11.86	\$ 93.3	11.80
Share in the expense of the group post-retirement benefit plan of Desjardins Group	\$ 5.1	11.86	\$ 4.8	11.80

b) Company's own pension plan

The Company also offers certain active and retired executives unfunded defined benefit supplemental pension plans, which also provide pension benefits in excess of statutory limits. Amounts recognized for these plans in the Consolidated Balance Sheet and the Consolidated Statement of Net Income are detailed as follows:

	2017	2016
Net liabilities of the Company's own pension plans	\$ 18.6	\$ 18.4
Expense for the Company's own pension plans	\$ 0.5	\$ 0.1

Information on the plans as a whole

a) Change in net defined benefit plan liabilities

	Group pension plans			Group post-retirement benefit plan	Company's own pension plans
	Defined benefit plan obligation	Fair value of assets	Total	Defined benefit plan obligation	Defined benefit plan obligation
As at December 31, 2015	\$ 11,925.0	\$ 10,524.0	\$ 1,401.0	\$ 751.0	\$ 19.5
Amounts recognized in the Consolidated Statement of Net Income					
Current service cost	267.0	—	267.0	14.0	—
Net interest expense/income	440.0	382.0	58.0	27.0	(0.2)
Past service cost	(5.0)	—	(5.0)	—	0.3
	702.0	382.0	320.0	41.0	0.1
Amounts recognized in the Consolidated Statement of Comprehensive Income					
Difference between the actual return on assets and interest income	—	382.0	(382.0)	—	—
Actuarial losses (gains) arising from changes in demographic assumptions	(453.0)	—	(453.0)	(25.0)	(0.6)
Actuarial losses (gains) arising from changes in financial assumptions	549.0	—	549.0	29.0	0.3
Experience losses (gains)	86.0	—	86.0	8.0	0.3
	182.0	382.0	(200.0)	12.0	—
Other changes					
Participants' contributions	193.0	193.0	—	—	—
Employers' contributions	—	348.0	(348.0)	—	—
Benefits paid	(470.0)	(467.0)	(3.0)	(18.0)	(1.1)
Other changes	(5.0)	(5.0)	—	—	(0.1)
	(282.0)	69.0	(351.0)	(18.0)	(1.2)
As at December 31, 2016	12,527.0	11,357.0	1,170.0	786.0	18.4
Amounts recognized in the Consolidated Statement of Net Income					
Current service cost	282.0	—	282.0	16.0	0.1
Net interest expense/income	440.0	392.0	48.0	27.0	0.4
Past service cost	(4.0)	—	(4.0)	—	—
	718.0	392.0	326.0	43.0	0.5
Amounts recognized in the Consolidated Statement of Comprehensive Income					
Difference between the actual return on assets and interest income	—	976.0	(976.0)	—	—
Actuarial losses (gains) arising from changes in demographic assumptions	125.0	—	125.0	(13.0)	0.1
Actuarial losses (gains) arising from changes in financial assumptions	1,006.0	—	1,006.0	43.0	0.5
Experience losses (gains)	141.0	—	141.0	9.0	0.2
	1,272.0	976.0	296.0	39.0	0.8
Other changes					
Participants' contributions	190.0	190.0	—	—	—
Employers' contributions	—	345.0	(345.0)	—	—
Benefits paid	(491.0)	(488.0)	(3.0)	(20.0)	(1.1)
Other changes	(10.0)	(10.0)	—	—	—
	(311.0)	(163.0)	(474.0)	(20.0)	(1.1)
As at December 31, 2017	\$ 14,206.0	\$ 12,762.0	\$ 1,444.0	\$ 848.0	\$ 18.6

Note 15 Net defined benefit plan liabilities (continued)

b) Funding status

	As at December 31, 2017			As at December 31, 2016		
	Group pension plans	Group post-retirement benefit plan	Company's own pension plans	Group pension plans	Group post-retirement benefit plan	Company's own pension plans
Funded plans						
Defined benefit plan obligation	\$ 14,076.0	\$ —	\$ —	\$ 12,408.0	\$ —	\$ —
Fair value of plan net assets	12,762.0	—	—	11,357.0	—	—
	1,314.0	—	—	1,051.0	—	—
Unfunded plans						
Defined benefit plan obligation	130.0	848.0	18.6	119.0	786.0	18.4
	\$ 130.0	\$ 848.0	\$ 18.6	\$ 119.0	\$ 786.0	\$ 18.4

c) Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2017 ¹		As at December 31, 2016 ¹	
	Non-quoted in an active market	Quoted in an active market	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	\$ —	\$ 210.0	\$ —	\$ 117.0
Provinces, municipal corporations and other public administrations	177.0	4,840.0	125.0	3,346.0
Other issuers	2,134.0	3.0	1,848.0	—
Shares	381.0	2,856.0	339.0	2,630.0
Real estate investments	1,410.0	130.0	1,232.0	128.0
Infrastructure investments	1,348.0	67.0	1,382.0	63.0
Cash and money market securities	529.0	163.0	235.0	173.0
Other	974.0	112.0	621.0	278.0
Total	\$ 6,953.0	\$ 8,381.0	\$ 5,782.0	\$ 6,735.0

1. Commitments related to securities lent or sold under repurchase agreements deducted from the main group pension plan assets are excluded from this table.

As at December 31, 2017, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of \$52.0M (\$104.0M as at December 31, 2016).

Impact on cash flows

a) Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2017		As at December 31, 2016	
	Group pension plans	Group post-retirement benefit plan	Group pension plans	Group post-retirement benefit plan
Discount rate for the obligation ¹	3.60%	3.60%	4.00%	3.95%
Discount rate for service cost ¹	3.70%	3.70%	4.30%	4.30%
Expected rate of salary increases	3.00%	3.00%	3.00%	3.00%
Rate used to calculate interest expense on the obligation and assets ¹	3.44%	3.37%	3.62%	3.52%
Rate used to calculate interest expense on service cost ¹	3.80%	3.96%	3.97%	4.12%
Estimated annual growth rate for covered healthcare cost	—	4.05%	—	4.05%

1. Weighted average rate for all plans.

b) Sensitivity of key assumptions in 2017

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact, for the group plans of Desjardins Group, of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2017		As at December 31, 2016	
	Change in obligation	Change in cost recognized	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	\$ (2,236.0)	\$ (126.0)	\$ (1,919.0)	\$ (95.0)
1% decrease	2,708.0	127.0	2,579.0	120.0
Expected rate of salary increases				
1% increase	624.0	43.0	488.0	41.0
1% decrease	(528.0)	(36.0)	(414.0)	(34.0)
Group post-retirement benefit plan				
Discount rate				
1% increase	(126.0)	(2.0)	(112.0)	(2.0)
1% decrease	164.0	2.0	145.0	2.0
Expected rate of salary increases				
1% increase	7.0	1.0	8.0	1.0
1% decrease	(8.0)	(1.0)	(8.0)	(1.0)
Health care costs				
1% increase	86.0	7.0	75.0	7.0
1% decrease	\$ (68.0)	\$ (5.0)	\$ (61.0)	\$ (6.0)

c) Expected contributions for 2018

Desjardins Group expects to contribute \$396.0M to its defined benefit pension plans in the next year.

d) Pension plan obligation maturity profile

For 2017, the weighted average financial duration was approximately 17 years (17 years in 2016) for the main group plan and approximately 17 years (16 years in 2016) for the group post-retirement benefit plan.

Note 16 Share capital and preferred share liabilities

The authorized share capital of the Company is as follows:

Authorized

Class A shares: An unlimited number of participating voting shares, without par value.

Preferred shares

Class B shares: An unlimited number of shares, without par value, non-voting, issuable in series, redeemable at the option of the Company or the holder at any time, with a quarterly non-cumulative fixed dividend ranging from 0.125% to 3.750%, and ranking prior to Class A shares as to dividends and upon liquidation.

Class C shares: An unlimited number of shares, without par value, non-voting, issuable in series, redeemable at the option of the Company or the holder subject to certain restrictions, with a quarterly cumulative fixed dividend ranging from 0.125% to 3.750%, and ranking pari passu with Class D and Class E shares, but ranking prior to Class A and Class B shares as to dividends and upon liquidation.

Class D shares: An unlimited number of shares, without par value, non-voting, issuable in series, and ranking pari passu with Class C and Class E shares, but ranking prior to Class A and Class B shares as to dividends and upon liquidation.

Class E shares: An unlimited number of shares, without par value, non-voting, issuable in series, redeemable at the option of the Company or the holder subject to certain restrictions, with a quarterly cumulative fixed dividend ranging from 0.125% to 3.750%, and ranking pari passu with Class C and Class D shares, but ranking prior to Class A and Class B shares as to dividends and upon liquidation.

Issued and outstanding

	2017	2016
Preferred share liabilities		
210,000 Class E, Series 4 shares (2.0% annual fixed rate)	\$ 210.0	\$ 210.0
490,000 Class E, Series 5 shares (2.5% annual fixed rate)	490.0	490.0
Total preferred share liabilities	\$ 700.0	\$ 700.0
Share capital		
10,387,158 Class A shares	351.0	351.0
Total share capital	\$ 351.0	\$ 351.0

On January 1, 2016, the Company issued 1,864,621 Class A shares to acquire all the shares of two entities under common control (Note 25).

Dividend payments of \$16.5M (\$16.5M in 2016) on preferred shares were recognized as interest expense and are presented under "Operating expenses".

Note 17 Accumulated other comprehensive income

Accumulated other comprehensive income includes the following items:

	December 31, 2017	December 31, 2016
Items that could be reclassified subsequently to the Consolidated Statement of Net Income		
Unrealized gains on available-for-sale assets		
Bonds	\$ 99.2	\$ 104.9
Shares	204.0	181.0
Other loans and investments	4.4	3.4
	307.6	289.3
Related income taxes	(45.1)	(48.8)
	262.5	240.5
Item that will not be reclassified subsequently to the Consolidated Statement of Net Income		
Revaluation surplus (change in use of properties)	32.9	31.8
Related income taxes	(5.5)	(5.3)
	27.4	26.5
Accumulated other comprehensive income	\$ 289.9	\$ 267.0

Note 18 Capital management

The Company's capital management objective is to maintain adequate, high-quality capital and allocate surplus capital based on its priorities, which are supporting growth, financing acquisitions when opportunities arise and increasing dividends to its shareholder.

The Company's capital management is the responsibility of the Board of Directors and is governed by a policy that is reviewed periodically.

This policy defines a target capital ratio and a cushion, the sum of which is the target minimum ratio. The Company is aiming for a ratio that is higher than the target minimum ratio so it will be able to deal with adverse events and still remain financially strong.

The Company's financial strength is tested at least once a year through Dynamic Capital Adequacy Testing. This test allows the Company to assess capital adequacy under adverse scenarios. The results of this test demonstrate that, by maintaining the Company's capitalization ratio above the target minimum ratio established by the Capital Management Policy, the Company is able to deal with various adverse events and still maintain its financial strength at a satisfactory level.

The development of a business plan also allows the Company to ensure that maintaining capital at this level will enable it to seize business opportunities when they arise.

Every year, the test results are presented to the Board of Directors and can be used to guide Board members in their decision making.

Under its provincial charter, the Company is governed by the Autorité des marchés financiers (AMF). In addition, it must comply with the standards set by the regulatory authorities of the other provinces and territories in which it operates. In Quebec, insurance companies must comply with the Capital Adequacy Requirements Guideline (CAR) issued by the AMF in order to provide a guarantee of their solvency.

The Company's regulatory capital, which is determined in accordance with this guideline, comprises its capital and differs from the equity disclosed in the Consolidated Balance Sheet. It comprises two tiers:

- (i) Tier 1 capital, which includes capital that is more permanent in nature than Tier 2 capital. It consists primarily of equity attributable to participating contract holders and the shareholder.
- (ii) Tier 2 capital is made up primarily of preferred shares.

The Company's available capital is summarized in the following table:

	December 31, 2017	December 31, 2016
Tier 1 capital	\$ 2,648.9	\$ 2,613.0
Tier 2 capital	1,107.4	1,010.3
Total available capital	\$ 3,756.3	\$ 3,623.3

Under the AMF's CAR guideline, a minimum amount of regulatory capital must be maintained to cover certain risks such as credit, market, insurance and interest rate risks. As at December 31, 2017 and 2016, these requirements were met.

The Company's solvency ratio is calculated by comparing its total available capital with the required minimum regulatory capital.

Under the Act respecting insurance (Quebec), the payment of dividends to the shareholder and participating contract holders is subject to the compliance by the Company with the minimum capital adequacy standards prescribed by the AMF.

Furthermore, to meet various financial management requirements, equity is subject to a restriction of \$427.3M (\$476.2M in 2016).

In October 2016, the AMF issued the new guideline on Capital Adequacy Requirements – Insurance of persons (CARLI). This new regulatory framework will replace the current Capital Adequacy Requirements Guideline (CAR) as of January 1, 2018. Based on the information currently available, the Company expects to meet the requirements of the new guideline.

Note 19 Income taxes

Income tax expense for the year

The income tax expense recognized in the Consolidated Financial Statements for the years ended December 31 is detailed as follows:

	2017	2016
Consolidated Statement of Net Income		
Current income taxes		
Current income tax expense	\$ 148.0	\$ 111.9
Adjustments recognized during the year for current income taxes of prior years	(6.9)	(12.5)
	141.1	99.4
Deferred income taxes		
Origination and reversal of temporary differences	7.5	2.8
Adjustments attributable to changes in tax rates and amendments to tax rules	—	(1.6)
Adjustments recognized during the year for deferred income taxes of prior years	(0.9)	1.3
	6.6	2.5
	147.7	101.9
Consolidated Statement of Comprehensive Income		
Current income taxes	(3.8)	6.0
Deferred income taxes	(11.3)	12.8
	(15.1)	18.8
Total income tax expense	\$ 132.6	\$ 120.7

The Company's income is subject to Canadian income taxes. The effective income tax rate varies from year to year based on changes in the combined statutory tax rate structure. The income tax expense recognized in the Consolidated Statement of Net Income differs from the income tax expense determined using the combined statutory rate for the following reasons:

	2017	2016
Income taxes on operating income at the combined statutory rate of 26.84% in 2017 (26.96% in 2016)	\$ 224.7	\$ 163.5
Change due to the following items:		
Non-taxable net investment income and other items	(77.1)	(58.2)
Non-deductible expenses	6.1	5.1
Changes in tax rates	—	(1.6)
Adjustments recognized during the year for current and deferred income taxes of prior years	(7.8)	(11.2)
Other	1.8	4.3
	\$ 147.7	\$ 101.9

Deferred income taxes

The deferred income tax sources are as follows:

	December 31, 2017	December 31, 2016	2017	2016	2017	2016
	Consolidated Balance Sheet		Consolidated Statement of Net Income		Consolidated Statement of Comprehensive Income	
Deferred tax assets						
Insurance and investment contract liabilities	\$ 39.1	\$ 27.9	\$ 11.2	\$ 6.0	\$ —	\$ —
Net defined benefit plan liabilities	77.9	66.3	0.1	4.6	11.5	(7.5)
Non-capital losses carried forward	5.8	6.7	(0.9)	(0.2)	—	—
Other liabilities	28.1	25.0	3.1	0.2	—	—
	\$ 150.9	\$ 125.9	\$ 13.5	\$ 10.6	\$ 11.5	\$ (7.5)
Deferred tax liabilities						
Investments	\$ 279.1	\$ 258.9	\$ (20.0)	\$ (11.6)	\$ (0.2)	\$ (5.3)
Contract loans	49.5	50.4	0.9	(0.1)	—	—
Other	21.3	20.3	(1.0)	(1.4)	—	—
	\$ 349.9	\$ 329.6	\$ (20.1)	\$ (13.1)	\$ (0.2)	\$ (5.3)

Deferred tax assets and liabilities are presented as follows in the Consolidated Balance Sheet:

	December 31, 2017	December 31, 2016
Deferred tax assets	\$ 21.8	\$ 21.6
Deferred tax liabilities	(220.8)	(225.3)
	\$ (199.0)	\$ (203.7)

Note 20 Financial instrument risk management

The Company's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by developing and applying integrated risk management strategies, frameworks and procedures to all its activities. To this end, the Company adopted Desjardins Group's Integrated Risk Management Framework, which is designed to give its management and Board of Directors appropriate level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.

The Company is exposed to different types of risks in its normal course of operations, including credit risk, market risk and liquidity risk. Strict and effective management of these risks is a priority for the Company, its purpose being to support its major orientations, particularly regarding its financial soundness as well as its sustained and profitable growth, while complying with regulatory requirements. The Company considers risk an inextricable part of its development and consequently strives to promote a culture in which each of its business segments, employees and managers is responsible for risk management.

The Company has adopted a risk management governance structure that includes a Deputy Chief Risk Management Officer, a risk management team and an Audit and Risk Management Committee, whose mandate is to ensure the implementation of frameworks and systems that will maintain risk at an acceptable level in accordance with the expectations of the Board of Directors and senior management. The purpose of this governance structure is to pool functional expertise within the Company, in the area of risk management in particular, and to ensure that the Company has all the tools it needs to carry out its responsibilities in this respect.

In addition to the risks inherent in its insurance activities, which are described in Note 12, the significant financial risks to which the Company is exposed are the following:

A) Credit risk

Credit risk is the risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not these obligations appear on the Consolidated Balance Sheet.

The Company is exposed to credit risk through its transactions related to investments in money market securities, bonds, securities borrowed or purchased under reverse repurchase agreements and derivative financial instruments as well as through its mortgage and business loans.

Management of credit risk related to mortgage and business loan activities

The Company is accountable for its performance and it therefore has a certain amount of latitude in terms of frameworks and approvals as well as with regard to the corresponding management and monitoring tools and structures. To assist the Company in this area, Desjardins Group has set up centralized structures and procedures to ensure that its Integrated Risk Management Framework allows for effective, sound and prudent management.

Note 20 Financial instrument risk management (continued)

Desjardins Group has a Risk Management Executive Division (RMED), which includes three divisions that are primarily responsible for credit risk management for the organization as a whole. These divisions share responsibilities based on major activities: credit approval, framework, quantification, monitoring and reporting.

Credit risk framework

A set of frameworks govern all aspects of credit risk management at the Company. These frameworks define, in particular, the responsibilities and powers of the parties involved, the limits arising from risk tolerance, the rules governing the assignment and administration of files, and the disclosure rules for the Company's exposure to credit risks.

All these frameworks govern credit risk management activities.

Credit granting

The Company determines its appetite for the various mortgage and business loan activities and identifies its desired exposure level in its own frameworks. The depth of the analyses to be performed depends on the product and the complexity and extent of the transaction risk.

The granting of credit to businesses is based on a detailed analysis of the file. Each borrower's financial, market and management characteristics are analyzed using a credit risk assessment model. A quantitative analysis based on financial data is supplemented by an assessment of the other file characteristics by the account managers. Once this analysis is finished, each borrower is assigned a risk rating. The scoring system has 17 ratings, broken down into 10 levels representing a default probability level.

The model used for the analysis varies based on the borrower's segment. The models designed from internal and external historical data take into account the size of the business, the special characteristics of the main industry in which it operates, and the performance of comparable businesses.

The use of internal ratings and estimates has been expanded into other risk management and governance activities such as establishing analysis requirements and file authorization levels, determining the different types of follow-up activities as well as assessing and disclosing portfolio risk quality.

Mitigating credit risk

In its lending operations, the Company obtains collateral, if deemed necessary, based on a risk assessment. Collateral normally takes the form of assets such as capital assets, receivables, investments, contract surrender values, cash, government securities or equities. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation are used in addition to customary collateral. As at December 31, 2017, guaranteed or insured loans represent 60.4% of total gross loans, compared to 62.5% at the end of 2016. The frameworks contain the requirements for appraising collateral, its legal validation and follow-up.

Mortgage and business loans are mainly granted in Quebec, Ontario and British Columbia (33.8%, 44.5% and 14.1%, respectively, in 2017; 33.2%, 42.2% and 15.1%, respectively, in 2016).

Quality of loan portfolio

As at December 31, 2017, gross impaired loans outstanding stood at \$5.5M (\$1.6M as at December 31, 2016). The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.18% as at the end of 2017, an increase over the ratio of 0.05% as at December 31, 2016. The Company's loan portfolio continues to be of excellent quality.

Counterparty and issuer risk management

Counterparty and issuer risk is a credit risk related to different types of securities, derivative financial instruments and securities lending transactions.

Desjardins Group's RMED sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. These amounts are then allocated to the various components, including the Company, based on their needs. Afterwards, the Company determines its own appetite for the various issuers and counterparties by identifying its desired exposure level in its own investment policies.

To properly manage its risk exposure, the Company assigns a credit rating to each counterparty and issuer, based on the ratings of four external credit assessment institutions (DBRS, Moody's, S&P and Fitch) authorized by the AMF.

A large proportion of the exposure of the Company is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A or higher.

In its derivative financial instruments and securities lending transactions, which include repurchase and reverse repurchase agreements and securities borrowing and lending, the Company is exposed to counterparty credit risk. Derivative financial instruments are contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Company's derivative financial instruments are negotiated by mutual agreement with the counterparties. Other instruments are exchange-traded contracts, consisting mainly of futures and swaps traded through a clearing house. They are standard contracts traded on established stock exchanges or well-capitalized clearing houses for which the counterparty risk is very low.

The credit risk associated with derivative financial instruments negotiated by mutual agreement refers to the risk that a counterparty will fail to honour its contractual obligations toward the Company at a time when the fair value of the instrument is positive for the Company. This risk normally represents a small fraction of the notional amount. The replacement cost and the credit risk equivalent are two measures used to quantify it. Replacement cost refers to the current replacement cost of all contracts with a positive fair value. Credit risk equivalent is equal to the sum of this replacement cost and the future credit exposure. To limit its exposure to counterparty risk, the Company enters into master agreements called International Swaps and Derivatives Association (ISDA) agreements, which define the terms and conditions for the transactions. These agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreements in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold, which is set at zero for the Company's main counterparties. The types of contracts, the value of these various metrics and the impact of master netting agreements are presented in Notes 5 and 7.

The Company also limits its credit risk associated with derivative financial instruments by doing business with counterparties that have a high credit rating. All counterparties with which the Company trades derivative financial instruments are financial institutions that were assigned a minimum rating of BBB by Standard & Poor's.

Securities lending transactions are regulated by Investment Industry Regulatory Organization of Canada participation agreements. The Company also uses netting agreements with its counterparties to mitigate its credit risk exposure and requires a percentage of collateralization (a pledge) on these transactions.

The Company accepts from its counterparties only financial collateral that complies with the eligibility criteria set out in its policies. These criteria allow for the timely realization of collateral, when applicable, in the event of default. The types of collateral received and pledged by the Company are mainly cash and government securities.

Additional information about credit risk is presented in Notes 3, 5, 7, 12 and 21.

B) Market risk

Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

The Company is exposed to market risk primarily through positions taken in the course of its insurance and savings product sales activities. It is also exposed to market risk through its investment activities. The Company has adopted policies that set out the limits and procedures to use in managing market risk.

Interest rate risk management

The Company is exposed to interest rate risk, which represents the potential loss resulting from the impact of fluctuations in interest rates or interest rate differentials on its net income and equity. This risk is an important component of market risk and arises from the Company's insurance activities and its investment portfolios.

The Company has adopted an asset-liability matching policy that describes the techniques used to measure interest rate risk, the limits that are tolerated and the monitoring procedures applicable to managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. The Investments and Corporate Actuarial Services departments are jointly responsible for applying this policy and ensure that the practices in place enable controlling and monitoring interest rate risk. In addition, they may use, as required, rebalancing techniques to correct or improve the matching status.

The non-matching of cash flows would have no impact on net income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Company's net income.

The Company uses an actuarial liabilities calculation model for minimum guarantees offered under segregated fund contracts. Based on this model, actuarial liabilities are calculated using the current interest rate curve, and a change in current interest rates would have a direct impact on the value of the liabilities and therefore on net income. The Company has implemented a hedging program for its segregated fund products in order to minimize the impact of changes in interest rates on its net income. Additional information on risks inherent in insurance activities is provided in Note 12, "Insurance contract liabilities".

Note 20 Financial instrument risk management (continued)

The following table shows the estimated impact on net income of a change in interest rates as well as its estimated impact on equity. The impact on equity stems from net income as well as from fixed-income securities classified as available-for-sale assets that are not backing actuarial liabilities. The change in the fair value of these securities is presented in other comprehensive income, which is accumulated in equity, but does not affect net income.

	2017		2016	
	Net income	Equity	Net income	Equity
Impact of a 1% increase in interest rates	\$ 42.7	\$ (130.6)	\$ 42.5	\$ (104.8)
Impact of a 1% decrease in interest rates	\$ (60.1)	\$ 113.2	\$ (68.9)	\$ 78.4

Foreign exchange risk management

Foreign exchange risk is the risk of potential loss related to the impact of changes in exchange rates on all structural positions and related hedges.

The majority of the Company's transactions are conducted in Canadian dollars. It may however choose investment strategies that expose it to foreign exchange risk. To ensure that this risk is properly controlled and its exposure is limited, the Company has set up limits for foreign exchange risk in one of its policies, which are monitored by a compliance officer under the supervision of the Strategic Asset Allocation Committee. In addition, the Company uses, in particular, derivative financial instruments such as forward exchange contracts to properly control this risk. As at December 31, 2017, the Company's exposure to foreign exchange risk was \$529.9M (\$709.1M as at December 31, 2016).

Price risk management

Price risk is the risk of potential loss resulting from a change in the market value of assets [shares, commodities, real estate and index-based assets (inflation, carbon, etc.)] but not resulting from a change in interest rates, foreign exchange rates or the credit quality of a counterparty.

Management of price risk related to stock markets

Stock market price fluctuations could have an impact on the Company's net income, particularly with regard to minimum guarantees offered under segregated fund contracts whose value is influenced by market fluctuations. A hedging program is in place to mitigate the effects of market volatility. For all other products offered, the effect of stock market price fluctuations on liabilities-backing assets is fully or partially offset by changes in the corresponding actuarial liabilities and therefore has no or little impact on net income. Additional information on risks inherent in insurance activities is provided in Note 12, "Insurance contract liabilities".

The impact on equity stems from common shares classified as available-for-sale assets that are not backing actuarial liabilities and are sensitive to stock market fluctuations. The change in the fair value of these shares is presented in other comprehensive income, which is accumulated in equity, but does not affect net income.

Management and framework for price risk related to stock markets

The following table shows the estimated impact of stock market price fluctuations on net income and equity.

	2017		2016	
	Net income	Equity	Net income	Equity
Impact of a 15% increase in stock market prices	\$ (11.5)	\$ 107.3	\$ (15.3)	\$ 104.4
Impact of a 15% decrease in stock market prices	\$ (12.9)	\$ (131.7)	\$ (13.6)	\$ (133.2)

C) Liquidity risk

Liquidity risk refers to the Company'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 Balance Sheet.

Liquidity risk management

The Company manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall Desjardins Group risk management strategy. Desjardins Group and its components, including the Company, have established policies describing the principles, limits, appetite and tolerance thresholds regarding risk as well as the procedures that apply to liquidity risk management.

The Company's policy makes the distinction between two types of liquidities. The first, operational liquidity, refers to funds required in the normal course of the Company's business. The second, strategic liquidity, refers to amounts that could be required quickly by contract holders and reinsurers in a crisis situation. As part of its liquidity policy, the Company has defined liquidity ratios based on these two types and monitors these ratios through its Strategic Asset Allocation Committee.

The Company has a contingency plan that would be implemented in the event of a major liquidity crisis. In addition, it has access to demand lines of credit with various Desjardins Group entities to meet its temporary liquidity needs. As at December 31, 2017, none of these lines of credit were used.

As at December 31, 2017, the contractual term to maturity of financial liabilities¹, except for insurance contract liabilities, which are covered in Note 12b, "Insurance contract liabilities – Contractual term to maturity", and investment contract liabilities, which are covered in Note 13c, "Investment contract liabilities – Contractual term to maturity", and loan commitments are as follows:

	2017				2016			
	Under 1 year	1 to 5 years	Over 5 years	Total	Under 1 year	1 to 5 years	Over 5 years	Total
Non-derivative financial instruments								
Commitments related to securities lent or sold under repurchase agreements	\$ 690.9	\$ —	\$ —	\$ 690.9	\$ 538.9	\$ —	\$ —	\$ 538.9
Preferred share liabilities	16.5	65.8	749.3	831.6	16.5	65.8	765.8	848.1
Other liabilities								
Long-term debt	4.6	11.3	—	15.9	0.8	15.3	—	16.1
Other	1,019.0	—	—	1,019.0	640.9	—	—	640.9
Derivative financial instruments								
Settled on a gross basis ^{2,3}								
Cash flows payable from liabilities	38.9	—	—	38.9	590.1	—	—	590.1
Cash flows payable from assets	758.4	227.7	—	986.1	7.1	235.4	—	242.5
Settled on a net basis	21.2	111.1	262.6	394.9	44.1	218.6	489.5	752.2
Off-balance sheet								
Credit commitments	0.5	—	—	0.5	86.5	—	—	86.5
Credit default swaps	—	540.4	—	540.4	—	577.4	—	577.4
Guarantees and letters of credit	6.3	0.2	25.5	32.0	1.4	5.0	25.5	31.9
	\$ 2,556.3	\$ 956.5	\$ 1,037.4	\$ 4,550.2	\$ 1,926.3	\$ 1,117.5	\$ 1,280.8	\$ 4,324.6

1. The "Derivative financial instruments – Settled on a gross basis" category includes cash flows payable from derivative financial instruments recorded as liabilities and cash flows payable from assets.

2. In 2017, contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows of \$38.8M for liabilities and \$997.9M for assets. These amounts are not included in the above table.

3. In 2016, contractual cash outflows for derivative financial instruments with gross settlement are accompanied by related cash inflows of \$587.2M for liabilities and \$244.7M for assets. These amounts are not included in the above table.

Note 21 Commitments, guarantees and contingent liabilities

A) Commitments and financial guarantees

The following table shows the maximum potential amount of future payments under guarantees and the contractual amount of commitments the Company has granted to third parties. These amounts represent the Company's maximum cash outflows, without taking into account the amounts it could possibly recover through collateral held, insurance contracts or other credit risk mitigation methods. They do not necessarily represent future cash requirements since several of these guarantees and commitments will expire or terminate without being funded. The maximum risk of loss in the event of complete default by third parties is substantially greater than the amount recognized in the Consolidated Balance Sheet.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Consolidated Balance Sheet expose the Company to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	2017	2016
Financial guarantees		
Credit default swaps	\$ 540.4	\$ 577.4
Guarantees	25.7	25.9
Commitments		
Credit commitments and other	0.5	86.5
	\$ 566.6	\$ 689.8

Credit default swaps

In the normal course of its investment activities, the Company entered into credit default swaps on investment securities and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer. The maximum amount of this guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection. These swaps mature at various dates through 2022.

Guarantees and letters of credit

In the normal course of business, guarantees and letters of credit are irrevocable commitments issued, as a third party, by financial institutions on behalf of the Company should the Company not meet its obligations to third parties. Letters of credit issued on behalf of the Company amounted to \$6.3M (\$6.0M as at December 31, 2016).

Credit commitments

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

Indemnification commitments

In the normal course of its business, the Company enters into agreements containing indemnification provisions. These indemnifications are normally related to purchasing contracts, service agreements, outsourcing agreements, lease agreements, netting agreements and asset or share transfer contracts as well as contracts entered into with directors or officers. Under these agreements, the Company may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined limit or amount is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that the Company could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

Indemnification of directors and officers

The Company will indemnify its directors and officers as well as any person who, at its request, acts in that capacity for another entity, in the event a claim or lawsuit is filed against them. The Company maintains liability insurance policies for its directors and officers. Due to the nature of these indemnities, it is not possible to give a reasonable estimate of the amount the Company could be required to pay. No specific liability has been recorded with respect to these indemnities.

B) Financial assets pledged and held as collateral

In the normal course of business, the Company pledges assets and enters into asset pledge agreements in accordance with the customary terms and conditions for its regular lending, borrowing and trading activities recognized in the Consolidated Balance Sheet. The following table shows the carrying amount of the Company's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	December 31, 2017	December 31, 2016
Financial assets of the Company pledged as collateral		
Cash and money market securities	\$ 93.3	\$ 83.2
Bonds	709.2	576.1
	802.5	659.3
Assets from third parties		
Assets held as collateral that may be sold or repledged	257.5	663.4
Less: Assets not sold or not repledged	256.7	663.4
	0.8	—
	803.3	659.3
Use of financial assets:		
Commitments related to securities sold under repurchase agreements and to securities lent or borrowed	685.0	541.0
Transactions on derivative financial instruments	117.5	118.3
Other	0.8	—
	\$ 803.3	\$ 659.3

C) Contingent liabilities

The Company is involved in various litigation matters and lawsuits in the normal course of business. It is not currently possible to assess the outcome of certain of these litigation matters and lawsuits, the timing of such outcomes as well as the potential impact on the Company's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and lawsuits, to the extent it can be measured, could have an impact on the Company's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

Note 22 Leases

Leases – as lessor

Operating leases

As at December 31, future minimum payments to be received under leases for space related to real estate properties are detailed as follows:

	2017	2016
Under 1 year	\$ 95.0	\$ 99.7
1 to 5 years	312.5	329.1
Over 5 years	507.5	352.6
Total future minimum lease payments	\$ 915.0	\$ 781.4

Note 23 Related party disclosures

Related party transaction

In the normal course of business, the Company carries out transactions with Desjardins Group entities. All these transactions were entered into under normal market terms and conditions and were initially recognized at fair value.

Income is derived from the sale of life and health insurance and investment products, while expenses consist primarily of management fees, security custody fees, as well as compensation and administrative fees paid to the Desjardins caisse network for distributing the Company's products.

The balances for related party transactions are as follows:

	2017				2016			
	Parent company ¹	Entities with significant influence ²	Other related parties ³	Total	Parent company ¹	Entities with significant influence ²	Other related parties ³	Total
Assets								
Cash and money market securities	\$ 198.4	\$ 22.9	\$ 260.7	\$ 482.0	\$ 198.4	\$ 49.4	\$ 313.9	\$ 561.7
Bonds	—	—	87.2	87.2	—	—	—	—
Shares	—	—	184.8	184.8	—	—	164.7	164.7
Securities borrowed or purchased under reverse repurchase agreements	—	—	47.0	47.0	—	—	257.3	257.3
Derivative financial instruments	—	—	2.9	2.9	—	—	3.3	3.3
Other loans and investments	—	3.2	—	3.2	—	3.2	—	3.2
Other assets	0.7	7.2	53.1	61.0	0.5	6.7	47.1	54.3
Segregated fund net assets	—	—	1,209.3	1,209.3	—	—	979.8	979.8
	\$ 199.1	\$ 33.3	\$ 1,845.0	\$ 2,077.4	\$ 198.9	\$ 59.3	\$ 1,766.1	\$ 2,024.3
Liabilities								
Commitments related to securities lent or sold under repurchase agreements	\$ —	\$ —	\$ 585.4	\$ 585.4	\$ —	\$ —	\$ 385.8	\$ 385.8
Derivative financial instruments	—	—	1.6	1.6	—	—	0.9	0.9
Other liabilities	549.1	186.5	100.6	836.2	171.1	175.3	108.6	455.0
Long-term debt	—	—	0.7	0.7	—	—	0.6	0.6
Preferred share liabilities	700.0	—	—	700.0	700.0	—	—	700.0
	\$ 1,249.1	\$ 186.5	\$ 688.3	\$ 2,123.9	\$ 871.1	\$ 175.3	\$ 495.9	\$ 1,542.3
Other								
Guarantees given	\$ —	\$ —	\$ 585.4	\$ 585.4	\$ —	\$ —	\$ 385.8	\$ 385.8
Guarantees received	\$ —	\$ —	\$ 47.0	\$ 47.0	\$ —	\$ —	\$ 257.3	\$ 257.3

1. The parent company is Desjardins Financial Corporation Inc.

2. Entities with significant influence are the Desjardins caisses.

3. Other related parties include the other Desjardins Group entities and investment funds.

Profit or loss items arising from related party transactions

	2017				2016			
	Parent company ¹	Entities with significant influence ²	Other related parties ³	Total	Parent company ¹	Entities with significant influence ²	Other related parties ³	Total
Income								
Premiums	\$ —	\$ 73.0	\$ 162.8	\$ 235.8	\$ —	\$ 71.7	\$ 161.7	\$ 233.4
Net investment income	3.7	1.4	81.1	86.2	2.5	2.1	76.0	80.6
Other income	—	54.5	593.8	648.3	—	48.6	535.4	584.0
	3.7	128.9	837.7	970.3	2.5	122.4	773.1	898.0
Operating expenses	\$ 16.5	\$ 81.8	\$ 603.3	\$ 701.6	\$ 16.4	\$ 82.0	\$ 595.4	\$ 693.8

1. The parent company is Desjardins Financial Corporation Inc.

2. Entities with significant influence are the Desjardins caisses.

3. Other related parties include the other Desjardins Group entities and investment funds.

Note 24 Operating expenses

For the years ended December 31, operating expenses are detailed as follows:

	2017	2016
Salaries and fringe benefits	\$ 440.3	\$ 411.5
Professional and management fees	790.3	708.6
Depreciation of fixed assets and impairment and amortization of intangible assets	15.7	14.5
Interest	16.5	16.6
Other	122.2	157.2
	\$ 1,385.0	\$ 1,308.4

Note 25 Acquisitions

Year ended december 31, 2016

On January 1, 2016, the Company acquired all the shares of two entities under common control: Desjardins Investments Inc. (DI), which is active in the design and administration of various individual and group savings products, and Desjardins Investment Product Operations Inc. (DIPO), which is active in the processing and administration of savings and investment accounts for specialized products. The shares of these companies were acquired in consideration for common shares (1,860,465 for DI and 4,156 for DIPO) issued to the sole shareholder of the Company, Desjardins Financial Corporation Inc.

These transactions meet the definition of business combinations of entities under control, and the assets acquired and liabilities assumed were accounted for at the carrying amount for the ultimate parent company. This business combination was accounted for prospectively. The following table presents the carrying amount of assets acquired and liabilities assumed as at the acquisition date.

	DI	DIPO	Total
ASSETS			
Investments			
Cash and cash equivalents	\$ 242.9	\$ 52.1	\$ 295.0
Other loans and investments	5.6	—	5.6
	248.5	52.1	300.6
Other assets	7.8	1.7	9.5
Deferred tax assets	1.9	17.7	19.6
Total assets	\$ 258.2	\$ 71.5	\$ 329.7
LIABILITIES			
Other liabilities			
Compensation payable on sales	\$ 51.1	\$ —	\$ 51.1
Deferred income on market-linked guaranteed investments	126.4	—	126.4
Other	32.5	21.9	54.4
	210.0	21.9	231.9
Net defined benefit plan liabilities	6.9	46.9	53.8
Total liabilities	\$ 216.9	\$ 68.8	\$ 285.7
Net assets acquired in exchange for common shares	\$ 41.3	\$ 2.7	\$ 44.0

In 2016, the contribution of DI to the Company's income and net income was \$497.3M and \$82.7M, respectively, while the contribution of DIPO to income and net income was \$82.2M and nil, respectively.

Consolidated five-year summary

For the years ended December 31
(in M\$, unless otherwise indicated)

	2017	2016	2015	2014	2013
PROFITABILITY AND CAPITALIZATION					
Net income	689.6	504.5	448.4	295.0	382.0
Operating income	837.3	606.4	542.8	354.2	488.0
Equity	3,156.0	3,023.1	2,607.9	2,281.6	2,259.6
Return on equity	22.3%	17.9%	18.3%	13.0%	18.6%
BUSINESS GROWTH					
Insurance in force	313,919.8	303,444.0	291,644.3	253,395.1	241,510.5
Net premiums					
Insurance premiums	4,078.1	3,880.0	3,766.1	3,508.4	3,357.0
Annuity premiums	338.0	336.3	297.0	379.8	306.3
Total	4,416.1	4,216.3	4,063.1	3,888.2	3,663.3
Net savings sales	4,847.2	5,046.7	621.8	715.5	248.6
ASSETS UNDER MANAGEMENT AND ADMINISTRATION					
Assets under management					
General fund	26,655.8	24,751.1	23,656.1	21,406.1	19,281.1
Segregated funds	13,354.4	11,956.8	9,776.5	8,705.5	7,260.2
Mutual funds (Desjardins funds)	32,164.6	27,623.0	—	—	—
Market-linked guaranteed investments	21,452.2	18,927.3	—	—	—
Total assets under management	93,627.0	83,258.2	33,432.6	30,111.6	26,541.3
Assets under administration ¹	13,437.7	13,214.7	12,316.7	11,144.3	10,242.3
Total assets under management and administration	107,064.7	96,472.9	45,749.3	41,255.9	36,783.6
INVESTMENT QUALITY					
Bonds					
Rated A or higher	84.7%	83.4%	85.3%	85.9%	84.7%
OTHER INFORMATION					
Number of employees	4,811	4,798	3,801	4,077	3,923
Number of representatives and brokers	11,300	10,880	10,390	9,731	9,083

1. Except for the assets under management already included above



Governance program

To ensure sound and prudent management and compliance with regulatory requirements, the Board of Directors (the "Board") of Desjardins Financial Security (the "Company") adopted a governance policy that is mandatory for all its subsidiaries. The policy is the cornerstone of the governance program, which covers strategies and procedures specific to the Company, taking into account all applicable legal and regulatory standards.

Board responsibilities

The Board is responsible for setting up and evaluating the governance program. It ensures that the ongoing strategic planning process is accomplished with a focus on achieving the Company's mission.

The Board also oversees the allocation of responsibilities between itself and senior management and ensures accountability. The Board forms any committees needed to meet legal requirements or fulfill its own responsibilities. It establishes and reviews the mandates for any such committees, appoints their members and receives regular reports from their chairs. The Board also adopts the mandate of the Company's management committee and oversees the succession plan for the Company's executives.

The Board is responsible for ensuring that the Company operates in compliance with legal and regulatory requirements. It also ensures that there is independent, effective, ongoing oversight of the Company's operations, so that the effectiveness of control mechanisms and the reliability of reports and financial results can be verified.

Within the scope of its oversight, control and accountability responsibilities, the Board approves the charter of the Audit and Risk Management Committee, which is responsible for overseeing the financial reporting process. The Board also approves the choice of external auditors.

The Board approves risk management policies for the Company's operations and appoints a chief risk officer. It also approves and enforces risk tolerance levels and limits established according to the Company's risk appetite.

The Board maintains a compliance program that defines and takes into consideration important non-compliance risks. To that end, it also approves a compliance policy and appoints a chief compliance officer.

The Board introduces mechanisms to ensure that members remain independent and impartial in the evaluation of the Board and its committees. Onboarding and training programs are in place to ensure board members are aware of their duties and responsibilities to the Company and to continually improve their knowledge.

Executive committee responsibilities

Further to the delegation of board authority, the Executive Committee has all the powers of the Board over the Company's affairs, except for any the Board has reserved for itself or that it must carry out according to applicable legislation.

The Executive Committee makes a recommendation to the Board regarding board members' duties and responsibilities. It oversees governance matters, assesses mechanisms necessary to ensure effective and efficient governance practices and recommends measures to fulfil its mandate. The Executive Committee also submits to the Board policies and broad directions in human resources.

Audit and risk management committee responsibilities

The Audit and Risk Management Committee oversees the financial reporting and risk management processes. It also sees to the quality and integrity of the financial information presented and published according to International Financial Reporting Standards (IFRS) and ensures that proper accounting practices are followed.

It ensures the efficiency of the internal controls system, risk management practices, and internal and external auditing processes.

The Audit and Risk Management Committee is responsible for ensuring that management has an effective internal controls system in place for financial reporting, safeguarding of assets, fraud detection and compliance.

The Audit and Risk Management Committee also monitors the independence of the external auditor, the Desjardins Group Chief Monitoring Officer, the Risk Management Officer, the Chief Compliance Officer and the Appointed Actuary.



Ethics and professional conduct committee responsibilities

The Ethics and Professional Conduct Committee adopts and enforces the rules set out in the Company's Code of Ethics and Professional Conduct and is required to immediately advise the Board of any serious violation to any of these rules. The Ethics and Professional Conduct Committee must assess situations and dilemmas that are brought to its attention according to the values, principles and rules of ethics and professional conduct and issue notices, observations and recommendations on how to proceed. It reviews transactions with entities associated with the Company and ensures that they are conducted at arm's length.

Investment committee responsibilities

The Investment Committee takes an active role in reviewing and approving the Company's investment strategy and any associated risks. It oversees the monitoring and control mechanisms that ensure investments are handled in a proactive and prospective manner. It examines and makes recommendations on the Company's investment policies to the Board and to the Audit and Risk Management Committee, ensures the policies are enforced and reviews their effectiveness, and sees to it that management reviews the policies as needed. The Investment Committee must ensure that the investment policies cover all types of investments made by the Company. It also implements internal control mechanisms to ensure that investments comply with the Company's policies and procedures and with legal and regulatory requirements.

Updates in 2017

The Company's governance policy was updated in 2017 to reflect changes made to the Governance Guideline by the Autorité des marchés financiers

Corporate information

Board of directors

Directors in office as at December 31, 2017

Chair

Jean-Robert Laporte, BA, LLL
Saint-Charles-Borromée, Quebec
Roy Laporte inc., avocats

Secretary of the Board of Directors
Fédération des caisses Desjardins du Québec

President of the Lanaudière
Regional Council (Desjardins)

Chair of the Board of Directors
Caisse Desjardins de Joliette

Vice-chair

Francine Martel-Vaillancourt, FCPA, FCA, ASC
Saint-Laurent-de-l'Île-d'Orléans, Quebec

Chair of the Departmental Audit and
Evaluation Committee
Shared Services Canada

Member of the Board of Management and
Chair of the Audit Committee
Canada Revenue Agency

Member of the Audit Committee
Ministère de l'Éducation et de
l'Enseignement supérieur du Québec

Board members

René Bégin, FCPA, FCA
Lévis, Quebec
Partner, President and CEO
Lemieux Nolet, comptables professionnels agréés LLP

Chair of the Board of Directors
Caisse Desjardins de Lévis

Vice-President of the Québec-Ouest and Rive-Sud
Regional Council (Desjardins)

Kathleen Bilodeau, MSc, FP
Quebec City, Quebec
General Manager
Caisse Desjardins de Sillery—Saint-Louis-de-France

Member of the Québec-Ouest and Rive-Sud Regional
Council (Desjardins)

Robert Blais, FSA, FCIA
Westmount, Quebec

Member of the Board of Directors, the Audit
Committee and the Investment Committee
Teachers' Pension Plan Corporation, Newfoundland
and Labrador

Claudia Champagne, PhD
Sherbrooke, Quebec
Associate Professor of Finance
Université de Sherbrooke

Member of the Board of Directors
Caisse Desjardins des Deux-Rivières de Sherbrooke

Johanne Girard, MBA, CPA, CGA, CISA, BBA
Laval, Quebec
Internal Auditor
Hydro-Québec

Member of the Board of Supervision
Caisse Desjardins du Nord de Laval

Johanne Marceau
Drummondville, Quebec
Vice-President of the Centre-du-Québec Regional
Council (Desjardins)

Chair of the Board of Directors
Caisse Desjardins de Drummondville

Member of the Board of Directors
Fondation de l'Université du Québec à Trois-Rivières
Commerce Drummond

Normand Provost, ASC
Brossard, Quebec
Member of the Board of Directors
and the Audit Committee
Québecor inc.

Member of the Supervisory Board and the
Remuneration and Human Resources Committee
Keolis

Michel Séguin, CHRP
Outremont, Quebec
Professor, École des sciences de la gestion
Université du Québec à Montréal

President
Advisory commission on governance
and cooperative life (Desjardins)

Member of the Board of Directors
Caisse Desjardins de Mercier-Rosemont

President
Services Praxie inc.

Jacques St-Aubin
Hawkesbury, Ontario
Member of the Board of Directors
Caisse populaire de Hawkesbury Ltée

Member of the Board of Directors
Fédération des caisses populaires de l'Ontario

Member of the Ontario Regional Council

Robert St-Aubin, FCPA, FCA
Repentigny, Quebec
Managing Partner
Demers Beaulne LLP

Laura M. Talbot, MBA, FCPA, FCMA, ICDD
Kingston, Ontario
President
Talbot Allan Consulting Group

Chair of the Management Committee
Canada Border Services Agency

Member of the Board of Directors
Pension and Investment Management Committee –
CPA Canada
Canadian Nuclear Safety Commission

Board committees

Executive committee

Jean-Robert Laporte
Chair

Francine Martel-Vaillancourt (Vice-Chair)
Normand Provost
Robert St-Aubin

Investment committee

Normand Provost
Chair

René Bégin
Kathleen Bilodeau
Robert Blais (observer)
Jean-Robert Laporte
Johanne Marceau

Audit and risk management committee

Robert St-Aubin
Chair

Robert Blais
Claudia Champagne
Francine Martel-Vaillancourt
Laura M. Talbot

Ethics and professional conduct committee

Michel Séguin
Chair

Johanne Girard
Jacques St-Aubin

Company management

Members of management in office on December 31, 2017

Guy Cormier, MBA

President and Chief Executive Officer,
Desjardins Group
Chief Executive Officer, Desjardins Financial Security

Gregory Chrispin, CFA, ICDD

Executive Vice-President, Wealth Management and Life
and Health Insurance, Desjardins Group
President and Chief Operating Officer,
Desjardins Financial Security

Raynald Bisson

Executive Vice-President, Human Resources

Nathalie Bouchard, FSA, FCIA

Executive Vice-President, Corporate Actuarial Services

François Chaput

Executive Vice-President, Performance and Distribution

David Charbonneau, ASA

Executive Vice-President, Group Retirement Savings

François Cholette, LLB

Vice-President, Legal Affairs and Corporate Secretary

Christian Cyr, MBA, ASA

Executive Vice-President, Performance

Josée Dixon, CEBS, CAAS

Executive Vice-President, Group and Business Insurance

François Drouin, CPA, CA

Executive Vice-President, Finance

Daniel Dupuis, CPA, CA

Chief Monitoring Officer, Desjardins Group

Éric Landry, MBA (Fin.)

Executive Vice-President, Investment Solutions

André Langlois, FSA, FCIA

Senior Executive Vice-President, Life and Health
Insurance
Executive Vice-President, Individual Insurance (interim)

Mario Lapierre, MBA, ASC, BBA

Executive Vice-President, Direct Sales and Distribution

Radek Loudin, CFA

Vice-President, Compliance



Pierre Munger

Executive Vice-President, Information Technology

Bill Packham, CPA, CA

Executive Vice-President, National Business Development

Nicolas Richard, MSc, CFA

Executive Vice-President, Investments

Mario Robitaille, FSA, FCIA

Executive Vice-President, Insurance Risk

Michael Rogers, MBA

Vice-President, Distribution Networks Administration

Roger Tessier, MBA

Executive Vice-President, Investment Product Services
and Operations

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www.desjardinslifeinsurance.com

SFL/SFL Investments
www.sflinvestments.ca

Desjardins Financial Security Independent Network/
Desjardins Financial Security Investments Inc.
www.dfsin.ca

Assistel
www.assistel.com

Desjardins Group
www.desjardins.com

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