Consolidated Financial Statements of *Fédération des caisses Desjardins du Québec*

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Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight responsibilities for Desjardins Group. Its mandate consists primarily of:

- Analyzing the financial statements and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor
- Ensuring that a compliance management framework is applied

The AIC reviews the Federation's interim and annual financial statements and Management's Discussion and Analysis, its prospectuses, and its annual information form. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the Federation. The AIC analyzes the information resulting from this financial governance process every quarter.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Federation's entities.

The AIC ensures the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the action plan is carried out, reviews the executive summaries of internal audit reports and, if necessary, takes appropriate follow-up action. As part of these duties, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management. At the end of the fiscal year, the AIC studies the annual report from the Monitoring Office and recommends it to the Board of Directors.

With respect to the Federation's relations with the *Autorité des marchés financiers* (AMF) in Quebec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; the Chief Monitoring Officer of Desjardins Group; and AMF representatives. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of five independent directors and three observers. These observers are: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc. and a caisse general manager who sits on the Federation's Board of Directors. Except for this general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards as well as the impact of changes to the normative and regulatory frameworks to which capital management and corporate governance are subject. Accordingly, all AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter.

The AIC held eight meetings and one training session for its members in fiscal 2017. During the year, Jacques Baril, Serges Chamberland, Luc Forand and Benoît Turcotte left the AIC and Louis Babineau, Jean-François Laporte, Michel Tourangeau and Serge Tourangeau became members. As at December 31, 2017, the five independent directors who are members of the AIC are: Louis Babineau, Stéphane Corbeil, Jean-François Laporte, Michel Tourangeau and Serge Tourangeau. The three observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Neil Hawthorn.

Louis Babineau
Chair

Montreal, Quebec
February 23, 2018

Management’s responsibility for financial reporting

The consolidated financial statements of the Fédération des caisses Desjardins du Québec (the Federation) and all information included in its annual Management’s Discussion and Analysis are the responsibility of management, which is responsible for ensuring reporting integrity and accuracy.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of the Autorité des marchés financiers (AMF) in Quebec, which do not differ from IFRS. These consolidated financial statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the insurance segments. All financial information in the annual Management’s Discussion and Analysis is consistent with the audited consolidated financial statements.

Management is responsible for the accuracy of the Federation’s consolidated financial statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. Such controls include an organizational structure that ensures effective segregation of duties, a code of ethics, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices to ensure the controls and disclosure procedures for financial information presented in the annual and interim filings of the Federation are adequately designed and effective. As at December 31, 2017, in our capacities as Chief Executive Officer and Chief Financial Officer of the Federation, we concluded that internal control over financial reporting is effective.

The AMF examines the affairs of the Federation on a regular basis.

For the purposes of approving the financial information contained in the annual report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The Audit and Inspection Commission is mandated by the Board of Directors to review the Federation’s consolidated financial statements and its Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprising independent directors and three observers who are neither management nor staff of the Federation, exercises an oversight role to ensure that management has developed and implemented adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The consolidated financial statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation’s General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any issues related thereto, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Réal Bellemare
Executive Vice-President Finance, Treasury, Administration and
Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 26, 2018

Independent auditor’s report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

We have audited the accompanying consolidated financial statements of *Fédération des caisses Desjardins du Québec*, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and the accompanying notes, including 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 (IFRS), 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 the consolidated financial statements based on our audits. We conducted our audits 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 audits 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 *Fédération des caisses Desjardins du Québec* as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[(1)]
[(1)]CPA auditor, CA, public accountancy permit No. A119427

Montreal, Quebec
February 26, 2018

Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Cash and deposits with financial institutions		**$ 1,731**	$ 1,212
Securities	6 and 8		
Securities at fair value through profit or loss		**31,654**	31,005
Available-for-sale securities		**15,250**	13,932
		46,904	44,937
Securities borrowed or purchased under reverse repurchase agreements		**9,377**	7,713
Loans	7 and 8		
Residential mortgages		**4,323**	3,486
Consumer, credit card and other personal loans		**17,547**	15,720
Business and government		**37,012**	33,416
		58,882	52,622
Allowance for credit losses	7	**(198)**	(192)
		58,684	52,430
Segregated fund net assets	9	**13,379**	11,965
Other assets			
Clients' liability under acceptances		**31**	11
Premiums receivable		**2,098**	1,961
Derivative financial instruments	19	**3,772**	3,706
Amounts receivable from clients, brokers and financial institutions		**1,563**	2,541
Reinsurance assets	15	**2,202**	2,582
Investment property	10	**817**	806
Property, plant and equipment	10	**780**	769
Goodwill	11	**121**	471
Intangible assets	11	**466**	690
Deferred tax assets	27	**746**	724
Other	12	**2,188**	2,140
Assets of the disposal group held to be transferred	21	**881**	-
		15,665	16,401
TOTAL ASSETS		**$ 145,740**	$ 134,658
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14		
Individuals		**$ 4,353**	$ 3,817
Business and government		**40,963**	36,780
Deposit-taking institutions		**6,833**	6,305
		52,149	46,902
Other liabilities			
Acceptances		**31**	11
Commitments related to securities sold short		**9,112**	8,196
Commitments related to securities lent or sold under repurchase agreements		**10,062**	9,870
Derivative financial instruments	19	**3,677**	2,540
Amounts payable to clients, brokers and financial institutions		**4,247**	4,659
Insurance contract liabilities	15	**28,300**	27,493
Segregated fund net liabilities	9	**13,354**	11,957
Net defined benefit plan liabilities	16	**1,741**	1,478
Deferred tax liabilities	27	**204**	247
Other	17	**4,794**	5,247
Liabilities of the disposal group held to be transferred	21	**662**	-
		76,184	71,698
Subordinated notes	18	**1,388**	1,378
TOTAL LIABILITIES		**129,721**	119,978
EQUITY			
Capital stock	22	**8,537**	8,066
Undistributed surplus earnings		**5,674**	4,781
Accumulated other comprehensive income	23	**458**	393
Reserves		**540**	524
Equity - Group's share		**15,209**	13,764
Non-controlling interests	13 and 15	**810**	916
TOTAL EQUITY		**16,019**	14,680
TOTAL LIABILITIES AND EQUITY		**$ 145,740**	$ 134,658

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

On behalf of the Board of Directors of the Fédération des caisses Desjardins du Québec,

Guy Cormier
Chair of the Board

Yvon Vinet, LL.L., D.D.N.
Vice-Chair of the Board

Consolidated Statements of Income
For the years ended December 31

(in millions of Canadian dollars)	Notes	2017	2016
INTEREST INCOME			
Loans		**$ 2,070**	$ 1,866
Securities		**195**	182
		2,265	2,048
INTEREST EXPENSE			
Deposits		**783**	660
Subordinated notes and other		**78**	85
		861	745
NET INTEREST INCOME		**1,404**	1,303
NET PREMIUMS	15	**8,146**	7,263
OTHER INCOME			
Assessments		**377**	393
Service agreement		**727**	699
Lending fees and credit card service revenues		**660**	575
Brokerage and investment fund services		**1,087**	1,106
Management and custodial service fees		**457**	397
Net income on securities at fair value through profit or loss	25	**1,158**	572
Net income on available-for-sale securities		**405**	335
Net other investment income		**204**	201
Foreign exchange income		**77**	70
Other		**362**	140
		5,514	4,488
TOTAL INCOME		**15,064**	13,054
PROVISION FOR CREDIT LOSSES	7	**278**	248
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	15	**6,795**	5,446
NON-INTEREST EXPENSE			
Remuneration and other payments		**536**	492
Salaries and fringe benefits		**2,255**	2,329
Premises, equipment and furniture, including depreciation		**514**	437
Service agreements and outsourcing		**322**	306
Communications		**244**	265
Other	26	**2,368**	2,193
		6,239	6,022
OPERATING SURPLUS EARNINGS		**1,752**	1,338
Income taxes on surplus earnings	27	**336**	147
SURPLUS EARNINGS BEFORE DIVIDENDS TO MEMBER CAISSES[(1)]		**1,416**	1,191
Dividends to member caisses		**60**	25
Tax recovery on dividends to member caisses	27	**(16)**	(7)
NET SURPLUS EARNINGS FOR THE YEAR AFTER DIVIDENDS TO MEMBER CAISSES		**$ 1,372**	$ 1,173
of which:			
Group's share		**$ 1,329**	$ 1,088
Non-controlling interests' share	13	**43**	85

[(1)] The Group's share of "Surplus earnings before dividends to member caisses" is presented in Note 32, "Segmented information".

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

Consolidated Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2017	2016
Net surplus earnings for the year after dividends to member caisses	**$ 1,372**	$ 1,173
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**(193)**	52
Share of associates and joint ventures accounted for using the equity method	**(2)**	1
	(195)	53
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**246**	217
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(169)**	(105)
	77	112
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**1**	-
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(6)**	(6)
	(5)	(6)
Net unrealized exchange losses on the translation of a net investment in a foreign operation, net of hedging transactions	**-**	(1)
	72	105
Total other comprehensive income, net of income taxes	**(123)**	158
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,249**	$ 1,331
of which:		
Group's share	**$ 1,202**	$ 1,239
Non-controlling interests' share	**47**	92

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

Income taxes on other comprehensive income

The tax expense (recovery) related to each component of other comprehensive income is presented in the following table.

For the years ended December 31

(in millions of Canadian dollars)	2017	2016
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (69)**	$ 20
	(69)	20
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**51**	71
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(35)**	(19)
	16	52
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**1**	-
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(2)**	(2)
	(1)	(2)
	15	50
Total income tax expense (recovery)	**$ (54)**	$ 70

Consolidated Statements of Changes in Equity

For the years ended December 31

(in millions of Canadian dollars)	Capital stock (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Reserves			Equity - Group's share	Non-controlling interests (Notes 13 and 15)	Total equity
				Stabilization reserve	General reserve and other reserves	Total reserves			
BALANCE AS AT DECEMBER 31, 2015	$ 7,505	$ 3,977	$ 265	$ 436	$ 71	$ 507	$ 12,254	$ 1,333	$ 13,587
Net surplus earnings for the year after dividends to member caisses	-	1,088	-	-	-	-	1,088	85	1,173
Other comprehensive income for the year	-	57	94	-	-	-	151	7	158
Comprehensive income for the year	-	1,145	94	-	-	-	1,239	92	1,331
Issuance of F capital shares	598	-	-	-	-	-	598	-	598
F capital share issuance costs	(2)	-	-	-	-	-	(2)	-	(2)
Other net change in capital stock	(35)	-	-	-	-	-	(35)	(60)	(95)
Payments to member caisses	-	(555)	-	-	-	-	(555)	-	(555)
Remuneration on F capital shares	-	(135)	-	-	-	-	(135)	-	(135)
Issuance of share capital	-	-	-	-	-	-	-	10	10
Redemption of share capital	-	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	-	-	-	(40)	(40)
Transfer from participating contract holders	-	362	34	-	-	-	396	(396)	-
Transfer from undistributed surplus earnings (to reserves)	-	(17)	-	-	17	17	-	-	-
Transactions related to put options	-	8	-	-	-	-	8	(6)	2
Other	-	(4)	-	-	-	-	(4)	(14)	(18)
BALANCE AS AT DECEMBER 31, 2016	$ 8,066	$ 4,781	$ 393	$ 436	$ 88	$ 524	$ 13,764	$ 916	$ 14,680
Net surplus earnings for the year after dividends to member caisses	**-**	**1,329**	**-**	**-**	**-**	**-**	**1,329**	**43**	**1,372**
Other comprehensive income for the year	**-**	**(192)**	**65**	**-**	**-**	**-**	**(127)**	**4**	**(123)**
Comprehensive income for the year	**-**	**1,137**	**65**	**-**	**-**	**-**	**1,202**	**47**	**1,249**
Issuance of F capital shares	**375**	**-**	**-**	**-**	**-**	**-**	**375**	**-**	**375**
F capital share issuance costs	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Other net change in capital stock	**97**	**-**	**-**	**-**	**-**	**-**	**97**	**(97)**	**-**
Payments to member caisses	**-**	**(68)**	**-**	**-**	**-**	**-**	**(68)**	**-**	**(68)**
Remuneration on F capital shares	**-**	**(167)**	**-**	**-**	**-**	**-**	**(167)**	**-**	**(167)**
Redemption of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(42)**	**(42)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**(16)**	**-**	**31**	**(15)**	**16**	**-**	**-**	**-**
Transactions related to put options	**-**	**5**	**-**	**-**	**-**	**-**	**5**	**(3)**	**2**
Other	**-**	**2**	**-**	**-**	**-**	**-**	**2**	**(3)**	**(1)**
BALANCE AS AT DECEMBER 31, 2017	**$ 8,537**	**$ 5,674**	**$ 458**	**$ 467**	**$ 73**	**$ 540**	**$ 15,209**	**$ 810**	**$ 16,019**

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

Consolidated Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	Note	2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Operating surplus earnings		**$ 1,752**	$ 1,338
Non-cash adjustments:			
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets		**224**	231
Net change in insurance contract liabilities		**974**	759
Provision for credit losses		**278**	248
Net realized gains on available-for-sale securities		**(208)**	(149)
Impairment loss on available-for-sale securities recognized in profit or loss		**6**	24
Other		**(100)**	55
Change in operating assets and liabilities:			
Securities at fair value through profit or loss		**(852)**	(2,290)
Securities borrowed or purchased under reverse repurchase agreements		**(1,664)**	333
Loans		**(6,532)**	(1,970)
Derivative financial instruments, net amount		**1,079**	1,246
Net amounts receivable from and payable to clients, brokers and financial institutions		**606**	(554)
Deposits		**5,247**	(1,020)
Commitments related to securities sold short		**916**	2,732
Commitments related to securities lent or sold under repurchase agreements		**192**	587
Other		**(10)**	(460)
Payment of the contingent consideration		**(243)**	(121)
Income taxes paid on surplus earnings		**(289)**	(259)
		1,376	730
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Redemption of subordinated notes		**-**	(500)
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market		**10**	(7)
Issuance of F capital shares		**250**	498
F capital share issuance costs		**(1)**	(2)
Payments to member caisses		**(68)**	(555)
Other net change in capital stock		**-**	(95)
Remuneration on capital stock		**(42)**	(35)
Issuance of share capital		**-**	10
Redemption of share capital		**(8)**	(3)
Dividends paid		**(42)**	(40)
Exercise of put options written on non-controlling interests		**(15)**	(17)
		84	(746)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of available-for-sale securities		**(51,240)**	(43,639)
Proceeds from disposals of available-for-sale securities		**15,873**	12,388
Proceeds from maturities of available-for-sale securities		**34,113**	31,964
Disposals of subsidiaries, net of cash and cash equivalents sold		**684**	-
Payment of the contingent consideration recognized at acquisition date		**(23)**	(34)
Acquisitions of property, plant and equipment, intangible assets and investment property		**(332)**	(486)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		**10**	29
		(915)	222
Net increase in cash and cash equivalents		**545**	206
Cash and cash equivalents at beginning of year		**1,212**	1,006
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,757**	1,212
Less:			
Cash and cash equivalents of the disposal group held to be transferred	21	**26**	-
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF YEAR		**$ 1,731**	$ 1,212
Supplemental information on cash flows from (used in) operating activities			
Interest paid		**$ 1,109**	$ 580
Interest and dividends received		**3,288**	3,091

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – INFORMATION ON THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

Nature of operations

The *Fédération des caisses Desjardins du Québec* (the Federation) is the cooperative entity which is responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence over the Federation.

In addition, the Federation is the parent company of several financial services subsidiaries. The various business segments in which the Federation operates are described in Note 32, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

Pursuant to the *Act Respecting Financial Services Cooperatives* (the Act), these Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Consolidated Financial Statements for the current year. These reclassifications had no impact on the Federation's profit or loss or total assets and liabilities.

The Consolidated Financial Statements for the year ended December 31, 2017 were approved by the Board of Directors of the Federation on February 26, 2018.

The significant measurement and presentation rules applied to prepare these Consolidated Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, allowance for credit losses, impairment of available-for-sale securities, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, dividends to member caisses, employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates and assumptions.

Principles of consolidation

The Consolidated Financial Statements of the Federation include the assets, liabilities, operating results and cash flows of the Federation and its subsidiaries. The financial statements of all subsidiaries have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

The Federation administers various funds in accordance with the provisions of the Internal By-laws adopted at the General Meeting. For the purposes of the Consolidated Financial Statements of the Federation, these funds have been grouped together and are designated as a Group.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give the Federation control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

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

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

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.

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by the Group. They are presented separately in the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income and in equity, in the Consolidated Balance Sheets.

Associates

An associate is an entity over which the Federation exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. The Federation investments in associates are presented under “Other assets – Other” in the Consolidated Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in the Federation’s share in the relevant entities’ equity.

Joint arrangements

A joint arrangement is an arrangement of which the Federation 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.
- 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 Federation’s investments in joint ventures are presented under “Other assets – Other” in the Consolidated Balance Sheets.

Presentation and functional currency

These Consolidated Financial Statements are expressed in Canadian dollars, which is also the functional currency of the Federation. Dollar amounts presented in the tables of the Notes to the Consolidated Financial Statements are in millions of dollars, unless otherwise stated.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date the Federation becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Their classification in the categories defined in the financial instrument standards is presented in Note 3, "Carrying amount of financial instruments".

The classification of financial assets can be summarized as follows:

<table>
<tr><th colspan="2" rowspan="2">Categories</th><th rowspan="2">Classes</th><th colspan="2">Recognition</th></tr>
<tr><th>Initial</th><th>Subsequent</th></tr>
<tr><td rowspan="5">Financial assets</td><td rowspan="2">At fair value through profit or loss (i)</td><td>Held for trading (ii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td>Designated as at fair value through profit or loss (iii)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Loans and receivables (iv)</td><td>Fair value</td><td>Amortized cost</td></tr>
<tr><td colspan="2">Available for sale (v)</td><td>Fair value</td><td>Fair value</td></tr>
<tr><td colspan="2">Held to maturity (vi)</td><td>Fair value</td><td>Amortized cost</td></tr>
</table>

(i) Financial assets classified in the "At fair value through profit or loss" category include financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Consolidated Statements of Income under "Net income on securities at fair value through profit or loss".

- Interest and dividend income from securities classified in the "At fair value through profit or loss" category of the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category is recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net income on securities at fair value through profit or loss" using the effective interest method.

(ii) Financial assets classified as "Held for trading" include the following:

- Securities acquired for resale purposes in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking; and

- Derivative financial instruments.

Section m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial assets classified as "Designated as at fair value through profit or loss" are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.

- The assets are part of a group of financial assets or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.

- The assets are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

The Federation's financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing a recognition inconsistency. In addition, the Federation has designated the asset-backed term notes (ABTN) as part of this category. ABTNs are composed of certain hybrid financial instruments containing embedded derivatives, while some others are considered to be part of a group of assets that are managed and whose performance is evaluated on a fair value basis. Lastly, certain securities in this category that back the life and health insurance actuarial liabilities and the property and casualty provisions for claims have been classified as "Designated as at fair value through profit or loss" to eliminate or significantly reduce a recognition inconsistency.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iv) Securities classified in the "Loans and receivables" category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting.

Outstanding securities classified in this category are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the "Loans and receivables" category is presented under "Interest income – loans" in the Consolidated Statements of Income when it is recognized by the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category. Income for the other segments is recognized mainly under "Other income – Other" in the Consolidated Statements of Income.

(v) Securities classified in the "Available for sale" category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the "At fair value through profit or loss", "Held to maturity" or "Loans and receivables" categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates or prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of the Federation.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Consolidated Statements of Comprehensive Income under "Net unrealized gains on available-for-sale securities" until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" for the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category and, for the other segments, are mainly recognized under "Net income on available-for-sale securities".

(vi) Securities classified in the "Held to maturity" category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. The Federation held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

Categories		**Classes**	**Recognition**	
			Initial	**Subsequent**
Financial liabilities	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities classified in the "At fair value through profit or loss" category include financial liabilities "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Consolidated Statements of Income under "Net income on securities at fair value through profit or loss".
- Interest expense related to financial liabilities classified in the "At fair value through profit or loss" category is recognized under "Net income on securities at fair value through profit or loss".

(ii) Financial liabilities classified as "Held for trading" are debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as "Commitments related to securities sold short". Derivative financial instruments are also classified as "Held for trading". Section m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities classified as "Designated as at fair value through profit or loss" have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

The Federation held no instruments in this category at the reporting dates.

(iv) Financial liabilities that are not classified in the "At fair value through profit or loss" category are classified in the "At amortized cost" category.

Financial liabilities classified in this category are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the "At amortized cost" category is recognized under "Interest expense" in the Consolidated Statements of Income for the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category. Income for the other segments is mainly recognized under "Net income on securities at fair value through profit or loss" in the Consolidated Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There is little subjectivity in the determination of the fair value of financial instruments, especially securities and commitments related to securities sold short, obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques rely on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is made in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. Fair value reflects market conditions on a given date and may not be representative of future fair values. It should not be considered as being realizable in the event of immediate settlement of these instruments.

Loans

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by the Federation, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

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, interest rate yield curves, credit curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, the Federation adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of the Federation, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 19, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by the Federation.

Financial instruments whose fair value equals their carrying amount

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 items: "Cash and deposits with financial institutions", "Securities borrowed or purchased under reverse repurchase agreements"; "Clients' liability under acceptances"; "Premiums receivable"; "Amounts receivable from clients, brokers and financial institutions"; some items included in "Other assets – Other", "Acceptances"; "Commitments related to securities lent or sold under repurchase agreements"; "Amounts payable to clients, brokers and financial institutions" and some items included in "Other liabilities – Other".

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the "At fair value through profit or loss" category, in which case they are expensed as incurred.

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 Federation intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets and liabilities

A financial asset is derecognized from the Consolidated Balance Sheets 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 Federation has the obligation to pay them to a third party under certain conditions, or when the Federation transfers the contractual rights to receive the 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 Federation, such asset is not derecognized from the Consolidated Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Federation 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 Federation continues to recognize the asset in the Consolidated Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Consolidated Statements of 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 of ownership of the assets, management evaluates the Federation'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 expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Consolidated Statements of Income.

b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

Securities are instruments classified based on their characteristics and management's intention in the various categories presented in section a), "Financial assets and liabilities", above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Consolidated Balance Sheets, 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 Sheets.

As part of securities borrowings, the Federation 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" in the Consolidated Balance Sheets. 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 sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Consolidated Balance Sheets, 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" in the Consolidated Balance Sheets.

As part of securities loans, the Federation 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" in the Consolidated Balance Sheets. 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Securities sold short

Securities sold short as part of trading activities, which represent the Federation's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized in the Consolidated Statements of Income under "Net income on securities at fair value through profit or loss".

d) Loans

Loans, including advances to policyholders, are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

The fees collected and the direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loan. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as cash, government securities, shares, receivables, inventory or capital assets.

Restructured loans are loans for which the Federation renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations.

Restructured loans remain classified as performing loans when they do not meet the criteria requiring their classification as impaired loans. In addition, management assesses whether such restructured loans are impaired in accordance with its impairment policies.

e) Impairment of financial assets

Impaired loans

At the reporting date, the Federation assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered impaired when there is such evidence, and more specifically when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected; or
- The interest or principal repayment is contractually 90 days past due, unless the loan is fully secured and in the process of collection; or
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan is considered past due when the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to its collection or when it is restructured and is treated as a new loan and there is no doubt as to the collection of principal and interest.

Assets foreclosed to settle impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount and the fair value recorded for the acquired assets is recognized under "Provision for credit losses".

A loan classified as "Loans and receivables" is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Consolidated Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Net other investment income", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Consolidated Statements of Income.

Allowance for credit losses

Objective evidence of impairment results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans.

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. This allowance is presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, the Federation discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

Individual allowances

The Federation first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statements of Income. Loan portfolios for which there is no objective evidence of impairment are included in groups of assets having similar credit characteristics and are subject to a collective allowance.

Collective allowance on impaired loans

Certain consumer, credit card and other personal loan portfolios comprise a large number of homogeneous balances that are not individually material and for which a collective allowance is established based on the portfolio's historical net loss rate.

Collective allowance

The method used by the Federation to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgements and depends on management's assessment of current credit quality trends with respect to business sectors, the impact of changes in its credit policies, and economic conditions.

The collective allowance for the loans of the life and health insurance subsidiaries is included in actuarial liabilities, under "Insurance contract liabilities".

The allowance related to off-balance sheet items, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities – Other" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income.

Available-for-sale securities

Securities classified in the "Available for sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, the Federation takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. 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 financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

The Federation individually assesses debt securities classified in the "Available for sale" category including preferred shares with characteristics and behaviour similar to those of debt securities, to determine whether there is any objective evidence of impairment. The impairment loss represents the cumulative loss, which is the difference between amortized cost and current 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 debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss had been recognized in the Consolidated Statements of Income, the impairment loss is reversed through the Consolidated Statements of Income.

For equity securities classified in the "Available for sale" category, when evidence of impairment exists, the cumulative loss—which corresponds to the difference between acquisition cost and current fair value, less any impairment loss previously recognized—is transferred out of other comprehensive income, in the Consolidated Statements of Comprehensive Income, and recognized in the Consolidated Statements of Income. Impairment losses on equity securities are not reversed to the Consolidated Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded directly in other comprehensive income, in the Consolidated Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in the Consolidated Statements of Income.

f) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, 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 life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under "Non-interest expense – Premises, equipment and furniture, including depreciation" in the Consolidated Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the "Investment property" category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the "Investment property" category to the "Buildings" category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by the Federation becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under "Net other investment income" in the Consolidated Statements of Income.

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	1 to 10 years
Furniture, fixtures and other	3 to 10 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment 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.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Consolidated Statement of Income for the year in which they are realized under "Premises, equipment and furniture, including depreciation" for property, plant and equipment and under "Net other investment income" for investment property.

g) Goodwill and intangible assets

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. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

The Federation assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years. Intangible assets with indefinite useful lives include mainly trademarks and licenses.

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 "Non-interest expense – Other" in the Consolidated Statements of Income upon derecognition of the asset.

h) Impairment of non-financial assets

The Federation assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

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 of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Consolidated Statements of 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 Statements of Income in the year in which they occur.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also 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. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each CGU (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Consolidated Statement of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, 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. 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 the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

i) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of the Federation under acceptances is recognized under "Acceptances", in "Other liabilities". The Federation has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

j) Insurance contract liabilities

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 insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by the insurance subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

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 during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries, and they are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health 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 provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each life and health insurance subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. The actuarial liabilities of these subsidiaries 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 Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries 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. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Consolidated Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Consolidated Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These reinsurance assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

k) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Consolidated Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. 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.

l) Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation 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 management’s best estimate of the amounts required to settle the obligation on the reporting date, taking into account the 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 profit or loss under the items corresponding to the nature of the expenditures covered.

m) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Federation’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 19, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value on the Consolidated Balance Sheets.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in consolidated profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under “Net income on securities at fair value through profit or loss” in the Consolidated Statements of Income.

The Federation uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of member caisses and clients, and to allow the Federation to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Consolidated Balance Sheets, and changes in their fair value are recognized under “Net income on securities at fair value through profit or loss” in the Consolidated Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. These instruments enable the Federation to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Consolidated Balance Sheets, as well as firm commitments and forecasted transactions.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hedging activities

The Federation mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, the Federation must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. 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 of the hedged item attributable to the risk being hedged.

The Federation may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or the Federation terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

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

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. The Federation uses fair value hedge strategies for its securities, loan and deposit portfolios.

In a fair value hedge transaction, changes in the fair value of the hedging derivative financial instrument are recognized under “Net income on securities at fair value through profit or loss” in the Consolidated Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net income on securities at fair value through profit or loss” in the Consolidated Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net income on securities at fair value through profit or loss” in the Consolidated Statements of Income.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. The Federation uses cash flow hedge strategies for its loan, deposit and securities portfolios.

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income under “Net gains on derivative financial instruments designated as cash flow hedges” until the hedged item is recognized in the Consolidated Statements of Income, at which time such changes are recognized in net interest income in the Consolidated Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized in the Consolidated Statements of Income under “Net income on securities at fair value through profit or loss”.

When a cash flow hedging relationship no longer qualifies for hedge accounting, the Federation discontinues such accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under “Net income on securities at fair value through profit or loss”.

n) Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require the Federation 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the Consolidated Statements of Income; or

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 derivative financial instrument. 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 Federation considers the difference between these two amounts as off-balance sheet credit instruments.

o) Reserves

The Federation's stabilization reserve consists of amounts appropriated from the annual surplus earnings. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares issued by a caisse when the amounts appropriated to such caisse's stabilization reserve are not sufficient, and for the payment of interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation are not sufficient.

The general reserve is essentially made up of amounts appropriated by the Federation. This reserve can only be used to eliminate a deficit and cannot be divided amongst member caisses nor used to pay a member dividend. Other reserves are mainly made up of amounts that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized.

p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Federation and that it can be measured reliably. In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category. They are recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets classified in the "Available for sale" category and for financial instruments classified in the "At fair value through profit or loss" category.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period, to obtain the net carrying amount of the financial instrument.

When calculating the effective interest rate, the Federation estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as these premiums are recognized, an actuarial provision is established and recognized in liabilities under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Consolidated Balance Sheets.

Service charges, commissions, brokerage fees and other

The Federation earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its member caisses and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by the Federation is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party - such as the arrangement of share or other securities acquisitions or business purchases or sales - are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income. Income from lending fees and credit card service revenue is recorded under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under "Management and custodial service fees" in the Consolidated Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under "Management and custodial service fees" in the Consolidated Statements of Income.

Fees for service agreements related to technical, financial and administrative support are recognized once the service has been provided or the product has been delivered. This income is recognized under "Service agreements" in the Consolidated Statements of Income.

Dividend income is recognized when the Federation's right to receive payment of the dividend is established.

q) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Consolidated Balance Sheets of the Federation. Income from these management services is recognized under "Management and custodial service fees" in the Consolidated Statements of Income when the service is provided.

r) 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. 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 are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized in the Consolidated Statements of Income under "Foreign exchange income". However, unrealized gains and losses on non-monetary financial instruments classified as "Available for sale", and gains and losses on derivatives designated as cash flow hedging instruments are presented in other comprehensive income in the Consolidated Statements of Comprehensive Income.

s) Leases

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 Federation is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under "Net other investment income" and the leased asset remains recognized in the Consolidated Balance Sheets. 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 profit or loss in the year during which it is earned.

When the Federation is the lessee, the asset is not recognized as an asset. Lease payments made under operating leases are recognized as an expense on a straight-line basis until the end of the lease under "Premises, equipment and furniture, including depreciation", in the Consolidated Statements of Income.

Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset and under which the Federation is the lessor are recognized at the commencement of the lease term as a net investment in a finance lease for the present value of minimum lease payments and any unguaranteed residual value accruing to the lessor under "Other assets – Other", in the Consolidated Balance Sheets. Finance income is recognized in profit or loss on a basis that generates a periodic return on the net investment in the finance lease under "Other income – Other".

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the 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 Federation's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that the Federation expects to recover from or pay 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 dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet 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 Sheets.

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 taxable temporary 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, at the time of the transaction, 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 is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed 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 asset is realized or the liability is 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.

u) Dividends to member caisses

Dividends to member caisses recognized in the Consolidated Statements of Income reflect management's best estimate. They are based on a resolution of the Board of Directors to recommend to the general meeting that payment of these dividends be approved. The annual dividends are determined on the basis of the distribution of the surplus earnings that the Annual General Meeting of the Federation members has approved. Transfers to the reserves are recognized when approved by the member caisses.

v) Employee benefits

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.

Post-employment benefits

Pension and post-retirement benefit plans

The Federation offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also 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 Statements of 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 Statements of 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 Statements of Income and are immediately reclassified to undistributed surplus earnings. Remeasurements of net defined benefit plan liabilities include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Consolidated Statements of 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

The Federation participates in defined benefit group plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as 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 Federation's share in the cost of the group other post-retirement benefit plan of Desjardins Group is determined based on the number of active insureds of the Federation as a percentage of the total number of active insureds for Desjardins Group as a whole.

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 Federation's revenues will therefore not be affected by the adoption of this standard. IFRS 15 thus 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 Federation 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 Federation 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.

The Federation believes that adopting IFRS 15 should not have a material impact on the Group's share of equity as at January 1, 2018.

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.

The Federation 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 Federation 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 Federation estimates that adopting IFRS 9 should result in a decrease in the Group's share of equity of approximately $215 million, net of taxes, as at January 1, 2018 and in a decrease of approximately 43 basis points in regulatory capital ratios. This impact is mainly due to the increase in the allowance for credit losses resulting from the application of the new financial asset impairment model. The Federation continues to refine its processes relating to the new impairment model in preparation for reporting its financial information for the first quarter of 2018.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Federation 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 Federation 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.

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 Federation 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.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Federation elected to apply the overlay approach, which is the only option proposed by these amendments that it may apply, to financial assets that are eligible and designated in accordance with certain specific criteria. The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statements of Income under IFRS 9 and the amount that would have been reported in the Consolidated Statements of Income if the Federation had continued to apply IAS 39 in such a way that net surplus earnings related to designated financial instruments reported in the Consolidated Statements of Income correspond to the amount that would have been reported if the Federation had continued to apply IAS 39.

The Federation 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 Federation estimates that adopting the amendments to IFRS 4 should result in a reclassification of approximately $405 million, after taxes, from “Undistributed surplus earnings” to “Accumulated other comprehensive income” as at January 1, 2018.

IFRS 16, “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which will replace the current standard, 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.

The Federation is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

IFRS 17, “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which will replace the current standard, 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.

The Federation is currently assessing the impact of adopting IFRS 17, which will be effective for annual periods beginning on or after January 1, 2021.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards.

	At fair value through profit or loss				
As at December 31, 2017	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Total**
Financial assets					
Cash and deposits with financial institutions	$ 23	$ 298	$ 639	$ 771	$ 1,731
Securities					
Securities at fair value through profit or loss	13,312	18,342	-	-	31,654
Available-for-sale securities	-	-	15,250	-	15,250
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	9,377	9,377
Loans[(1)]	-	-	-	58,684	58,684
Other financial assets					
Clients' liability under acceptances	-	-	-	31	31
Premiums receivable	-	-	-	2,098	2,098
Derivative financial instruments[(2)]	3,772	-	-	-	3,772
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,563	1,563
Other	-	-	-	1,013	1,013
Total financial assets	$ 17,107	$ 18,640	$ 15,889	$ 73,537	$ 125,173
Financial liabilities					
Deposits	$ -	$ -	$ -	$ 52,149	$ 52,149
Other financial liabilities					
Acceptances	-	-	-	31	31
Commitments related to securities sold short	9,112	-	-	-	9,112
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,062	10,062
Derivative financial instruments[(2)]	3,677	-	-	-	3,677
Amounts payable to clients, brokers and financial institutions	-	-	-	4,247	4,247
Other	452	-	-	2,638	3,090
Subordinated notes	-	-	-	1,388	1,388
Total financial liabilities	$ 13,241	$ -	$ -	$ 70,515	$ 83,756

(1) For more information, see Note 7, "Loans and allowance for credit losses".
(2) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $275 million in assets and $351 million in liabilities. For details derivatives designated as hedging instruments, see Note 19, "Derivative financial instruments and hedging activities".

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2016	At fair value through profit or loss: Held for trading	At fair value through profit or loss: Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets					
Cash and deposits with financial institutions	$ 21	$ 122	$ 195	$ 874	$ 1,212
Securities					
Securities at fair value through profit or loss	12,363	18,642	-	-	31,005
Available-for-sale securities	-	-	13,932	-	13,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,713	7,713
Loans[(1)]	-	-	-	52,430	52,430
Other financial assets					
Clients' liability under acceptances	-	-	-	11	11
Premiums receivable	-	-	-	1,961	1,961
Derivative financial instruments[(2)]	3,706	-	-	-	3,706
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,541	2,541
Other	-	-	-	998	998
Total financial assets	$ 16,090	$ 18,764	$ 14,127	$ 66,528	$ 115,509
Financial liabilities					
Deposits	$ -	$ -	$ -	$ 46,902	$ 46,902
Other financial liabilities					
Acceptances	-	-	-	11	11
Commitments related to securities sold short	8,196	-	-	-	8,196
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,870	9,870
Derivative financial instruments[(2)]	2,540	-	-	-	2,540
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	4,659
Other	432	-	-	3,116	3,548
Subordinated notes	-	-	-	1,378	1,378
Total financial liabilities	$ 11,168	$ -	$ -	$ 65,936	$ 77,104

(1) For more information, see Note 7, "Loans and allowance for credit losses".
(2) Include derivative financial instruments related to fair value and cash flow hedging activities amounting to $1,078 million in assets and $343 million in liabilities. For details on derivatives designated as hedging instruments, see Note 19, "Derivative financial instruments and hedging activities".

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

The fair value measurement of instruments is determined using the following three-level fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

TRANSFERS BETWEEN LEVELS

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following tables present the hierarchy for financial instruments measured at fair value in the Consolidated Balance Sheets.

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 8	$ 313	$ -	$ 321
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,620	1,247	-	8,867
Provincial governmental entities and municipal corporations in Canada	15,232	1,176	-	16,408
School or public corporations in Canada	14	94	-	108
Foreign public administrations	312	-	-	312
Other securities				
Financial institutions	29	800	58	887
Other issuers	-	2,497	867	3,364
Equity securities	1,236	236	236	1,708
	24,451	6,363	1,161	31,975
Derivative financial instruments				
Interest rate contracts	-	1,624	-	1,624
Foreign exchange contracts	-	390	-	390
Other contracts	-	1,758	-	1,758
	-	3,772	-	3,772
Total financial assets at fair value through profit or loss	24,451	10,135	1,161	35,747
Available-for-sale financial assets				
Cash and deposits with financial institutions	36	603	-	639
Available-for-sale securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	1,821	573	-	2,394
Provincial governmental entities and municipal corporations in Canada	4,610	1,205	-	5,815
Foreign public administrations	7	28	-	35
Other securities				
Financial institutions	-	2,878	-	2,878
Other issuers	5	751	95	851
Equity securities	2,367	631	279	3,277
Total available-for-sale financial assets	8,846	6,669	374	15,889
Financial instruments of segregated funds	5,859	7,456	60	13,375
Total financial assets	$ 39,156	$ 24,260	$ 1,595	$ 65,011
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,951	$ 161	$ -	$ 9,112
Other	-	-	452	452
	8,951	161	452	9,564
Derivative financial instruments				
Interest rate contracts	-	1,619	-	1,619
Foreign exchange contracts	-	365	-	365
Other contracts	-	1,693	-	1,693
	-	3,677	-	3,677
Total financial liabilities	$ 8,951	$ 3,838	$ 452	$ 13,241

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE *(continued)*

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 136	$ -	$ 143
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,569	1,026	-	8,595
Provincial governmental entities and municipal corporations in Canada	14,790	1,165	-	15,955
School or public corporations in Canada	19	97	-	116
Foreign public administrations	231	-	-	231
Other securities				
Financial institutions	29	1,009	60	1,098
Other issuers	-	2,624	996	3,620
Equity securities	1,066	227	97	1,390
	23,711	6,284	1,153	31,148
Derivative financial instruments				
Interest rate contracts	-	1,177	-	1,177
Foreign exchange contracts	-	1,189	-	1,189
Other contracts	-	1,340	-	1,340
	-	3,706	-	3,706
Total financial assets at fair value through profit or loss	23,711	9,990	1,153	34,854
Available-for-sale financial assets				
Cash and deposits with financial institutions	19	176	-	195
Available-for-sale securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	1,415	603	-	2,018
Provincial governmental entities and municipal corporations in Canada	6,221	1,050	-	7,271
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	911	-	911
Other issuers	5	492	101	598
Equity securities	2,384	587	130	3,101
Total available-for-sale financial assets	10,054	3,842	231	14,127
Financial instruments of segregated funds	5,331	6,627	20	11,978
Total financial assets	$ 39,096	$ 20,459	$ 1,404	$ 60,959
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,069	$ 127	$ -	$ 8,196
Other	-	-	432	432
	8,069	127	432	8,628
Derivative financial instruments				
Interest rate contracts	-	891	-	891
Foreign exchange contracts	-	365	-	365
Other contracts	-	1,284	-	1,284
	-	2,540	-	2,540
Total financial liabilities	$ 8,069	$ 2,667	$ 432	$ 11,168

During the year ended December 31, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value. During the year ended December 31, 2016, ABTNs having a carrying amount of $800 million were transferred from Level 3 to Level 2 as they were settled during the first quarter of 2017 and the unobservable inputs with respect to the related illiquidity premium were not deemed significant to the measurement of fair value. No other material transfers attributable to changes in the observability of market data were made between hierarchy levels for financial instruments measured at fair value during the year ended December 31, 2016.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

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

As at December 31, 2017	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$ 58,684**	**$ 58,951**	**$ -**	**$ 32,376**	**$ 26,575**
Financial liabilities					
Deposits	**52,149**	**50,182**	**1,169**	**49,013**	**-**
Subordinated notes	**1,388**	**1,488**	**-**	**1,488**	**-**

As at December 31, 2016	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 52,430	$ 52,748	$ -	$ 30,269	$ 22,479
Financial liabilities					
Deposits	46,902	46,918	1,065	45,853	-
Subordinated notes	1,378	1,521	-	1,521	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

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

The most significant financial instruments categorized within Level 3 that are held by the Federation are mortgage bonds, equity securities, the financial liability related to put options written on certain non-controlling interests as well as the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, the Federation 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 Federation measures the majority of equity securities based on brokers' valuations obtained from independent third parties. Data obtained are reviewed and approved by the Federation.

In connection with the acquisition of Qtrade Canada Inc., which was completed in 2013, the Federation wrote in favour of certain holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such date (hereinafter referred to as "Financial liability related to put options"). The main inputs used in the measurement of this financial liability are derived from internal forecasts prepared by the management of the acquiree and estimates made by the Federation. The internal forecasts and assumptions on which this valuation technique is based have been prepared by an independent third party and have been reviewed and approved by the Federation.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), the Federation recognized a contingent consideration resulting from the price adjustment clause of the agreement. State Farm will compensate the Federation for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while the Federation will have to give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Changes in fair value of financial instruments categorized within Level 3

The following tables present the changes in fair value for financial instruments categorized within Level 3 of the hierarchy, namely financial instruments whose fair value is determined using valuation techniques not based mainly on observable market data.

2017	Balance at beginning of year	Realized gains / losses recognized in profit or loss[(1)]	Unrealized gains / losses recognized in profit or loss[(2)]	Unrealized gains / losses recognized in other comprehensive income[(3)]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 60	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 58
Other issuers								
Hedge funds	7	-	5	-	-	-	(8)	4
Asset-backed term notes	8	-	1	-	-	-	(3)	6
Mortgage bonds	981	-	(22)	-	-	-	(102)	857
Equity securities	97	(1)	13	-	(7)	172	(38)	236
Total financial assets at fair value through profit or loss	1,153	(1)	(5)	-	(7)	172	(151)	1,161
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	(3)	-	-	(3)	95
Equity securities	130	-	3	24	-	130	(8)	279
Total available-for-sale financial assets	231	-	3	21	-	130	(11)	374
Financial instruments of segregated funds	20	-	3	-	(4)	44	(3)	60
Total financial assets	$ 1,404	$ (1)	$ 1	$ 21	$ (11)	$ 346	$ (165)	$ 1,595
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 68	$ -	$ 7	$ -	$ -	$ -	$ (11)	$ 64
Financial liability related to the contingent consideration	364	-	290	-	-	-	(266)	388
Total financial liabilities	$ 432	$ -	$ 297	$ -	$ -	$ -	$ (277)	$ 452

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.

(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”.

(3) Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains on available-for-sale securities” in the Consolidated Statements of Comprehensive Income.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Changes in fair value of financial instruments categorized within Level 3 *(continued)*

2016	Balance at beginning of year	Realized gains / losses recognized in profit or loss(1)	Unrealized gains / losses recognized in profit or loss(2)	Unrealized gains / losses recognized in other comprehensive income(3)	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ (2)	$ -	$ -	$ -	$ (10)	$ 60
Other issuers								
Hedge funds	8	-	(1)	-	-	-	-	7
Asset-backed term notes	801	-	10	-	(800)	-	(3)	8
Mortgage bonds	1,043	-	(20)	-	-	13	(55)	981
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	1	(1)	-	-	48	(19)	97
Total financial assets at fair value through profit or loss	2,019	1	(13)	-	(800)	61	(115)	1,153
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	(2)	-	-	(3)	101
Equity securities	131	-	(2)	27	(38)	29	(17)	130
Total available-for-sale financial assets	237	-	(2)	25	(38)	29	(20)	231
Financial instruments of segregated funds	8	-	-	-	-	12	-	20
Total financial assets	$ 2,264	$ 1	$ (15)	$ 25	$ (838)	$ 102	$ (135)	$ 1,404
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 8	$ -	$ -	$ -	$ (19)	$ 68
Financial liability related to the contingent consideration	258	-	261	-	-	-	(155)	364
Derivative financial instruments								
Other contracts	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ 269	$ -	$ (38)	$ -	$ (174)	$ 432

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”.
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains on available-for-sale securities” in the Consolidated Statements of Comprehensive Income.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

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

As at December 31, 2017	**Fair value**	**Main valuation techniques**	**Unobservable inputs**	**Input value ranges**		
Financial assets						
Securities						
Mortgage bonds	**$ 1,010**	Discounted cash flows	Credit spread[B,C] Comparable inputs[B,C]	**0 bp** **0 bp**	**to** **to**	**300 bp** **410 bp**
	54	Brokers' valuations	Brokers' inputs	**-**		**-** [1]
Equity securities	**461**	Adjusted net asset value	Adjusted net asset value[A,C]	**-**		**-** [1]
Other financial assets[2]	**70**					
Total financial assets	**$ 1,595**					
Financial liabilities						
Other liabilities - Other						
Financial liability related to put options	**$ 64**	Discounted cash flows	Enterprise value[A,C] Discount rate[B,C] Put option exercise date[B,C]	**-** **6 months**	 **7.5%** **to**	**-** [3] **2 years**
Financial liability related to the contingent consideration	**388**	Actuarial techniques[4]	Provision for claims and adjustment expenses[B]	**-**		**-** [5]
Total financial liabilities	**$ 452**					

As at December 31, 2016	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges		
Financial assets						
Securities						
Mortgage bonds	$ 1,142	Discounted cash flows	Credit spread[B,C] Comparable inputs[B,C]	0 bp 0 bp	to to	300 bp 520 bp
	35	Brokers' valuations	Brokers' inputs	-		- [1]
Equity securities	192	Adjusted net asset value	Adjusted net asset value[A,C]	-		- [1]
Other financial assets[2]	35					
Total financial assets	$ 1,404					
Financial liabilities						
Other liabilities - Other						
Financial liability related to put options	$ 68	Discounted cash flows	Enterprise value[A,C] Discount rate[B,C] Put option exercise date[B,C]	- 6 months	 7.5% to	- [3] 3 years
Financial liability related to the contingent consideration	364	Actuarial techniques[4]	Provision for claims and adjustment expenses[B]	-		- [5]
Total financial liabilities	$ 432					

(1) Due to the nature of this type of investment, no input value range is presented.

(2) Include other financial assets such as financial instruments of segregated funds.

(3) Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.

(4) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 15, "Insurance contract liabilities".

(5) Due to the nature of this financial liability, no input value range is presented.

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

(C) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Balance Sheets when, and only when, the Federation 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 Federation 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 that do not meet the criteria for offsetting in the Consolidated Balance Sheets 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 Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Consolidated Balance Sheets 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 Federation 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 directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Consolidated Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Consolidated Balance Sheets.

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

				Associated amounts not set off in the Consolidated Balance Sheets[1]		
As at December 31, 2017	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Consolidated Balance Sheets[2]**	**Financial instruments[3]**	**Financial collateral held / pledged**	**Residual amounts not set off**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 11,308	$ 1,931	$ 9,377	$ 4,538	$ 4,839	$ -
Derivative financial instruments	3,760	-	3,760	1,883	1,848	29
Amounts receivable from clients, brokers and financial institutions and other	33	24	9	5	-	4
Total financial assets	$ 15,101	$ 1,955	$ 13,146	$ 6,426	$ 6,687	$ 33
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 11,993	$ 1,931	$ 10,062	$ 4,538	$ 5,520	$ 4
Derivative financial instruments	2,058	-	2,058	1,883	111	64
Amounts payable to clients, brokers and financial institutions	90	24	66	5	-	61
Total financial liabilities	$ 14,141	$ 1,955	$ 12,186	$ 6,426	$ 5,631	$ 129

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) 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.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2016	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets[2]	Associated amounts not set off in the Consolidated Balance Sheets[1] – Financial instruments[3]	Associated amounts not set off in the Consolidated Balance Sheets[1] – Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 8,677	$ 964	$ 7,713	$ 3,588	$ 4,124	$ 1
Derivative financial instruments	3,693	-	3,693	740	2,938	15
Amounts receivable from clients, brokers and financial institutions and other	16	7	9	5	-	4
Total financial assets	$ 12,386	$ 971	$ 11,415	$ 4,333	$ 7,062	$ 20
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 10,834	$ 964	$ 9,870	$ 3,588	$ 6,282	$ -
Derivative financial instruments	1,225	-	1,225	740	107	378
Amounts payable to clients, brokers and financial institutions and other	24	7	17	5	3	9
Total financial liabilities	$ 12,083	$ 971	$ 11,112	$ 4,333	$ 6,392	$ 387

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) 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.

NOTE 6 – SECURITIES

MATURITIES OF SECURITIES

The following table presents an analysis of the maturities of the Federation's securities.

	Terms to maturity							
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	As at December 31, 2017	As at December 31, 2016
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Debt securities issued or guaranteed by								
Canadian governmental entities	$ 2,403	$ 1,471	$ 3,035	$ 375	$ 1,583	$ -	$ 8,867	$ 8,595
Provincial governmental entities and municipal corporations in Canada	1,677	2,251	1,546	2,843	8,091	-	16,408	15,955
School or public corporations in Canada	-	-	-	22	86	-	108	116
Foreign public administrations	81	-	178	27	26	-	312	231
Other securities								
Financial institutions	293	313	55	113	113	-	887	1,098
Other issuers	231	178	349	489	2,113	4	3,364	3,620
Equity securities	-	-	-	-	-	1,708	1,708	1,390
Total financial assets at fair value through profit or loss	4,685	4,213	5,163	3,869	12,012	1,712	31,654	31,005
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by:								
Canadian governmental entities	227	822	1,273	72	-	-	2,394	2,018
Provincial governmental entities and municipal corporations in Canada	1,402	1,265	1,060	1,294	794	-	5,815	7,271
Foreign public administrations	9	-	1	10	15	-	35	33
Other securities in Canada								
Financial institutions	2,347	205	222	92	12	-	2,878	911
Other issuers	269	70	138	361	13	-	851	598
Equity securities	-	-	-	-	6	3,271	3,277	3,101
Total available-for-sale financial assets	4,254	2,362	2,694	1,829	840	3,271	15,250	13,932
Total securities	$ 8,939	$ 6,575	$ 7,857	$ 5,698	$ 12,852	$ 4,983	$ 46,904	$ 44,937

NOTE 6 – SECURITIES *(continued)*

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

As at December 31, 2017	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 2,417**	**$ 2**	**$ 25**	**$ 2,394**
Provincial governmental entities and municipal corporations in Canada	**5,746**	**106**	**37**	**5,815**
Foreign public administrations	**35**	**-**	**-**	**35**
Other securities				
Financial institutions	**2,882**	**1**	**5**	**2,878**
Other issuers	**846**	**10**	**5**	**851**
Equity securities	**2,738**	**578**	**39**	**3,277**
	$ 14,664	**$ 697**	**$ 111**	**$ 15,250**

As at December 31, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 2,015	$ 8	$ 5	$ 2,018
Provincial governmental entities and municipal corporations in Canada	7,175	112	16	7,271
Foreign public administrations	33	-	-	33
Other securities				
Financial institutions	909	4	2	911
Other issuers	582	17	1	598
Equity securities	2,711	436	46	3,101
	$ 13,425	$ 577	$ 70	$ 13,932

Impairment losses recognized

During the years ended December 31, 2017 and 2016 the Federation concluded that there was no objective evidence of material impairment.

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

The Federation holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $6 million and $35 million, respectively, as at December 31, 2017 ($807 million and $839 million as at December 31, 2016).

During the first quarter of 2017, substantially all of MAV 1's ABTNs were settled, and a cash consideration of $799 million, corresponding to the nominal value of these ABTNs, was received.

Impact on profit or loss

A gain of $1 million related to the fair value of ABTNs was recognized in the Federation's Consolidated Statement of Income for the year ended December 31, 2017 (gain of $10 million for the year ended December 31, 2016).

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at December 31, 2017	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[(1)]	Net loans
Residential mortgages	$ 4,260	$ 55	$ 8	$ 5	$ 2	$ 4,316
Consumer, credit card and other personal loans	16,764	711	72	-	136	17,411
Business and government	36,986	22	4	4	51	36,957
	$ 58,010	$ 788	$ 84	$ 9	$ 189	$ 58,684

(1) Includes the collective allowance on impaired loans of $23 million.

As at December 31, 2016	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[(1)]	Net loans
Residential mortgages	$ 3,442	$ 42	$ 2	$ -	$ 3	$ 3,483
Consumer, credit card and other personal loans	14,989	649	82	-	135	15,585
Business and government	33,249	156	11	5	49	33,362
	$ 51,680	$ 847	$ 95	$ 5	$ 187	$ 52,430

(1) Includes the collective allowance on impaired loans of $22 million.

As at December 31, 2017, the balance of "Business and government" loans included an amount of $26 billion ($24 billion as at December 31, 2016) corresponding to loans to member caisses that are neither past due nor impaired. No collective allowance has been recognized for these loans.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

The following tables present the aging of gross loans that are past due but not impaired.

As at December 31, 2017	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 43	$ 4	$ -	$ 8	$ 55
Consumer, credit card and other personal loans	559	104	48	-	711
Business and government	21	1	-	-	22
	$ 623	$ 109	$ 48	$ 8	$ 788

As at December 31, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 35	$ 5	$ 1	$ 1	$ 42
Consumer, credit card and other personal loans	488	109	52	-	649
Business and government	155	1	-	-	156
	$ 678	$ 115	$ 53	$ 1	$ 847

ALLOWANCE FOR CREDIT LOSSES

The following table presents the changes in the allowances for credit losses for the years ended December 31.

	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at beginning of year	$ 3	$ 2	$ 148	$ 143	$ 87	$ 126	$ 238	$ 271
Provision for credit losses	4	1	281	286	(7)	(39)	278	248
Write-offs and recoveries	-	-	(278)	(281)	-	-	(278)	(281)
Balance at end of year	$ 7	$ 3	$ 151	$ 148	$ 80	$ 87	$ 238	$ 238
Composed of:								
Allowance for credit losses	$ 7	$ 3	$ 137	$ 135	$ 54	$ 54	$ 198	$ 192
Allowance for off-balance sheet items[(1)]	-	-	14	13	26	33	40	46

(1) The allowance for off-balance sheet items is presented under "Other liabilities – Other".

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of Desjardins Group's liquidity and capital management strategy, the Federation participates in the National Housing Act (NHA) Mortgage-Backed Securities Program. Under this program, the Federation acquires interests in securitized mortgage loans from Desjardins Group member caisses. It then bundles the residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust (CHT) where they are legally held on behalf of the Federation. The acquired interests in securitized mortgage loans do not meet the recognition criteria as member caisses retain substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. Furthermore, the Federation treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors. The legal guarantee of third parties holding CMBs is limited to the transferred assets.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and the Federation in order to receive all cash flows related to the mortgage loans underlying the NHA MBSs every month. The Federation pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, the Federation must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

Under this same program, the Federation bundles some of its residential mortgage loans guaranteed by CMHC into NHA MBSs and transfers them to a related party. As part of these transactions, the Federation retains substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. As a result, these loans continue to be recognized in the Consolidated Balance Sheets. Furthermore, the Federation treats the transfers as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

No material loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under "Interest income – Securities" and "Interest income – Loans".

Securities lent or sold under repurchase agreements

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

The following table presents the carrying amount and the fair value of financial assets transferred by the Federation but not derecognized as well as the related liabilities recognized in the Consolidated Balance Sheets.

	As at December 31, 2017		As at December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 34**	**$ 34**	$ 34	$ 34
Securities sold under repurchase agreements	**6,537**	**6,537**	8,761	8,761
Securities lent	**2**	**2**	2	2
	$ 6,573	**$ 6,573**	$ 8,797	$ 8,797
Related liabilities	**$ 6,473**	**$ 6,473**	$ 8,690	$ 8,690

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

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

	As at December 31, 2017	As at December 31, 2016
Investments		
Bonds	**$ 541**	$ 523
Shares and mutual fund units	**12,789**	11,418
Money market securities	**45**	37
Securities borrowed or purchased under reverse repurchase agreements	**30**	48
Other assets	**74**	121
Commitments related to securities lent or sold under repurchase agreements	**(6)**	(40)
Liabilities	**(63)**	(112)
Net assets held for segregated fund contract holders	**$ 13,410**	$ 11,995
Assets held for the insurer	**(31)**	(30)
Total segregated fund net assets[(1)]	**$ 13,379**	$ 11,965

[(1)]The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to $25 million as at December 31, 2017 ($8 million as at December 31, 2016).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. The Federation classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, "Fair value of financial instruments".

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 items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Liabilities".

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

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Investments				
Bonds	**$ 305**	**$ 236**	**$ -**	**$ 541**
Shares and mutual fund units	**5,518**	**7,211**	**60**	**12,789**
Money market securities	**36**	**9**	**-**	**45**
Total financial instruments recognized at fair value	**$ 5,859**	**$ 7,456**	**$ 60**	**$ 13,375**

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 301	$ 222	$ -	$ 523
Shares and mutual fund units	5,004	6,394	20	11,418
Money market securities	26	11	-	37
Total financial instruments recognized at fair value	$ 5,331	$ 6,627	$ 20	$ 11,978

During the years ended December 31, 2017 and 2016, no transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

NOTE 9 – SEGREGATED FUNDS *(continued)*

Derecognition of financial assets

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 assets remain recognized in the Consolidated Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2017 and 2016, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Consolidated Balance Sheets were $6 million and $6 million, respectively.

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 $6 million as at December 31, 2017 ($6 million 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 $5 million ($7 million as at December 31, 2016). No financial assets held as collateral had been sold or repledged in 2017 and 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 Federation 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.

Segregated fund net liabilities

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

	As at December 31, 2017	As at December 31, 2016
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 11,987**	$ 9,804
Additions		
Amounts received from contract holders	**1,840**	2,811
Net investment income	**1,183**	804
	3,023	3,615
Deductions		
Withdrawals and redemptions	**1,479**	1,297
Management fees	**146**	135
	1,625	1,432
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 13,385**	$ 11,987
Liabilities to the insurer	**(31)**	(30)
Total segregated fund net liabilities[(1)]	**$ 13,354**	$ 11,957

[(1)] The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to $25 million as at December 31, 2017 ($8 million as at December 31, 2016).

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at December 31, 2015	$ 33	$ 541	$ 285	$ 178	$ 232	$ 1,269	$ 131	$ 748	$ 879
Additions	-	12	61	16	33	122	57	139	196
Disposals	-	(1)	(29)	(22)	(8)	(60)	(2)	(7)	(9)
Other	-	34	13	12	10	69	-	(38)	(38)
As at December 31, 2016	$ 33	$ 586	$ 330	$ 184	$ 267	$ 1,400	$ 186	$ 842	$ 1,028
Additions	**-**	**17**	**54**	**22**	**57**	**150**	**-**	**36**	**36**
Disposals	**(1)**	**(3)**	**(72)**	**(48)**	**(43)**	**(167)**	**(6)**	**-**	**(6)**
Other	**-**	**-**	**-**	**-**	**(2)**	**(2)**	**1**	**4**	**5**
As at December 31, 2017	**$ 32**	**$ 600**	**$ 312**	**$ 158**	**$ 279**	**$ 1,381**	**$ 181**	**$ 882**	**$ 1,063**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at December 31, 2015	$ -	$ 129	$ 201	$ 85	$ 109	$ 524	$ 4	$ 206	$ 210
Depreciation	-	19	44	17	20	100	-	27	27
Disposals	-	(1)	(24)	(14)	(6)	(45)	-	(1)	(1)
Other	-	12	15	14	11	52	-	(14)	(14)
As at December 31, 2016	$ -	$ 159	$ 236	$ 102	$ 134	$ 631	$ 4	$ 218	$ 222
Depreciation	**-**	**20**	**49**	**14**	**18**	**101**	**-**	**29**	**29**
Disposals	**-**	**(2)**	**(65)**	**(38)**	**(30)**	**(135)**	**(4)**	**-**	**(4)**
Other	**-**	**1**	**1**	**3**	**(1)**	**4**	**-**	**(1)**	**(1)**
As at December 31, 2017	**$ -**	**$ 178**	**$ 221**	**$ 81**	**$ 121**	**$ 601**	**$ -**	**$ 246**	**$ 246**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2017	**$ 32**	**$ 422**	**$ 91**	**$ 77**	**$ 158**	**$ 780**	**$ 181**	**$ 636**	**$ 817**
As at December 31, 2016	$ 33	$ 427	$ 94	$ 82	$ 133	$ 769	$ 182	$ 624	$ 806

As at December 31, 2017, no amounts were included in the buildings balance for costs related to buildings under construction ($7 million as at December 31, 2016). In addition, as at December 31, 2017 and 2016, the Federation had no commitments related to the acquisition of these buildings.

As at December 31, 2017, the fair value of investment property was $1,502 million ($1,383 million as at December 31, 2016). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, “Fair value of financial instruments”, as it is measured using techniques that are not primarily based on observable market inputs. 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, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2017, rental income from investment property amounted to $157 million ($147 million in 2016). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $103 million ($102 million in 2016), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net other investment income” in the Consolidated Statements of Income.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The following table presents goodwill allocated to CGUs and groups of CGUs.

	Property and Casualty Insurance segment	Wealth Management and Life and Health Insurance segment	Total
Cost			
As at December 31, 2015	$ 416	$ 56	$ 472
Other[1]	(1)	-	(1)
As at December 31, 2016	$ 415	$ 56	$ 471
Disposals[2] / retirements[3]	**(315)**	**(35)**	**(350)**
As at December 31, 2017	**$ 100**	**$ 21**	**$ 121**

[1] During the year ended December 31, 2016, the Federation recognized a $1 million loss as a deduction to goodwill to measure the assets and liabilities of Western Financial Insurance Company at fair value less costs to sell. This subsidiary was sold on January 1, 2017.

[2] For more information, see Note 20, "Significant disposals".

[3] For more information, see Note 21, "Disposal group held to be transferred".

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc. The Western Financial Group Inc. and Western Financial Insurance Company subsidiaries, which were previously included in this segment, were sold during the year ended December 31, 2017, as described in Note 13, “Interests in other entities”. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc. and, Desjardins Financial Corporation Inc. Goodwill attributable to Qtrade Canada Inc., which was previously presented in this segment, is presented under “Assets of the disposal group held to be transferred” as at December 31, 2017.

Test results show that the recoverable amount of CGUs and groups of CGUs represented by each of these segments exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2017 and prior periods.

The recoverable amount of CGUs and groups of CGUs has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.5% (2.5% in 2016) for the Property and Casualty Insurance segment and 2.0% (2.0% in 2016) for the Wealth Management and Life and Health Insurance segment. In addition, the discount rate used to discount the projected cash flows was 11.5% (10.6% in 2016) for the Property and Casualty Insurance segment and 6.9% (6.9% in 2016) for the Wealth Management and Life and Health Insurance segment. These rates represented the weighted average cost of capital of the Federation as at September 30 for the Property and Casualty Insurance segment and the Wealth Management and Life and Health Insurance segment, respectively.

The Federation believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of these CGUs and groups of CGUs to exceed their recoverable amount. The carrying amount of each of these CGUs and groups of CGUs would be lower than their recoverable amount even with a decrease of 10% (10% as at December 31, 2016) in budgeted margins or a decrease of 3% (3% as at December 31, 2016) in the growth rate.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS *(continued)*

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software	Client relationships	Other[1]	Total
Cost				
As at December 31, 2015	$ 745	$ 191	$ 248	$ 1,184
Acquisitions / additions	163	3	2	168
Disposals / retirements	(67)	(3)	(3)	(73)
Other	5	6	(18)	(7)
As at December 31, 2016	$ 846	$ 197	$ 229	$ 1,272
Acquisitions / additions	**142**	**-**	**4**	**146**
Disposals[2] / retirements[3]	**(158)**	**(178)**	**(108)**	**(444)**
Other	**(2)**	**-**	**(1)**	**(3)**
As at December 31, 2017	**$ 828**	**$ 19**	**$ 124**	**$ 971**

	Software	Client relationships	Other[1]	Total
Accumulated amortization				
As at December 31, 2015	$ 425	$ 45	$ 54	$ 524
Amortization	83	10	11	104
Disposals / retirements	(44)	-	(2)	(46)
Other	12	6	(18)	-
As at December 31, 2016	$ 476	$ 61	$ 45	$ 582
Amortization	**82**	**5**	**7**	**94**
Disposals[2] / retirements[3]	**(107)**	**(59)**	**(12)**	**(178)**
Other	**7**	**-**	**-**	**7**
As at December 31, 2017	**$ 458**	**$ 7**	**$ 40**	**$ 505**

	Software	Client relationships	Other[1]	Total
Net carrying amount				
As at December 31, 2017	**$ 370**	**$ 12**	**$ 84**	**$ 466**
As at December 31, 2016	$ 370	$ 136	$ 184	$ 690

[1] The “Other” category mainly includes trademarks, licenses and the amount related to the acquisition of insurance contract portfolios and a distribution network. As at December 31, 2017, the Federation held no intangible assets with indefinite useful lives in this category ($93 million as at December 31, 2016).
[2] For more information, see Note 20, "Significant disposals".
[3] For more information, see Note 21, "Disposal group held to be transferred".

NOTE 12 – OTHER ASSETS – OTHER

The following table presents the breakdown of “Other assets – Other”.

	As at December 31, 2017	As at December 31, 2016
Accounts receivable	**$ 597**	$ 654
Investments in companies accounted for using the equity method (Note 13)	**515**	567
Interest receivable	**295**	286
Prepaid expenses	**159**	129
Taxes receivable	**48**	50
Other	**574**	454
	$ 2,188	$ 2,140

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries of the Federation 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 Federation in each of them.

	Nature of operations	As at December 31, 2017[1]	As at December 31, 2016[1]
Caisse centrale Desjardins[2]	Desjardins Group’s treasurer and financial agent on the Canadian and international markets	**N/A**	96.8 %
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Financial Holding Inc.	Holding company	**100**	100
Zag Bank	Financial institution	**100**	100
Desjardins Financial Corporation Inc.	Holding company	**100**	100
Desjardins Global Asset Management Inc.	Asset management	**100**	100
Desjardins General Insurance Group Inc.	Property and casualty insurance	**100**	100
Property and casualty insurance subsidiaries[3]	Property and casualty insurance	**90**	90
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100**	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	**100**	100
Western Financial Group Inc.[4]	Insurance brokerage and financial services	**-**	100
Western Life Assurance Company[4]	Life and health insurance	**-**	100
Western Financial Insurance Company[5]	Property and casualty insurance	**-**	100
Desjardins Trust Inc.	Asset custody and trust services	**100**	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group’s technology	**100**	100
Qtrade Canada Inc.[6]	Online brokerage and wealth management services	**80.8**	77.2
Desjardins Securities Inc.	Securities brokerage	**100**	100

(1) Represents also the proportion of voting rights held by the Federation in these subsidiaries, except for Qtrade Canada Inc., in which the Federation holds 100% of the voting rights.
(2) On January 1, 2017, the Federation amalgamated with *Caisse centrale Desjardins* by absorption thereof. For more information, refer to the "Subsidiaries that have material non-controlling interests" section of this note.
(3) Represents a group of six property and casualty insurance subsidiaries.
(4) Subsidiary sold on July 1, 2017. For more information, see Note 20, "Significant disposals".
(5) Subsidiary sold on January 1, 2017. This transaction had no material impact on the Federation's Consolidated Balance Sheets.
(6) Subsidiary classified as disposal group held to be transferred as at December 31, 2017. For more information, see Note 21, "Disposal group held to be transferred".

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

Subsidiaries that have material non-controlling interests

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This financial information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2017		As at December 31, 2016	
	Caisse centrale Desjardins[(1)]	Property and casualty insurance subsidiaries	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Assets[(2)]	**N/A**	**$ 14,672**	$ 50,751	$ 14,980
Liabilities	**N/A**	**11,861**	47,696	12,122
Equity[(2)]	**N/A**	**$ 2,811**	$ 3,055	$ 2,858
Non-controlling interests	**N/A**	**$ 776**	$ 98	$ 782

(1) For more information, see the "Amalgamation of the Federation with *Caisse centrale Desjardins"* section.

(2) Include goodwill of $100 million as at December 31, 2017 ($100 million as at December 31, 2016).

	For the years ended December 31			
	2017		2016	
	Caisse centrale Desjardins[(1)]	Property and casualty insurance subsidiaries	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Total income	**N/A**	**$ 3,945**	$ 469	$ 3,104
Net surplus earnings for the year after dividends to member caisses	**N/A**	**162**	274	260
Comprehensive income for the year	**N/A**	**$ 199**	$ 262	$ 352
Share of net surplus earnings for the year after dividends to member caisses attributable to holders of non-controlling interests	**N/A**	**$ 41**	$ 13	$ 50
Dividends/distributions paid to holders of non-controlling interests	**N/A**	**$ 42**	$ 13	$ 40

(1) For more information, see the "Amalgamation of the Federation with *Caisse centrale Desjardins"* section.

Amalgamation of the Federation with *Caisse centrale Desjardins*

As a result of the amalgamation of the Federation with *Caisse centrale Desjardins*, on January 1, 2017, the Federation holds all the rights and assumes all the obligations of *Caisse centrale Desjardins*, in addition to its own rights and obligations. The A capital shares issued by *Caisse centrale Desjardins* and held by the Federation were cancelled without any repayment of capital, while those held by the *Fédération des caisses populaires de l'Ontario* were converted into A capital shares and G capital shares of the Federation.

This transaction had no material impact on the Consolidated Balance Sheet of the Federation other than a $98 million decrease in non-controlling interests related to *Caisse centrale Desjardins*, and a $97 million increase in capital stock related to the issuance of capital shares by the Federation to the *Fédération des caisses populaires de l'Ontario* upon conversion.

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. The operations of this entity are included in the Consolidated Financial Statements of the Federation as the entity is controlled by the Federation. The Federation granted financing to this entity to facilitate the acquisition of the assets for purposes of guaranteeing the covered bonds issued. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $4,517 million as at December 31, 2017 ($6,255 million as at December 31, 2016), are presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

JOINT VENTURE

Information about the material joint venture

RPADS LP, an entity that acquires and develops real estate portfolios, is the only material joint venture in which the Federation holds an interest. RPADS LP has been incorporated in Canada and its principal place of business is in this country.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

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

	As at December 31, 2017	As at December 31, 2016
Proportion of ownership interest held	**50.10%**	50.10%
Assets	**$ 474**	$ 440
Liabilities[1]	**37**	48
Equity	**$ 437**	$ 392
Interest in the joint venture[2]	**$ 219**	$ 197

[1] Consisting primarily of financial liabilities other than accounts payable and provisions.

[2] Represents the carrying amount of the interest in the joint venture recognized in the Consolidated Balance Sheets.

	For the years ended December 31	
	2017	2016
Total income	**$ 95**	$ 78
Net income and comprehensive income for the year	**$ 23**	$ 18

JOINT OPERATION

The Federation participates in a joint arrangement with Fonds Immobilier Cogir 1 to invest in undivided co-ownership in commercial buildings in the Province of 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, and the Federation has an ownership interest of 80% in the arrangement. All decisions about the relevant activities require the unanimous consent of the joint operators. The joint operation has been incorporated in Canada and its principal place of business is in this country. It is the only material joint operation in which the Federation holds an interest.

ASSOCIATES

Information about material associates

The Federation holds interests in two material associates: Fiera Holdings Inc. and Northwest & Ethical Investments L.P. (Northwest & Ethical). These entities operate in the investment management industry. They have been incorporated in Canada and their principal place of business is in this country. Although the Federation holds a 50% ownership interest in Northwest & Ethical and 50% of the voting rights, it does not have the ability to direct the relevant operations that significantly affect the returns of this entity and there are no agreements giving the Federation joint control of this entity.

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

	As at December 31, 2017		As at December 31, 2016	
	Fiera Holdings Inc.	Northwest & Ethical[1]	Fiera Holdings Inc.	Northwest & Ethical
Proportion of ownership interest held[2,3]	**37.18%**	**50.00%**	36.67%	50.00%
Assets[4,5]	**$ 1,113**	**$ 204**	$ 1,018	$ 200
Liabilities[5]	**566**	**54**	472	51
Equity[4,5]	**$ 547**	**$ 150**	$ 546	$ 149
Interests in associates[6]	**$ 52**	**$ 85**	$ 55	$ 85

[1] As at December 31, 2017, the interest in Northwest & Ethical was classified as an asset of the disposal group held to be transferred. For more information, see Note 21, "Disposal group held to be transferred".
[2] Represents also the proportion of voting rights held by the Federation in the associates.
[3] As at December 31, 2017, the Federation indirectly held an 8.09% ownership interest (9.00% as at December 31,2016) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.
[4] Include goodwill of $10 million and $19 million, respectively, related to Fiera Holdings Inc. and Northwest & Ethical ($10 million and $19 million as at December 31, 2016).
[5] The assets, liabilities and equity of Fiera Holdings Inc. and Northwest & Ethical for 2017 and 2016 are as at September 30.
[6] Represents the carrying amount of the interests in associates recognized in the Consolidated Balance Sheets.

	For the years ended December 31			
	2017		2016	
	Fiera Holdings Inc.	Northwest & Ethical	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 427**	**$ 111**	$ 294	$ 108
Net income and comprehensive income for the year[1]	**$ 15**	**$ 11**	$ 26	$ 10

[1] Total income, net income and comprehensive income of Fiera Holdings Inc. and Northwest & Ethical are based on data for the twelve-month period ended September 30, 2017 and 2016.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

The Federation 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 as a result of the units it holds in these funds, these units do not give the Federation power over the relevant operations of these funds. Accordingly, the Federation 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 funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. The Federation's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

MAV 1

MAV 1 is considered as an unconsolidated structured entity. For more information about this entity, see the “Securities – Asset-backed term notes” section of Note 6, “Securities”.

NOTE 14 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which the Federation does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which the Federation has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from one day to 10 years and mature on a predetermined date.

The following tables present the breakdown of deposits.

	As at December 31, 2017				As at December 31, 2016			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 3,154**	**$ 50**	**$ 1,149**	**$ 4,353**	$ 2,623	$ 51	$ 1,143	$ 3,817
Business and government	**3,452**	**-**	**37,511**	**40,963**	2,642	-	34,138	36,780
Deposit-taking institutions	**2,757**	**-**	**4,076**	**6,833**	2,664	-	3,641	6,305
	$ 9,363	**$ 50**	**$ 42,736**	**$ 52,149**	$ 7,929	$ 51	$ 38,922	$ 46,902

NOTE 15– INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2017			2016		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 4,516**	**$ 4,295**	**$ 8,811**	$ 4,431	$ 4,173	$ 8,604
Premiums ceded under reinsurance treaties	**(198)**	**(467)**	**(665)**	(217)	(1,124)	(1,341)
Net premiums	**$ 4,318**	**$ 3,828**	**$ 8,146**	$ 4,214	$ 3,049	$ 7,263

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2017	As at December 31, 2016
Insurance contract liabilities		
Actuarial liabilities − Life and health insurance	**$ 18,428**	$ 17,574
Provisions for claims and adjustment expenses − Property and casualty insurance	**6,457**	6,679
Unearned premiums	**2,274**	2,132
Policyholder deposits	**646**	638
Provisions for benefits, policyholder dividends and experience refunds	**480**	394
Other	**15**	76
	$ 28,300	$ 27,493

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

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

	As at December 31, 2017	As at December 31, 2016
Gross actuarial liabilities		
Non-participating policies	**$ 14,326**	$ 13,814
Participating policies	**4,102**	3,760
	18,428	17,574
Amounts ceded to reinsurers	**(915)**	(935)
Net actuarial liabilities	**$ 17,513**	$ 16,639

	As at December 31, 2017	As at December 31, 2016
Composition of assets backing net actuarial liabilities		
Bonds	**$ 10,884**	$ 10,411
Mortgage and business loans	**2,536**	2,783
Investment property	**1,040**	1,006
Equities	**1,531**	1,242
Other	**1,522**	1,197
	$ 17,513	$ 16,639

The fair value of assets backing net actuarial liabilities was $18,117 million as at December 31, 2017 ($17,291 million as at December 31, 2016).

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, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, 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 Canadian accepted actuarial practices. 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 Statements of Income.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

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

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take 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 Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their 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 life and health insurance subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

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 life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the life and health insurance subsidiaries mitigate their 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 provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $345 million as at December 31, 2017 ($355 million as at December 31, 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 life and health insurance subsidiaries carry 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.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on “Net surplus earnings for the year after dividends to member caisses” 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)**	$ (47)
Products for which a rate decrease increases actuarial liabilities	**(23)**	(21)
5% increase in future morbidity rates	**(75)**	(73)
10% negative change in future contract cancellation rates	**(138)**	(149)
5% increase in future operating expenses	**(44)**	(42)

Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2017			2016		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 17,574**	**$ (935)**	**$ 16,639**	$ 16,895	$ (822)	$ 16,073
Change due to						
Passage of time	**556**	**(29)**	**527**	92	(54)	38
New businesses	**538**	**(24)**	**514**	514	(23)	491
Changes in actuarial assumptions	**(84)**	**34**	**(50)**	31	1	32
Disposals[1]	**(162)**	**53**	**(109)**	-	-	-
	848	**34**	**882**	637	(76)	561
Other changes	**6**	**(14)**	**(8)**	42	(37)	5
Balance at end of year	**$ 18,428**	**$ (915)**	**$ 17,513**	$ 17,574	$ (935)	$ 16,639

[1] For more information, see Note 20, "Significant disposals".

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 surplus earnings for the year after dividends to member caisses” for the years ended December 31.

	2017	2016
Changed assumptions		
Mortality	**$ 119**	$ 21
Morbidity	**1**	11
Contract cancellation rates	**(166)**	(169)
Investment return	**59**	18
Operating expenses	**17**	(20)
Methods and other	**6**	115
	$ 36	$ (24)

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2017			2016		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,679**	**$ (1,080)**	**$ 5,599**	$ 6,936	$ (598)	$ 6,338
Claims incurred during the year	**3,538**	**(364)**	**3,174**	3,479	(1,028)	2,451
Development of claims incurred in prior years	**(620)**	**35**	**(585)**	(630)	12	(618)
Changes in discount rates	**(64)**	**10**	**(54)**	(33)	2	(31)
Claims paid during the year	**(3,073)**	**343**	**(2,730)**	(3,073)	532	(2,541)
Disposals	**(3)**	**-**	**(3)**	-	-	-
Balance at end of year	**$ 6,457**	**$ (1,056)**	**$ 5,401**	$ 6,679	$ (1,080)	$ 5,599

Changes in assumptions had no material impact on the Consolidated Financial Statements as at December 31, 2017 and 2016.

Assumption sensitivity analysis

The following table shows the impact on the Consolidated Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the “Interest rate risk management” section of this note.

	Changes in actuarial assumptions	**Impact on “Net surplus earnings for the year after dividends to member caisses”**	
		2017	2016
Average claims settlement cost	+ 5%	**$ (227)**	$ (225)

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2007 and before	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,141	$ 1,076	$ 1,101	$ 1,272	$ 1,375	$ 1,471	$ 1,536	$ 2,186	$ 2,417	**$ 3,158**	
1 year later		1,096	1,063	1,103	1,272	1,322	1,447	2,453	2,168	2,387		
2 years later		1,097	1,077	1,091	1,238	1,328	2,186	2,349	2,165			
3 years later		1,097	1,072	1,071	1,221	1,967	2,086	2,272				
4 years later		1,083	1,062	1,055	1,781	1,839	1,977					
5 years later		1,074	1,049	1,577	1,657	1,769						
6 years later		1,077	1,466	1,515	1,568							
7 years later		1,277	1,379	1,434								
8 years later		1,241	1,330									
9 years later		1,213										
Cumulative payments to date		1,115	1,133	1,195	1,328	1,420	1,485	1,585	1,581	1,650	**1,658**	
Net provisions for claims and adjustment expenses	$ 278	$ 98	$ 197	$ 239	$ 240	$ 349	$ 492	$ 687	$ 584	$ 737	**$ 1,500**	$ 5,401
Reinsurers' share in provisions for claims and adjustment expenses	7	-	-	-	-	3	-	-	370	462	**214**	1,056
Gross provisions for claims and adjustment expenses	$ 285	$ 98	$ 197	$ 239	$ 240	$ 352	$ 492	$ 687	$ 954	$ 1,199	**$ 1,714**	$ 6,457

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 life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these life and health insurance subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose the life and health insurance subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals related to the acquired businesses occurring after the acquisition date are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release the life and health and property and casualty insurance subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investment in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Consolidated Statements of Income items presented in the table below by the following amounts:

	2017			2016		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 198**	**$ 467**	**$ 665**	$ 217	$ 1,124	$ 1,341
Claims, benefits, annuities and changes in insurance contract liabilities	**153**	**319**	**472**	203	1,015	1,218

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 life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimal guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimal guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of unfavourable stock market movements on the future cost of guarantees as well as a hedging program aimed at offsetting the impact of unfavourable changes in interest rates on these future costs. These programs cover all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Consolidated Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in 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 life and health insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Consolidated Statements of 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 Consolidated Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Consolidated Statements of Income. However, the life and health insurance subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Consolidated Statements of Income.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after dividends to member caisses" arising from the impact of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2017	2016
1% increase in interest rates	**$ 43**	$ 43
1% decrease in interest rates	**(60)**	(69)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

The following table shows, for the years ended December 31, the estimated impact on “Net surplus earnings for the year after dividends to member caisses” arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries’ provisions for claims and adjustment expenses and the assets backing these provisions.

	2017	2016
1% increase in interest rates	**$ 5**	$ 1
1% decrease in interest rates	**(6)**	1

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For the life and health insurance subsidiaries, 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.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Consolidated Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2017	As at December 31, 2016
Less than 1 year	**$ 2,626**	$ 2,510
1 to 5 years	**5,438**	5,608
Over 5 years	**34,580**	32,774
Total	**$ 42,644**	$ 40,892

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES

This note should be read in conjunction with Note 16, “Net defined benefit plan liabilities”, to the audited Combined Financial Statements of Desjardins Group for the year ended December 31, 2017 approved on February 26, 2018, which presents the defined benefit group plans and the risks related to pension plans.

GROUP PLANS

Pension plans

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group’s defined benefit group plans. Consequently, the Federation recognizes its share in the liabilities of these plans in its Consolidated Balance Sheets.

Post-retirement benefit plan

The Federation also offers a post-retirement benefit plan, including medical, dental and life insurance, to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. Consequently, the Federation recognizes its share in the liability of this plan in its Consolidated Balance Sheets.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

NON-GROUP PLANS

The Corporation also offers certain active and retired executives other defined benefit supplemental pension plans for which a liability representing future obligations with respect to these plans was recognized in the Consolidated Balance Sheets.

In addition, the employees of certain subsidiaries are offered pensions plans and a specific defined benefit post-retirement benefit plan that are not part of Desjardins Group's defined benefit group plans.

The following tables present the recognized defined benefit plan liabilities, cost and remeasurement of net liabilities for all the plans as well as the Federation's share in defined benefit group plans.

	As at December 31, 2017			As at December 31, 2016		
Net defined benefit plan liabilities						
Group plans						
Pension plans	**$**	**926**	**64%**	$	743	64%
Post-retirement benefit plan		**482**	**57**		434	55
		1,408			1,177	
Non-group plans		**333**			301	
Total net defined benefit plan liabilities	**$**	**1,741**		$	1,478	

	As at December 31, 2017		As at December 31, 2016	
Defined benefit plan cost recognized				
Group plans				
Pension plans	**$**	**208**	$	202
Post-retirement benefit plan		**24**		22
		232		224
Non-group plans		**40**		44
Total defined benefit plan cost recognized	**$**	**272**	$	268

	As at December 31, 2017		As at December 31, 2016	
Remeasurement of net defined benefit plan liabilities				
Group plans				
Pension plans	**$**	**198**	$	(101)
Post-retirement benefit plan		**35**		13
		233		(88)
Non-group plans		**29**		16
Total remeasurement of net defined benefit plan liabilities	**$**	**262**	$	(72)

NOTE 17 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	As at December 31, 2017		As at December 31, 2016	
Accounts payable	**$**	**1,858**	$	2,236
Deferred income related to loyalty programs		**309**		288
Provisions for risks and expenses		**226**		238
Interest payable		**151**		381
Taxes payable		**56**		116
Borrowings from financial institutions		**30**		30
Other		**2,164**		1,958
	$	**4,794**	$	5,247

NOTE 18 – SUBORDINATED NOTES

The subordinated notes presented in the Federation's Consolidated Balance Sheets are senior notes issued by Desjardins Capital Inc. whose gross proceeds are invested in notes issued by the Desjardins caisses in Quebec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of Desjardins Capital Inc. and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Quebec.

Repayments and cancellations of the notes are subject to the consent and approval of the various regulatory authorities. These notes comprise the following items:

	As at December 31, 2017	As at December 31, 2016
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	**$ 898**	$ 892
Senior Series J notes (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	**490**	486
	$ 1,388	$ 1,378

Redemption

In 2016, all of the outstanding Series F subordinated notes, amounting to $500 million, have been called.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Federation's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. The Federation uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. The Federation uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

Other financial derivative contracts

Other derivative financial contracts used by the Federation include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. The Federation enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

The following table presents the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				As at December 31, 2017	As at December 31, 2016
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	Notional amount
Interest rate contracts						
Over-the-counter contracts						
Interest rate swaps	**$ 68,509**	**$ 95,416**	**$ 53,811**	**$ 7,016**	**$ 224,752**	$ 150,659
Forward rate agreements	**2,258**	**-**	**-**	**-**	**2,258**	1,255
Options purchased	**1,708**	**754**	**-**	**-**	**2,462**	3,438
Options written	**400**	**-**	**-**	**-**	**400**	550
Contracts traded through a clearing house						
Interest rate swaps	**2,453**	**5,796**	**2,078**	**224**	**10,551**	3,240
Exchange-traded contracts						
Futures	**6,512**	**425**	**-**	**-**	**6,937**	7,260
Options purchased	**8,238**	**-**	**-**	**-**	**8,238**	8,313
Options written	**7,755**	**-**	**-**	**-**	**7,755**	11,341
	97,833	**102,391**	**55,889**	**7,240**	**263,353**	186,056
Foreign exchange contracts						
Over-the-counter contracts						
Forward contracts	**22,911**	**887**	**37**	**-**	**23,835**	15,136
Currency swaps	**6,001**	**8,575**	**-**	**300**	**14,876**	14,446
Options purchased	**804**	**98**	**6**	**-**	**908**	743
Options written	**770**	**111**	**6**	**-**	**887**	845
Exchange-traded contracts						
Forward contracts	**1**	**-**	**-**	**-**	**1**	11
	30,487	**9,671**	**49**	**300**	**40,507**	31,181
Other contracts[(1)]						
Over-the-counter contracts						
Swaps	**-**	**125**	**47**	**-**	**172**	133
Options purchased	**2,910**	**8,014**	**9,336**	**50**	**20,310**	16,738
Options written	**2,772**	**7,620**	**8,053**	**-**	**18,445**	15,469
Contracts traded through a clearing house						
Swaps	**-**	**-**	**616**	**-**	**616**	644
Exchange-traded contracts						
Futures	**1,037**	**-**	**-**	**-**	**1,037**	1,111
Options purchased	**-**	**-**	**-**	**-**	**-**	2
	6,719	**15,759**	**18,052**	**50**	**40,580**	34,097
Total derivative financial instruments	**$135,039**	**$127,821**	**$ 73,990**	**$ 7,590**	**$ 344,440**	$ 251,334

(1) Includes contracts related to indexed term savings products.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets.

	As at December 31, 2017			As at December 31, 2016		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges						
Interest rate contracts						
Swaps – Other	**$ 14,658**	**$ 36**	**$ 229**	$ 13,872	$ 128	$ 86
	14,658	**36**	**229**	13,872	128	86
Foreign exchange contracts						
Forward contracts	**255**	**2**	**-**	109	-	1
Currency swaps	**10,347**	**219**	**101**	12,533	937	251
	10,602	**221**	**101**	12,642	937	252
Total – Fair value hedges	**25,260**	**257**	**330**	26,514	1,065	338
Cash flow hedges						
Interest rate contracts						
Swaps	**3,644**	**18**	**21**	2,291	9	5
	3,644	**18**	**21**	2,291	9	5
Foreign exchange contracts						
Forward contracts	**-**	**-**	**-**	37	4	-
	-	**-**	**-**	37	4	-
Total – Cash flow hedges	**3,644**	**18**	**21**	2,328	13	5
Total – Designated as hedging instruments	**28,904**	**275**	**351**	28,842	1,078	343
Trading purposes						
Interest rate contracts						
Swaps traded through a clearing house	**10,550**	**18**	**33**	3,240	7	19
Swaps – Other	**206,451**	**1,530**	**1,327**	134,496	1,025	766
Forward rate agreements	**2,258**	**19**	**7**	1,255	1	9
Futures	**6,937**	**-**	**-**	7,260	-	-
Options purchased	**10,700**	**3**	**-**	11,751	7	-
Options written	**8,155**	**-**	**2**	11,891	-	6
	245,051	**1,570**	**1,369**	169,893	1,040	800
Foreign exchange contracts						
Forward contracts	**23,581**	**154**	**214**	15,001	142	79
Currency swaps	**4,529**	**6**	**29**	1,913	86	14
Options purchased	**908**	**9**	**-**	743	20	-
Options written	**887**	**-**	**21**	845	-	20
	29,905	**169**	**264**	18,502	248	113
Other contracts						
Swaps traded through a clearing house	**616**	**13**	**2**	644	10	-
Swaps – Other	**172**	**1**	**1**	133	1	1
Futures	**1,037**	**-**	**-**	1,111	-	-
Options purchased	**20,310**	**1,744**	**-**	16,740	1,329	-
Options written	**18,445**	**-**	**1,690**	15,469	-	1,283
	40,580	**1,758**	**1,693**	34,097	1,340	1,284
Total – Trading purposes	**315,536**	**3,497**	**3,326**	222,492	2,628	2,197
Total derivative financial instruments before impact of master netting agreements	**$ 344,440**	**$ 3,772**	**$ 3,677**	$ 251,334	$ 3,706	$ 2,540
Less:						
Impact of master netting agreements[1]	**-**	**1,883**	**1,883**	-	740	740
Total derivative financial instruments after impact of master netting agreements	**$ 344,440**	**$ 1,889**	**$ 1,794**	$ 251,334	$ 2,966	$ 1,800

[1] Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income on securities at fair value through profit or loss" in the Consolidated Statements of Income for the years ended December 31.

	2017	2016
Gains on hedged items	**$ 728**	$ 1,204
Losses on derivative instruments	**(740)**	(1,207)
Fair value hedge ineffectiveness	**$ (12)**	$ (3)
Cash flow hedge ineffectiveness	**$ (1)**	$ -

Cash flows

The following tables present the expected dates of occurrence of hedged cash flows.

2017	**Terms to maturity**				
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**
Cash inflows (assets)	**$ 32**	**$ 50**	**$ 21**	**$ 1**	**$ 104**
Cash outflows (liabilities)	**27**	**58**	**18**	**-**	**103**
Net cash flows	**$ 5**	**$ (8)**	**$ 3**	**$ 1**	**$ 1**

2016	Terms to maturity				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 8	$ 15	$ 7	$ 1	$ 31
Cash outflows (liabilities)	45	25	10	1	81
Net cash flows	$ (37)	$ (10)	$ (3)	$ -	$ (50)

The net impact on excess cash flows related to interest is recognized using the effective interest method over the life of the underlying instrument. During the years ended December 31, 2017 and 2016, the main hedging transactions occurred as expected.

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward the Federation at a time when the fair value of the instrument is positive for the Federation. The manner in which the Federation assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Consolidated Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.
Risk-weighted balance	The balance weighted by the risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table gives an overview of the Federation's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2017				As at December 31, 2016			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	**$ 235,303**	**$ 1,602**	**$ 2,481**	**$ 887**	$ 153,899	$ 1,169	$ 1,803	$ 455
Forward rate agreements	**2,258**	**19**	**41**	**41**	1,255	1	10	10
Futures	**6,937**	**-**	**-**	**-**	7,260	-	-	-
Options purchased	**10,700**	**3**	**5**	**2**	11,751	7	16	5
Options written	**8,155**	**-**	**-**	**-**	11,891	-	-	-
	263,353	**1,624**	**2,527**	**930**	186,056	1,177	1,829	470
Foreign exchange contracts								
Forward contracts	**23,836**	**156**	**429**	**228**	15,147	146	323	151
Currency swaps	**14,876**	**225**	**736**	**234**	14,446	1,023	1,487	373
Options purchased	**908**	**9**	**22**	**14**	743	20	35	16
Options written	**887**	**-**	**-**	**-**	845	-	-	-
	40,507	**390**	**1,187**	**476**	31,181	1,189	1,845	540
Other contracts								
Swaps	**788**	**14**	**22**	**3**	777	11	17	3
Futures	**1,037**	**-**	**-**	**-**	1,111	-	-	-
Options purchased	**20,310**	**1,744**	**3,324**	**1,109**	16,740	1,329	2,637	858
Options written	**18,445**	**-**	**-**	**-**	15,469	-	-	-
	40,580	**1,758**	**3,346**	**1,112**	34,097	1,340	2,654	861
Total derivative financial instruments before impact of master netting agreements	**$ 344,440**	**$ 3,772**	**$ 7,060**	**$ 2,518**	$ 251,334	$ 3,706	$ 6,328	$ 1,871
Less:								
Impact of master netting agreements(1)	**-**	**1,883**	**-**	**858**	-	740	-	879
Total derivative financial instruments after impact of master netting agreements	**$ 344,440**	**$ 1,889**	**$ 7,060**	**$ 1,660**	$ 251,334	$ 2,966	$ 6,328	$ 992

(1) Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2017		As at December 31, 2016	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating(1)				
AAA, AA+, AA, AA-	**$ 2,524**	**$ 1,409**	$ 2,117	$ 952
A+, A, A-	**1,128**	**824**	1,334	745
BBB, B, BB-, BBB-	**47**	**112**	40	66
Not rated	**73**	**173**	215	108
Total	**3,772**	**2,518**	3,706	1,871
Less:				
Impact of master netting agreements(2)	**1,883**	**858**	740	879
Total after impact of master netting agreements	**$ 1,889**	**$ 1,660**	$ 2,966	$ 992
Type of counterparty				
Financial institutions	**$ 3,041**	**$ 1,748**	$ 3,476	$ 1,635
Other	**731**	**770**	230	236
Total	**3,772**	**2,518**	3,706	1,871
Less:				
Impact of master netting agreements(2)	**1,883**	**858**	740	879
Total after impact of master netting agreements	**$ 1,889**	**$ 1,660**	$ 2,966	$ 992

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly member caisses or clients of the Federation.
(2) Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – SIGNIFICANT DISPOSALS

DISPOSALS

Year ended December 31, 2017

On July 1, 2017, the Federation completed the sale of two of its subsidiaries, Western Financial Group Inc., a financial services company and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of the Wawanesa Mutual Insurance Company.

The assets and liabilities of the two subsidiaries sold were as follows as at the date of disposal.

	As at July 1, 2017
Net assets sold	
Cash and deposits with financial institutions	$ 82
Securities at fair value through profit or loss	123
Available-for-sale securities	59
Amounts receivable from clients, brokers and financial institutions	17
Reinsurance assets	55
Property, plant and equipment	17
Goodwill	293
Intangible assets	155
Deferred tax assets	3
Other assets	110
Insurance contract liabilities	(161)
Deferred tax liabilities	(40)
Other liabilities	(288)
	$ 425
Proceeds from disposal	
Cash	$ 722
Less: Costs directly attributable to the disposal	19
Net proceeds from disposal	$ 703

A gain of $278 million on the disposal of these subsidiaries was recognized under “Other income – Other” in the Consolidated Statement of Income for the year ended December 31, 2017.

The operations of these two subsidiaries were presented in the Property and Casualty Insurance segment.

Year ended December 31, 2016

The Federation made no significant disposal during that year.

NOTE 21 – DISPOSAL GROUP HELD TO BE TRANSFERRED

On December 12, 2017, the Federation and a partnership comprised of five provincial credit union centrals (the Centrals) and The CUMIS Group announced that they had entered into an agreement to merge the businesses of their subsidiaries Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments. This transaction will result in the creation of Aviso Wealth, a wealth management company, in which the Federation and the partnership formed by the Centrals and The CUMIS Group will each hold a 50% interest. The interest in Aviso Wealth will be an interest in a joint venture for the Federation and will be accounted for using the equity method. The transaction is expected to close in the first six-month period of 2018, subject to approvals from regulators and compliance with customary closing conditions.

The Qtrade Canada Inc. subsidiary and the interest in the Northwest & Ethical Investments associate are classified as disposal group held to be transferred, as their carrying amount will not be recovered through continuing use. A disposal group held to be transferred is measured at the lower of its carrying amount and fair value less costs to sell.

The assets and liabilities of the disposal group held to be transferred presented separately in the Consolidated Balance Sheet are as follows:

	As at December 31, 2017
Assets	
Cash and deposits with financial institutions	**$ 26**
Securities at fair value through profit or loss	**80**
Amounts receivable from clients, brokers and financial institutions	**577**
Property, plant and equipment	**3**
Goodwill	**32**
Intangible assets	**65**
Deferred tax assets	**1**
Other assets	**97**
Total assets of the disposal group held to be transferred	**$ 881**
Liabilities	
Deferred tax liabilities	**$ 14**
Amounts payable to clients, brokers and financial institutions	**631**
Other liabilities	**17**
Total liabilities of the disposal group held to be transferred	**$ 662**

The operations of this subsidiary and interest in an associate are presented in the Wealth Management and Life and Health Insurance segment.

On January 23, 2018, the Federation exercised its option to buy out Qtrade Canada Inc.'s non-controlling interests for $44 million in order to hold a 100% interest in this subsidiary at the transaction's closing date.

NOTE 22 – CAPITAL STOCK

AUTHORIZED

The capital stock of the Federation comprises the following qualifying shares and capital shares:

There is an unlimited number of qualifying shares with a par value of $5. These shares may be issued only to members of the Federation and are redeemable only at the Board of Directors' option under certain conditions stipulated in the by-law.

There is an unlimited number of A and G capital shares with a par value of $5 and an unlimited number of F capital shares with a par value of $10. The A and G shares may be issued only to members of the Federation, while F capital shares may be issued only to members of Desjardins caisses in Quebec, including their auxiliary members. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, the A and G capital shares and the F capital shares at any time. The Federation may also purchase, in whole or in part, A and G capital shares by private agreement, at any time, with the authorization of the AMF. Furthermore, the A and G capital shares may be converted, at any time, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose. The rate of interest of the A and G capital shares and of capital F shares is determined by the Board of Directors. The repayment of principal and payment of interest on the F capital shares are subject to compliance with certain conditions.

There is an unlimited number of FIN-5A, INV, SER, and FED-7 capital shares related to an investment fund. These shares may be issued only to members of the Federation; they have no par value and do not bear interest. Subject to provisions of the Federation's by-law concerning investment funds, the holders of these shares divide up the net income of the funds. These shares are redeemable, with the authorization of the AMF, at the option of the Board of Directors or by private agreement. Furthermore, they may be converted, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose.

The qualifying share and the capital shares of the Federation do not entitle their holders to be called, participate or vote at the Federation members meetings.

SHARES ISSUED AND PAID

(in thousands of dollars)	As at December 31, 2017		As at December 31, 2016	
	Number of shares	**Amount**	Number of shares	Amount
Qualifying shares	**32,810**	**$ 164**	33,000	$ 165
A capital shares	**13,789,467**	**68,947**	8,864,047	44,320
F capital shares	**452,125,823**	**4,501,237**	414,623,037	4,127,474
G capital shares	**600,532,931**	**3,002,665**	-	-
CCD capital shares	**-**	**-**	598,296,746	2,930,367
INV capital shares	**47,856,914**	**18,946**	47,856,914	18,946
SER capital shares	**2,865,680**	**23,395**	2,865,680	23,395
FED-7 capital shares	**1,084,566**	**4,676**	1,084,566	4,676
FIN-5A capital shares	**694,258,599**	**916,974**	694,258,599	916,974
		$ 8,537,004		$ 8,066,317

ISSUANCE OF SHARES

During the year ended December 31, 2017, the Federation issued 24,967,040 F capital shares for a cash consideration of $249 million, which represents the gross proceeds of this issuance of $250 million less issue costs of $1 million. In addition, the Federation issued 12,535,746 F capital shares having a value of $125 million as interest payments when the holders elected to receive their remuneration in F capital shares. The Federation also issued 4,925,420 A capital shares for a cash consideration of $25 million and 14,459,580 G capital shares for a cash consideration of $72 million.

In 2016, the Federation issued 49,776,013 F capital shares for a cash consideration of $496 million, which represents the gross proceeds of this issuance of $498 million less issue costs of $2 million. In addition, the Federation issued 10,062,747 F capital shares having a value of $100 million as interest payments when the holders elected to receive their remuneration in F capital shares.

CONVERSION OF SHARES

During the year ended December 31, 2017, the Federation converted all CCD capital shares into 586,073,351 G capital shares. This conversion had no impact on the value of capital stock.

REDEMPTION OF SHARES

During the year ended December 31, 2017, the Federation redeemed 190 qualifying shares for an immaterial cash consideration.

In 2016, the Federation redeemed for cancellation all B, C and D shares for a cash consideration of $35 million. The Federation also redeemed 440 qualifying shares for an immaterial cash consideration.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the main components of "Accumulated other comprehensive income" (net of taxes).

	As at December 31, 2017		As at December 31, 2016	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 452**	**$ 21**	$ 382	$ 15
Net gains on derivative financial instruments designated as cash flow hedges	**5**	**-**	10	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	1
Accumulated other comprehensive income	**$ 458**	**$ 21**	$ 393	$ 16

NOTE 24 – CAPITAL MANAGEMENT

Capital management is a crucial element of financial management covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation's capital management and the manner in which it meets its capital management objectives is derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of the Federation are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. For purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline. In addition, the holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF.

Some of the Federation's subsidiaries are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements.

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Management Committee, through the Finance and Risk Management Committee, to ensure that Desjardins Group, including the Federation, has an adequate capital base considering the organization's strategic objectives and regulatory obligations. The Finance, Treasury and Administration Executive Division is responsible for preparing, on an annual basis, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets.

BASEL III

The Federation's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. The Federation must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, the Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

The regulatory capital of the Federation differs from the equity disclosed in the Consolidated Balance Sheets. It comprises the following components:

i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.

ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of subordinated notes, eligible qualifying shares and the eligible portion of the collective allowance.

Since January 1, 2014, the measures and requirements related to the credit valuation adjustment (CVA) charge have been phased in as set out in the guideline. This phased-in charge will reach 100% by 2019 for each of the capital ratios. As at December 31, 2017, the CVA charge applied to the Tier 1A capital ratio, the Tier 1 capital ratio and the total capital ratio was 72%, 77% and 81%, respectively.

In addition, the Federation is required by the AMF to meet a minimum leverage ratio of 3%. The leverage ratio is defined as an independent risk measurement corresponding to the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) other off-balance sheet exposures.

The following table presents the composition of the Federation's regulatory capital, risk-weighted assets and the leverage ratio exposure measure.

	As at December 31, 2017	As at December 31, 2016
Tier 1A capital		
F capital shares	**$ 4,501**	$ 4,127
Other capital shares	**4,036**	3,939
Reserves	**540**	524
Undistributed surplus earnings	**5,655**	4,765
Eligible accumulated other comprehensive income	**456**	386
Non-controlling interests	**-**	32
Deductions[1]	**(6,026)**	(6,456)
Total Tier 1A capital	**9,162**	7,317
Non-controlling interests	**13**	19
Deductions	**(13)**	(19)
Total Tier 1B capital	**-**	-
Total Tier 1 capital	**$ 9,162**	$ 7,317
Tier 2 capital		
Subordinated notes subject to phase-out	**$ 1,032**	$ 1,200
Eligible collective allowance	**126**	132
Non-controlling interests	**-**	6
Deductions[2]	**(1,158)**	(1,338)
Total Tier 2 capital	**$ -**	$ -
Total regulatory capital (Tier 1 and 2)	**$ 9,162**	$ 7,317
Risk-weighted assets (RWA)		
RWA for Tier 1A capital	**$ 52,364**	$ 45,916
RWA for Tier 1 capital	**52,409**	45,972
RWA for total capital	**52,445**	46,021
Leverage ratio exposure measure	**115,915**	98,892

(1) Represent essentially the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. The non-deducted balance will be subject to risk-weighting at a rate of 250%.

(2) Represent mainly an investment in preferred shares of one of the life and health insurance subsidiaries deconsolidated for regulatory capital purposes.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013. The subordinated notes described in Note 18, “Subordinated notes”, are subject to this 10% amortization. In order to be fully eligible as Tier 2 capital, such notes must meet Non-Viability Contingent Capital requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group has not issued any instruments subject to these rules, as discussions on their application by Desjardins Group are still underway with the AMF.

The Federation’ regulatory capital amounted to $9,162 million as at December 31, 2017, up $1,845 million from December 31, 2016. This increase is mainly explained by the growth of $906 million in reserves and undistributed surplus earnings and the issue of $374 million of capital shares of the Federation. However, the phase-out of capital instruments that no longer meet the Basel III eligibility criteria reduced capital by approximately $168 million.

As mentioned in Note 22, “Capital stock”, in 2017, the Federation issued shares for net proceeds of $249 million. In addition, the Federation issued shares having a value of $125 million as interest payments to holders who elected to receive their remuneration in shares. Furthermore, on December 21, 2017, the Federation was authorized by the AMF to file a new prospectus for the issuance of additional shares totalling $125 million. This new issuance began on January 23, 2018.

COMPLIANCE WITH REQUIREMENTS

The Federation and its subsidiaries that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2017, as they were in the previous year. As at such date, the Federation’s Tier 1A, Tier 1 and total capital ratios, calculated under the Basel III requirements, were all 17.5%. The leverage ratio amounted to 7.9%.

NOTE 25 – NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Consolidated Statements of Income for the years ended December 31.

	2017	2016
Income		
Net interest income	**$ 40**	$ 38
Net income on securities at fair value through profit or loss	**44**	54
	$ 84	$ 92

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Consolidated Statements of Income for the years ended December 31.

	2017	2016
Income		
Net interest income	**$ 10**	$ 2
Net income on securities at fair value through profit or loss	**1,114**	518
	$ 1,124	$ 520

NOTE 26 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Consolidated Statements of Income consisted of the following:

	2017	2016
Commissions	**$ 794**	$ 808
Recovery of expenses related to reinsurance	**(133)**	(292)
Professional fees	**528**	497
Business and capital taxes	**312**	297
Other employee expenses	**106**	111
Amortization of intangible assets	**94**	102
Sponsorships and donations	**30**	35
Other	**637**	635
	$ 2,368	$ 2,193

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

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

	2017	2016
Consolidated Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 286**	$ 361
Adjustments for current tax of prior years	**(3)**	(9)
Current tax recovery on remuneration on capital stock	**-**	(153)
Tax recovery on dividends to member caisses	**(16)**	(7)
	267	192
Deferred income taxes		
Origination and reversal of temporary differences	**55**	(52)
Changes in tax rates	**(2)**	-
	53	(52)
	$ 320	$ 140
Consolidated Statements of Comprehensive Income		
Current income taxes	**$ 13**	$ 34
Deferred income taxes	**(67)**	36
	(54)	70
Total income tax expense	**$ 266**	$ 210

Income taxes on surplus earnings presented in the Consolidated Statements of Income for the years ended December 31 are detailed as follows:

	2017	2016
Income taxes on surplus earnings	**$ 336**	$ 147
Tax recovery on dividends to member caisses	**(16)**	(7)
Income taxes on surplus earnings	**$ 320**	$ 140

TAX RATE RECONCILIATION

The income tax expense (recovery) on surplus earnings recognized in the Consolidated Statements of Income for the years ended December 31 differs from the income tax expense (recovery) determined using the Canadian statutory rate for the following reasons:

	2017	2016
Income taxes at the combined Canadian federal and provincial statutory rate of 26,79% (26.87% in 2016)	**$ 453**	$ 353
Small business deduction and additional credit for credit unions	**-**	(2)
Non-taxable investment income and other items	**(73)**	(62)
Changes in tax rates	**(2)**	-
Non-deductible expenses	**7**	8
Adjustment for current tax of prior years	**(3)**	(9)
Current tax recovery on remuneration on capital stock	**(44)**	(153)
Tax rate differential applicable to the gain on disposal of subsidiaries	**(47)**	-
Other	**29**	5
	$ 320	$ 140

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Consolidated Balance Sheets		Consolidated Statements of Income	
	As at December 31, 2017	As at December 31, 2016	**2017**	2016
Deferred tax assets				
Insurance contract liabilities	**$ 9**	$ 14	**$ 5**	$ 25
Allowance for credit losses	**30**	32	**2**	11
Net defined benefit plan liabilities	**462**	392	**(1)**	-
Tax losses	**96**	130	**32**	(62)
Other	**171**	101	**(6)**	(6)
	768	669	**32**	(32)
Deferred tax liabilities				
Property, plant and equipment and investment property	**154**	146	**(4)**	(20)
Securities and other financial instruments	**72**	46	**25**	-
	226	192	**21**	(20)
Net deferred income tax assets	**$ 542**	$ 477	**$ 53**	$ (52)

For the purposes of presenting the Consolidated Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2017	As at December 31, 2016
Deferred tax assets[1]	**$ 746**	$ 724
Deferred tax liabilities[1]	**204**	247
	$ 542	$ 477

[1] Deferred income taxes will reverse mainly in the long term.

There were no deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Consolidated Balance Sheets as at December 31, 2017 and 2016.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, the Federation uses credit instruments and off-balance sheet guarantees to meet the financing needs of its member caisses and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that the Federation granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that the Federation could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that the Federation could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Consolidated Balance Sheets.

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 Sheets expose the Federation to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2017	As at December 31, 2016
Commitments		
Credit commitments	**$ 95,285**	$ 87,955
Indemnification commitments related to securities lending	**2,024**	1,772
Documentary letters of credit	**1**	5
Financial guarantees		
Guarantees and standby letters of credit	**667**	676
Credit default swaps	**540**	644

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that member caisses and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, the Federation enters into securities lending agreements with clients. The Federation makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a client and represent the Federation’s agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. The Federation is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by the Federation to make payments in the event that a client cannot meet financial obligations to third parties. The Federation’s policy with respect to collateral received for these instruments is generally the same as for loans.

Credit default swaps

In the normal course of its investment operations, the Federation entered into credit default swaps 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 the 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.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

Other indemnification agreements

In the normal course of its operations, the Federation enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, the Federation 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 amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that the Federation could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, the Federation enters into asset pledge agreements and receives from its clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor’s right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of the Federation’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.

	As at December 31, 2017	As at December 31, 2016
Financial assets of the Federation pledged as collateral:		
Cash and deposits with financial institutions	**$ 42**	$ 34
Securities	**14,641**	14,033
Loans	**3,534**	2,434
Other	**1**	-
	18,218	16,501
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**11,563**	9,970
Less: Assets not sold or not repledged	**1,861**	2,123
	9,702	7,847
	$ 27,920	$ 24,348
Use of assets		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 11,781**	$ 9,770
Transactions involving commitments related to securities sold short	**9,237**	8,151
Securitization transactions	**34**	34
Transactions on derivative financial instruments	**137**	145
Clearing systems, payment systems and depositories(1)	**4,067**	2,893
Transactions involving provisions for claims and adjustment expenses(2)	**2,501**	3,222
Caisse network money supply from the Bank of Canada	**163**	132
Other	**-**	1
	$ 27,920	$ 24,348

(1) In the normal course of its operations, the Federation must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.
(2) Represents securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to the Federation.

LITIGATION

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

NOTE 29 – LEASES

LEASES – AS LESSEE

Operating leases

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table.

	2017	2016
Under 1 year	**$ 45**	$ 45
1 to 5 years	**142**	117
Over 5 years	**212**	92
Total minimum future commitments	**$ 399**	$ 254

Lease payments recognized as expenses for the year ended December 31, 2017 totalled $53 million ($47 million in 2016).

LEASES – AS LESSOR

Operating leases

For the years ended December 31, future minimum lease payments to be received under non-cancellable leases for premises and equipment are as follows:

	2017	2016
Under 1 year	**$ 72**	$ 72
1 to 5 years	**214**	228
Over 5 years	**397**	259
Total future minimum payments	**$ 683**	$ 559

No contingent rents were recognized as income for the years ended December 31, 2017 and 2016.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT

The Federation and its subsidiaries are exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which the Federation assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Consolidated Financial Statements.

NOTE 31 – INTEREST RATE RISK EXPOSURE

The following table presents the exposure to interest rate risk. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier. Certain maturity or contractual repricing dates may be adjusted based on behavioural assumptions with respect to early repayment or redemption. In addition, certain financial instruments are presented in the "Non-interest-sensitive and provisions" column while they are actually managed using a different risk profile. Behavioural assumptions and models are internally developed using historical analyses, among others.

	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	As at December 31, 2017
Assets								
Cash and deposits with financial institutions	$ 194	$ 956	$ 13	$ -	$ -	$ -	$ 568	$ 1,731
Effective interest rate		*1.26 %*	*1.30 %*					
Securities	633	5,435	1,318	2,279	12,433	18,433	6,373	46,904
Effective interest rate		*1.45 %*	*1.50 %*	*2.26 %*	*2.02 %*	*3.67 %*		
Securities borrowed or purchased under reverse repurchase agreements	-	9,377	-	-	-	-	-	9,377
Effective interest rate		*0.96 %*						
Loans	11,603	26,294	2,196	3,241	13,174	2,163	13	58,684
Effective interest rate		*2.81 %*	*5.52 %*	*5.75 %*	*6.09 %*	*4.31 %*		
Segregated fund assets and other assets[(1)]	-	-	-	-	-	-	29,044	29,044
	$ 12,430	$ 42,062	$ 3,527	$ 5,520	$ 25,607	$ 20,596	$ 35,998	$ 145,740
Liabilities and equity								
Deposits	$ 8,344	$ 18,578	$ 2,079	$ 4,069	$ 16,547	$ 1,388	$ 1,144	$ 52,149
Effective interest rate		*1.28 %*	*1.49 %*	*2.20 %*	*1.65 %*	*2.29 %*		
Commitments related to securities sold short	232	113	18	76	3,513	4,490	670	9,112
Effective interest rate		*3.25 %*	*1.19 %*	*1.35 %*	*1.62 %*	*2.79 %*		
Commitments related to securities lent or sold under repurchase agreements	-	10,062	-	-	-	-	-	10,062
Effective interest rate		*1.03 %*						
Insurance contract liabilities	-	-	-	-	-	-	28,300	28,300
Other liabilities[(1)]	2	-	-	-	14	13	29,491	29,520
Subordinated notes	-	-	-	-	1,388	-	-	1,388
Effective interest rate					*5.10 %*			
Equity	-	-	-	-	-	-	15,209	15,209
	$ 8,578	$ 28,753	$ 2,097	$ 4,145	$ 21,462	$ 5,891	$ 74,814	$ 145,740
Gap – Consolidated Balance Sheet items	$ 3,852	$ 13,309	$ 1,430	$ 1,375	$ 4,145	$ 14,705	$ (38,816)	$ -
Gap – Derivative financial instruments, based on notional amounts	-	(11,740)	924	913	6,453	3,450	-	-
Total gap	$ 3,852	$ 1,569	$ 2,354	$ 2,288	$ 10,598	$ 18,155	$ (38,816)	$ -

(1) Segregated fund assets and liabilities have no impact on the Federation interest rate risk exposure. For more information, see the "Segregated fund risk management" section of Note 15, "Insurance contract liabilities".

NOTE 32 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation's internal management method. During the first quarter of 2017, certain changes were made to business segments to reflect management's decisions as to how each segment is managed. Prior period comparative amounts have been restated to reflect these reclassifications. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category.

The Personal and Business Services segment is responsible for upgrading and marketing a comprehensive, integrated offer designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. The line of products and services includes day-to-day, convenience transactions, savings, card and payment services, financing, specialized services, access to capital markets, development capital, business ownership transfers and advice. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via, applications for mobile devices, as well as ATMs. Certain support activities provided by the Federation to this segment, which were previously presented in the Treasury and Other Support to Desjardins Group Entities category, have been presented in this segment since the first quarter of 2017.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to distributing its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. The products and services of the Wealth Management and Life and Health Insurance segment are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc., and Western Financial Group Inc. until its disposal by the Federation on July 1, 2017. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Quebec and outside Quebec, online and via applications for mobile devices.

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to the various adjustments that are necessary to prepare the consolidated financial statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Consolidated Financial Statements of the Federation.

NOTE 32 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of the Federation's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income	**$ 1,089**	$ 1,031	**$ 1**	$ -	**$ 1**	$ 1	**$ 313**	$ 271	**$ 1,404**	$ 1,303
Net premiums	**-**	-	**4,406**	4,204	**3,896**	3,207	**(156)**	(148)	**8,146**	7,263
Other income	**1,656**	1,522	**2,920**	2,181	**292**	151	**646**	634	**5,514**	4,488
Total income	**2,745**	2,553	**7,327**	6,385	**4,189**	3,359	**803**	757	**15,064**	13,054
Provision for credit losses	**274**	248	**4**	-	**-**	-	**-**	-	**278**	248
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**4,233**	3,609	**2,555**	1,838	**7**	(1)	**6,795**	5,446
Non-interest expense	**2,032**	1,877	**2,329**	2,208	**1,099**	1,132	**779**	805	**6,239**	6,022
Operating surplus earnings	**439**	428	**761**	568	**535**	389	**17**	(47)	**1,752**	1,338
Income taxes on surplus earnings	**122**	79	**149**	107	**89**	93	**(24)**	(132)	**336**	147
Surplus earnings before dividends to member caisses[(1)]	**317**	349	**612**	461	**446**	296	**41**	85	**1,416**	1,191
Dividends to member caisses, net of income tax recovery	**-**	18	**-**	-	**-**	-	**44**	-	**44**	18
Net surplus earnings for the year after dividends to member caisses	**$ 317**	$ 331	**$ 612**	$ 461	**$ 446**	$ 296	**$ (3)**	$ 85	**$ 1,372**	$ 1,173
of which:										
Group's share	**$ 317**	$ 325	**$ 610**	$ 440	**$ 405**	$ 245	**$ (3)**	$ 78	**$ 1,329**	$ 1,088
Non-controlling interests' share	**-**	6	**2**	21	**41**	51	**-**	7	**43**	85

(1) For the year ended December 31, 2017, the Group's share of "Surplus earnings before dividends to member caisses" was $317 million ($343 million in 2016) for the Personal and Business Services segment, $610 million ($440 million in 2016) for the Wealth Management and Life and Health Insurance segment, $405 million ($245 million in 2016) for the Property and Casualty Insurance segment and $41 million ($78 million in 2016) for the Treasury and Other Support to Desjardins Group entities category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at December 31, 2017	**$ 51,696**	**$ 42,005**	**$ 13,138**	**$ 38,901**	**$ 145,740**
As at December 31, 2016	$ 43,163	$ 38,616	$ 14,568	$ 38,311	$ 134,658

NOTE 33 – RELATED PARTY DISCLOSURES

The Federation's related parties include entities included in the group scope of Desjardins Group and primarily member caisses. They also include associates, joint ventures and benefit plans for the benefit of employees, as well as certain entities for which the substance of the relationship indicates that they are related to the Federation, including the Desjardins Funds. In addition, they include key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH THE FEDERATION'S RELATED PARTIES

Transactions with the Federation's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The Federation and its subsidiaries carry out transactions with related parties, and primarily member caisses. Services rendered to member caisses include various technical, administrative and financial services for which income, such as assessments and fees, are earned. On the other hand, member caisses earn remuneration income from the Federation on products and services such as credit cards, payroll services, as well as fund and investment services and financial engineering. The Federation also plays a treasurer role, which allows the caisses to borrow or lend liquidities. Swaps are also entered into between member caisses and the Federation.

Through Desjardins Investments Inc., the Federation earns management fees as manager of the Desjardins Funds for the following services: accounting, record-keeping, securities custody, portfolio management and transfer agent services. Through Desjardins Trust Inc., the Federation also earns fees as fund custodian. Finally, the Federation also earns management income from pension plans and pays interest expense to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2017				2016			
	Member caisses	**Associates**	**Other related parties**	**Total**	Member caisses	Associates	Other related parties	Total
Consolidated Statements of Income								
Interest income	**$ 489**	**$ 4**	**$ -**	**$ 493**	$ 443	$ 2	$ 2	$ 447
Interest expense	**(153)**	**-**	**(1)**	**(154)**	(160)	-	(1)	(161)
Net premiums	**97**	**-**	**-**	**97**	95	-	-	95
Assessments	**376**	**-**	**1**	**377**	392	-	1	393
Service agreements	**682**	**-**	**23**	**705**	664	-	28	692
Brokerage and investment fund services	**-**	**1**	**503**	**504**	-	-	440	440
Net income on securities at fair value through profit or loss	**165**	**-**	**3**	**168**	67	-	(2)	65
Remuneration and other	**(536)**	**-**	**-**	**(536)**	(492)	-	-	(492)
Other income	**173**	**11**	**18**	**202**	167	11	(16)	162
Other expenses	**(101)**	**(7)**	**(1)**	**(109)**	(62)	(10)	(3)	(75)
Consolidated Balance Sheets								
Cash and deposits with financial institutions	**$ 87**	**$ -**	**$ -**	**$ 87**	$ 128	$ -	$ -	$ 128
Securities	**1**	**16**	**403**	**420**	1	9	267	277
Securities borrowed or purchased under reverse repurchase agreements	**702**	**-**	**676**	**1,378**	23	-	1,124	1,147
Segregated fund net assets	**-**	**-**	**1,234**	**1,234**	-	-	988	988
Loans	**26,228**	**65**	**-**	**26,293**	23,915	127	-	24,042
Other assets	**725**	**2**	**23**	**750**	273	2	22	297
Deposits	**5,006**	**69**	**295**	**5,370**	5,022	64	325	5,411
Commitments related to securities lent or sold under repurchase agreements	**-**	**-**	**50**	**50**	-	-	234	234
Derivative financial instruments	**2,190**	**-**	**(25)**	**2,165**	1,722	-	28	1,750
Other liabilities	**439**	**1**	**10**	**450**	622	2	6	630
Other								
Credit commitments given	**$ 37,607**	**$ -**	**$ 213**	**$ 37,820**	$ 34,725	$ -	$ 218	$ 34,943
Guarantees given	**1**	**-**	**50**	**51**	35	-	234	269
Credit commitments received	**35**	**-**	**-**	**35**	35	-	-	35
Guarantees received	**718**	**-**	**676**	**1,394**	23	-	1,124	1,147

NOTE 33 – RELATED PARTY DISCLOSURES *(continued)*

KEY MANAGEMENT PERSONNEL COMPENSATION

The Federation's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Federation. In the normal course of operations, the Federation carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various entities included in the scope of consolidation of the Federation. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of the Federation's key management personnel was as follows:

	2017	2016
Short-term benefits	**$ 12**	$ 16
Long-term and post-employment benefits	**5**	6
Termination benefits	**2**	9
	$ 19	$ 31