SUSTAINABLE GROWTH

iA Financial Corporation Inc.

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Consolidated Financial Statements

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Responsibility for Financial Reporting

The Consolidated Financial Statements of **iA Financial Corporation Inc.**, which have been approved by the Board of Directors, were prepared by Management in accordance with International Financial Reporting Standards and contain certain amounts based on best judgment and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the significant accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in the Annual Report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems provide for communication of professional conduct rules and principles, using a professional code of ethics prepared by the Company for all organizational members. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all material departments within the Company.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:

- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the internal control systems and security;
- Recommend the appointment of the independent auditor and its fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

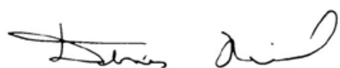
The Audit Committee meets regularly with Management, the internal auditor and the independent auditor. The latter may, as it sees fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The Appointed Actuary is appointed by the Board of Directors pursuant to the *Insurers Act* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of insurance contract liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the insurance contract liabilities net of reinsurance assets at the Statement of Financial Position date to meet all policyholder obligations of the Company. Examination of supporting data for the accuracy and completeness analysis of Company assets for their ability to support the amount of insurance contract liabilities net of reinsurance assets are important elements of the work required to form this opinion.

The independent auditor is appointed to report to the shareholders regarding the fairness of presentation of the Company's Consolidated Financial Statements. The independent auditor fulfills this responsibility by carrying out an independent audit of these financial statements in accordance with Canadian generally accepted auditing standards.

The Autorité des marchés financiers (AMF) has the power to perform checks to ensure that the Company respects the *Insurers Act*, preserves the interests of the policyholders and pursues sound capitalization and good solvency.

On behalf of Management,



Denis Ricard
President and Chief Executive Officer
Quebec City, February 13, 2020

Jacques Potvin
Executive Vice-President, CFO and Chief Actuary
Quebec City, February 13, 2020

Independent Auditor's Report

To the shareholders of **iA Financial Corporation Inc.**

Opinion

We have audited the consolidated financial statements of **iA Financial Corporation Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated income statements, comprehensive income statements, equity statements and cash flows statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

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

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

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sophie Fortin.

Quebec City, Quebec
February 13, 2020

Deloitte LLP [1]

[1] CPA auditor, CA, public accountancy permit No. A124208

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2019**	2018
	$	$
Revenues		
Premiums		
Gross premiums	**9,757**	8,622
Premiums ceded	**(813)**	(773)
Net premiums (Note 24)	**8,944**	7,849
Investment income (Note 5)		
Interest and other investment income	**1,364**	1,306
Change in fair value of investments	**3,278**	(995)
	4,642	311
Other revenues	**1,679**	1,752
	15,265	9,912
Policy benefits and expenses		
Gross benefits and claims on contracts	**5,939**	5,399
Ceded benefits and claims on contracts	**(547)**	(529)
Net transfer to segregated funds	**917**	821
Increase (decrease) in insurance contract liabilities (Note 14)	**4,773**	216
Increase (decrease) in investment contract liabilities (Note 14)	**27**	9
Decrease (increase) in reinsurance assets (Note 14)	**(44)**	76
	11,065	5,992
Commissions	**1,654**	1,582
General expenses (Note 21)	**1,472**	1,329
Premium and other taxes	**128**	127
Financing charges (Note 22)	**59**	63
	14,378	9,093
Income before income taxes	**887**	819
Income taxes (Note 23)	**188**	181
Net income	**699**	638
Net income attributed to participating policyholders	**(10)**	4
Net income attributed to shareholders	**709**	634
Dividends attributed to preferred shares issued by a subsidiary (Note 18)	**22**	21
Net income attributed to common shareholders	**687**	613
Earnings per common share (in dollars) (Note 25)		
Basic	**6.43**	5.62
Diluted	**6.40**	5.59
Weighted average number of shares outstanding (in millions of units) (Note 25)		
Basic	**107**	109
Diluted	**107**	110
Dividends per common share (in dollars) (Note 17)	**1.77**	1.59

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

Consolidated Comprehensive Income Statements

Years ended December 31 (in millions of dollars)	**2019**	2018
	$	$
Net income	**699**	638
Other comprehensive income, net of income taxes		
Items that may be reclassified subsequently to net income:		
Available for sale financial assets		
Unrealized gains (losses) on available for sale financial assets	**83**	(60)
Reclassification of losses (gains) on available for sale financial assets included in net income	**(14)**	21
	69	(39)
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	**(62)**	86
Hedges of net investment in foreign operations	**49**	(71)
	(13)	15
Cash flow hedge		
Unrealized gains (losses) on cash flow hedges	**(23)**	(1)
Reclassification of losses (gains) on cash flow hedges included in net income	**—**	(1)
	(23)	(2)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**(21)**	(10)
Total other comprehensive income	**12**	(36)
Comprehensive income	**711**	602
Comprehensive income attributed to participating policyholders	**(10)**	4
Comprehensive income attributed to shareholders	**721**	598

Income Taxes Included in Other Comprehensive Income

Years ended December 31 (in millions of dollars)	**2019**	2018
	$	$
Income tax recovery (expense) related to:		
Items that may be reclassified subsequently to net income:		
Unrealized losses (gains) on available for sale financial assets	**(28)**	22
Reclassification of gains (losses) on available for sale financial assets included in net income	**5**	(7)
Unrealized losses (gains) on cash flow hedges	**4**	—
Hedges of net investment in foreign operations	**(9)**	13
	(28)	28
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**8**	3
Total income tax recovery (expense) included in other comprehensive income	**(20)**	31

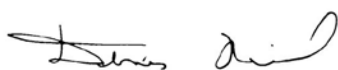
The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Financial Position

As at December 31 (in millions of dollars)	**2019**	2018
	$	$
Assets		
Investments (Note 5)		
Cash and short-term investments	**1,108**	1,046
Bonds	**27,508**	23,592
Stocks	**3,024**	3,055
Mortgages and other loans	**3,870**	3,661
Derivative financial instruments (Note 8)	**1,003**	225
Policy loans	**900**	951
Other invested assets	**429**	329
Investment properties	**2,077**	1,720
	39,919	34,579
Other assets (Note 9)	**2,193**	2,172
Reinsurance assets (Note 14)	**1,030**	1,001
Fixed assets (Note 10)	**394**	277
Deferred income tax assets (Note 23)	**28**	26
Intangible assets (Note 11)	**1,110**	1,071
Goodwill (Note 11)	**606**	633
General fund assets	**45,280**	39,759
Segregated funds net assets (Note 12)	**27,868**	23,781
Total assets	**73,148**	63,540
Liabilities		
Insurance contract liabilities (Note 14)	**30,665**	25,940
Investment contract liabilities (Note 14)	**630**	630
Derivative financial instruments (Note 8)	**455**	429
Other liabilities (Note 15)	**6,063**	5,875
Deferred income tax liabilities (Note 23)	**287**	266
Debentures (Note 16)	**1,050**	901
General fund liabilities	**39,150**	34,041
Liabilities related to segregated funds net assets (Note 12)	**27,868**	23,781
Total liabilities	**67,018**	57,822
Equity[1]		
Share capital and contributed surplus	**1,684**	1,678
Preferred shares issued by a subsidiary (Note 18)	**525**	525
Retained earnings and accumulated other comprehensive income	**3,879**	3,463
Participating policyholders' accounts	**42**	52
	6,130	5,718
Total liabilities and equity	**73,148**	63,540

[1] The *Retained earnings* and *Participating policyholders' accounts* as at January 1, 2018, have been adjusted according to the "Accounting Adjustment" section in Note 2.

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



Denis Ricard
President and Chief Executive Officer

Danielle G. Morin
Chair of Audit Committee

Consolidated Equity Statements

Years ended December 31 (in millions of dollars)

	Participating policyholders' accounts	Common shares	Preferred shares issued by a subsidiary	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
		(Note 17)	(Note 18)			(Note 19)	
	$	$	$	$	$	$	$
Balance as at December 31, 2017	41	1,521	375	19	3,073	49	5,078
Impact of adopting IFRS 15	—	—	—	—	(20)	—	(20)
Accounting adjustment (Note 2)	7	—	—	—	(7)	—	—
Balance as at January 1, 2018	48	1,521	375	19	3,046	49	5,058
Net income attributed to shareholders	—	—	—	—	634	—	634
Net income attributed to participating policyholders' accounts	4	—	—	—	—	—	4
Other comprehensive income	—	—	—	—	—	(36)	(36)
Comprehensive income for the year	4	—	—	—	634	(36)	602
Equity transactions							
Transfer of post-employment benefits (Note 27)	—	—	—	—	(10)	10	—
Stock option plan (Note 26)	—	—	—	5	—	—	5
Stock options exercised	—	—	—	(1)	—	—	(1)
Common shares issued	—	151	—	—	—	—	151
Preferred shares issued by a subsidiary, net of issuance costs	—	—	150	—	(3)	—	147
Redemption of common shares	—	(17)	—	—	(33)	—	(50)
Dividends on common shares	—	—	—	—	(173)	—	(173)
Dividends on preferred shares issued by a subsidiary	—	—	—	—	(21)	—	(21)
	—	134	150	4	(240)	10	58
Balance as at December 31, 2018	52	1,655	525	23	3,440	23	5,718
Net income attributed to shareholders	**—**	**—**	**—**	**—**	**709**	**—**	**709**
Net income attributed to participating policyholders' accounts	**(10)**	**—**	**—**	**—**	**—**	**—**	**(10)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**12**	**12**
Comprehensive income for the year	**(10)**	**—**	**—**	**—**	**709**	**12**	**711**
Equity transactions							
Transfer of post-employment benefits (Note 27)	**—**	**—**	**—**	**—**	**(21)**	**21**	**—**
Stock option plan (Note 26)	**—**	**—**	**—**	**4**	**—**	**—**	**4**
Stock options exercised	**—**	**—**	**—**	**(9)**	**—**	**—**	**(9)**
Common shares issued	**—**	**54**	**—**	**—**	**—**	**—**	**54**
Redemption of common shares	**—**	**(43)**	**—**	**—**	**(96)**	**—**	**(139)**
Dividends on common shares	**—**	**—**	**—**	**—**	**(188)**	**—**	**(188)**
Dividends on preferred shares issued by a subsidiary	**—**	**—**	**—**	**—**	**(22)**	**—**	**(22)**
Other	**—**	**—**	**—**	**—**	**1**	**—**	**1**
	—	**11**	**—**	**(5)**	**(326)**	**21**	**(299)**
Balance as at December 31, 2019	**42**	**1,666**	**525**	**18**	**3,823**	**56**	**6,130**

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

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)	2019	2018
	$	$
Cash flows from operating activities		
Income before income taxes	**887**	819
Financing charges	**59**	63
Income taxes paid, net of refunds	**(241)**	(189)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	**4,807**	243
Increase (decrease) in investment contract liabilities	**—**	43
Decrease (increase) in reinsurance assets	**(95)**	1
Unrealized losses (gains) on investments	**(3,271)**	1,000
Provisions for losses	**40**	27
Amortization of premiums and discounts	**16**	28
Other depreciation	**210**	173
Gain on other assets disposal	**—**	(59)
Goodwill impairment (Note 21)	**22**	—
Gain on a contingent consideration settlement (Note 21)	**(14)**	—
Other items not affecting cash	**44**	(81)
Operating activities affecting cash:		
Sales, maturities and repayments on investments	**14,764**	11,632
Purchases of investments	**(16,712)**	(13,074)
Realized losses (gains) on investments	**(30)**	19
Other items affecting cash	**(68)**	(253)
Net cash from (used in) operating activities	**418**	392
Cash flows from investing activities		
Acquisition of businesses, net of cash	**(6)**	(223)
Sales (purchases) of fixed and intangible assets	**(150)**	(177)
Net cash from (used in) investing activities	**(156)**	(400)
Cash flows from financing activities		
Issuance of common shares	**45**	148
Redemption of common shares (Note 17)	**(139)**	(50)
Issuance of preferred shares by a subsidiary, net of issuance costs	**—**	146
Issuance of debentures (Note 16)	**398**	—
Redemption of debentures (Note 16)	**(250)**	(111)
Reimbursement of lease liabilities	**(15)**	—
Dividends paid on common shares	**(188)**	(173)
Dividends paid on preferred shares issued by a subsidiary	**(22)**	(21)
Interest paid on debentures	**(23)**	(32)
Interest paid on lease liabilities	**(4)**	—
Net cash from (used in) financing activities	**(198)**	(93)
Foreign currency gains (losses) on cash	**(2)**	6
Increase (decrease) in cash and short-term investments	**62**	(95)
Cash and short-term investments at beginning	**1,046**	1,141
Cash and short-term investments at end	**1,108**	1,046
Supplementary information:		
Cash	**801**	718
Short-term investments	**307**	328
Total cash and short-term investments	**1,108**	1,046

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

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018 (in millions of dollars, unless otherwise indicated)

1 › General Information

iA Financial Corporation Inc. (iA Financial Corporation) is a holding company listed on the Toronto Stock Exchange and incorporated under the *Business Corporations Act* (Quebec). iA Financial Corporation and its subsidiaries (the "Company") offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgages, and other financial products and services. The Company's products and services are offered on both an individual and group basis and extend throughout Canada and the United States.

On January 1, 2019, Industrial Alliance Insurance and Financial Services Inc. (iA Insurance) and iA Financial Corporation completed an operation pursuant to which iA Financial Corporation became the holding company that owns all the common shares of iA Insurance by way of a plan of arrangement under the *Companies Act* (Quebec) and the *Business Corporations Act* (Quebec) (the "arrangement") (Note 28).

Publication of these Consolidated Financial Statements was authorized for issue by the Company's Board of Directors on February 13, 2020.

2 › Significant Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards (IFRS) on December 31, 2019. The IFRS are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the IFRS Interpretations Committee (IFRS IC).

IFRS does not currently include an insurance contract measurement standard. Therefore, as permitted by IFRS 4 *Insurance Contracts*, insurance contract liabilities are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

The financial statements are presented in millions of Canadian dollars. The Canadian dollar is the Company's functional and reporting currency. The presentation order of the items included in the Statements of Financial Position is based on liquidity. Each line item includes both current and non-current balances, if applicable.

b) Important Estimates, Assumptions, Use of Judgment and Accounting Adjustment

The preparation of financial statements requires management to use judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and complementary information. Management has exercised its judgment, made estimates and established the assumptions described in the notes referred to below:

Determination of control for purposes of consolidation	Note 2, section c) "Basis of Consolidation and Method" Note 7 "Management of Risks Associated with Financial Instruments", section b) iii) "Other Information on Credit Risk - Interests in Non-Consolidated Structured Entities"
Fair value and impairment of financial instruments and fair value of investment properties	Note 2, section d) "Invested Assets and Investment Income" Note 5 "Invested Assets and Investment Income" Note 6 "Fair Value of Financial Instruments and Investment Properties" Note 7 "Management of Risks Associated with Financial Instruments"
Classification of contracts, measurement of insurance contract liabilities and investment contract liabilities and measurement of reinsurance assets	Note 2, section j) "Reinsurance Assets" Note 2, section k) "Insurance and Investment Contract Liabilities" Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities"
Impairment of goodwill and intangible assets	Note 2, section g) "Intangible Assets" Note 2, section h) "Goodwill" Note 11 "Intangible Assets and Goodwill"
Income taxes	Note 2, section m) "Income Taxes" Note 23 "Income Taxes"
Post-employment benefits	Note 2, section s) "Post-Employment Benefits" Note 27 "Post-Employment Benefits"
Determination of reporting segments and allocation methodologies in the presentation of segmented information	Note 24 "Segmented Information"

Actual results could differ from management's best estimates. Estimates and assumptions are periodically reviewed according to changing circumstances and facts, and changes are recognized in the period in which the revision is made and future periods affected by this revision. The significant accounting policies, estimates and assumptions used are detailed in the following notes when it is meaningful and relevant.

Accounting Adjustment
During the year 2019, the Company made an accounting adjustment relating to net income attributed to participating policyholders in prior years for an amount of $7. This accounting adjustment has no material impact on the prior years results to which it relates. The Company decreased the retained earnings by $7 as at January 1, 2018. As a result, the ending balances of retained earnings and participating policyholders' accounts for the year ended December 31, 2018 were adjusted respectively from $3,447 to $3,440 and from $45 to $52.

c) Basis of Consolidation and Method
Entities over which the Company exercises control are consolidated. Control is defined as being the exposure or the right to receive variable returns from the involvement with an entity and the ability to affect those returns through the power held over it. The Company holds the power when it has existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. Management uses judgment in determining whether control exists, particularly in determining the extent to which the Company has the ability to exercise its power to generate variable returns. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. The Company uses uniform accounting policies in the Financial Statements for similar transactions and events. Intercompany balances, and revenues and expenses for intercompany transactions are eliminated on consolidation.

The Company uses the equity method to record joint ventures and entities over which it has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control over those policies. Significant influence is presumed to exist by holding 20% or more of the voting rights. A joint venture exists when the Company has joint control of a joint arrangement and has rights to the net assets of the arrangement. Joint control is the sharing of control under a contractual agreement and exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company records its share of the entity's net assets and financial results using uniform accounting policies for similar transactions and events.

d) Invested Assets and Investment Income
Invested assets include financial assets such as cash and short-term investments, bonds, stocks, mortgages and other loans, derivative financial instruments, policy loans, other invested assets and investment properties.

Financial assets are classified into one of the following categories:

- assets at fair value through profit or loss, including assets held for trading and assets designated at fair value through profit or loss;
- assets held to maturity, carried at amortized cost;
- assets available for sale, carried at fair value, with fair value variations recognized in *Other comprehensive income*;
- loans and receivables, carried at amortized cost using the effective interest method.

Financial assets are classified according to their nature and use by the Company at the time of initial recognition. The fair value option of designating financial assets in the category assets at fair value through profit or loss is used by the Company for its assets matching the insurance contract liabilities and investment contract liabilities, except for mortgages and other loans and bonds that are not quoted on an active market. Thus, any changes in the fair value of underlying assets matched to the insurance contract liabilities and investment contract liabilities are directly reflected in the insurance contract liabilities and investment contract liabilities. Changes in fair value of assets matching these liabilities and changes in corresponding insurance contract and investment contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise.

Bonds and stocks that are not matched with insurance contract liabilities and investment contract liabilities are classified as available for sale. Mortgages and other loans, as well as bonds not quoted in an active market are classified as loans and receivables. The Company does not hold any financial assets in the category held to maturity.

The Company applies the trade date accounting method, which is the date on which the Company commits to purchase or sell assets. Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred. Transaction costs related to financial assets available for sale are capitalized to the asset and, in the case of bonds, these costs are amortized using the effective interest method. Transaction costs related to loans and receivables are capitalized to the asset and amortized in the Income Statement using the effective interest method.

Invested assets are accounted for using the methods described below.

i) Cash and Short-Term Investments
Cash and short-term investments consist of cash, payments in transit and fixed income securities held for short-term commitment. Cash and payments in transit are classified as loans and receivables and accounted for at amortized cost using the effective interest method. Fixed income securities are classified as held for trading and accounted for at fair value.

ii) Bonds
Designated at Fair Value Through Profit or Loss
Bonds designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of investments* and interest income earned is accounted for in *Interest and other investment income*.

Available for Sale
Bonds classified as available for sale are carried at fair value. Unrealized gains and losses are recognized in *Other comprehensive income*, except for the portion related to foreign exchange difference, which is recorded in the Income Statement. Upon realization, gains or losses are reclassified to the Income Statement in *Interest and other investment income*. Interest as well as premiums and discounts are calculated according to the effective interest method and are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as available for sale are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, the cumulative loss recorded in *Accumulated other comprehensive income* is reclassified as an impairment loss in the Income Statement under *Investment income*. Following impairment loss recognition, these bonds continue to be recorded at fair value. Subsequent decreases in fair value are recorded in the Income Statement and they are evaluated at each reporting date to determine whether there is a fair value increase. If there is a fair value increase, impairment loss recorded in the Income Statement could be reversed if the fair value increase can be objectively linked to an event occurring after the impairment loss was recognized.

Loans and Receivables
Private bonds not traded in an active market are classified as loans and receivables. These bonds are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as loans and receivables are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the asset and the recoverable amount valuated according to the estimated future cash flows discounted at the initial effective interest rate. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed and the changes related to provisions for losses are recorded in the Income Statement.

iii) Stocks

Designated at Fair Value Through Profit or Loss
Stocks designated at fair value through profit or loss are measured at fair value. Realized and unrealized gains and losses are recognized immediately in *Change in fair value of investments* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

Available for Sale
Stocks classified as available for sale are carried at fair value. Unrealized gains and losses and variations of exchange rates are recognized in *Other comprehensive income*. Upon realization, gains or losses are reclassified in *Interest and other investment income* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

At each reporting date, stocks classified as available for sale are tested for impairment. The Company records an impairment loss if evidence of impairment exists, such as observable data about the issuer's significant financial difficulty or changes in the economic, legal or technological environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. For stocks with similar characteristics and behaviour to debt instruments, the Company records an impairment loss if evidence of impairment exists and considers that the amount invested will not be recovered.

When there is impairment, the cumulative losses previously accounted for in *Accumulated other comprehensive income* are reclassified as impairment losses under *Interest and other investment income* in the Income Statement. These stocks continue to be recorded at fair value. Any decline in value subsequent to impairment is recorded in the Income Statement, while increases are recorded in *Other comprehensive income*. An increase in value of an impaired security is only recorded in the Income Statement when the security is sold or derecognized.

iv) Mortgages and Other Loans

Loans and Receivables
Other loans consist of personal loans. Mortgages and other loans classified as loans and receivables are carried at amortized cost using the effective interest method, net of a provision for credit losses, if applicable. Interest and realized gains or losses on disposition of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, the Company performs an impairment test on each loan. A group test is then performed on groups of assets with similar risks, including loans valued individually and which had no indication of impairment. On a group basis, the Company considers similar risk characteristics that take into account the type of loan, the activity sector, geographic situation, potential late payment observed and other relevant factors. On an individual basis, the Company considers an impairment loss if it deems it unlikely that it will be able to recover the full amount of principal and interest at maturity due to objective evidence of impairment, including the borrower's financial difficulty, a bankruptcy or a default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the loan and the recoverable amount valuated according to the estimated future cash flows, discounted at the initial effective interest rate. The estimated cash flows consider the fair value of any guarantee underlying the loans, less related costs. When the effects of the cause of the impairment begin to fade, and future payments are reasonably assured, the provision is reduced or reversed. When there is no longer a realistic probability of recovery or when the asset is derecognized after the guarantee is exercised or the asset is sold, the provision is written off and reduced by any recovery. All changes affecting the provision for losses are recorded in the Income Statement.

When an impairment loss is recognized on a loan, the future interest is recognized based on the interest rate used to discount the future cash flows in order to valuate the fair value loss. When contractual payments are 90 days or more in arrears in the case of mortgages and 120 days or more in the case of other loans, contractual interest is no longer recognized. Contractual interest is resumed once the contractual payments are no longer considered in arrears and are considered current.

Designated at Fair Value Through Profit or Loss

Mortgages and other loans designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of investments* and interest income earned is accounted for in *Interest and other investment income*.

Securitization of Mortgages and Other Loans

As part of the securitization of mortgages and other loans, since the Company retains substantially all risks and rewards related to the transferred mortgages and other loans, the asset derecognition criteria are not met. The Company continues to recognize mortgages and other loans in the Statement of Financial Position and an obligation of a value equal to the amounts securitized is recorded in *Other liabilities*. Interest income on securitized loans continues to be recorded in *Interest and other investment income* in the Income Statement according to the effective interest method and interest expenses on liabilities are recorded in *Financing charges* in the Income Statement.

v) Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency, interest rates, credit risk and other market risks associated with specific assets and liabilities. Derivative financial instruments are classified as held for trading. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in *Change in fair value of investments* in the Income Statement unless the derivative financial instruments are part of a qualified hedging relationship, as described below.

Hedge Accounting

When the Company determines that hedge accounting is appropriate, a hedging relationship is designated and documented from inception. Effectiveness of the hedge is valuated on inception and at the end of each financial reporting period for the duration of the hedge. Hedge accounting, which recognizes the offsetting effects of hedging instruments and hedged items the same way, can only be applied if the relationship is demonstrated to be effective. If it is established that the hedging instrument is no longer an effective hedge, if the hedging instrument is sold or if the expected transaction has ceased to be highly probable, the Company ceases to apply hedge accounting prospectively.

Fair Value Hedging

Changes in fair value of hedging instruments and changes in fair value of assets arising from the hedged risk are recorded in *Change in fair value of investments* in the Income Statement. At the same time, the gain or loss on the inefficient portion of the hedge is recorded in *Net income*.

Cash Flow Hedging

The effective portion of changes in fair value of hedging instruments is recognized in *Other comprehensive income*. Gains or losses on the ineffective portion are immediately recorded in the Income Statement in *Change in fair value of investments*. When accumulated gains and losses in *Other comprehensive income* in respect of the hedged item have an impact on results during the period, they are reclassified to the Income Statement, whereas when they affect the Statement of Financial Position, they are reclassified to the Statement of Financial Position.

Net Investment Hedge

The Company uses currency forward contracts as hedging items of foreign exchange risk related to net investments in foreign operations. The effective portion of changes in fair value of hedging instruments is recognized in *Other comprehensive income*. Gains or losses on the ineffective portion are immediately recorded in the Income Statement as *Change in fair value of investments*. Cumulative gains and losses in *Other comprehensive income* are reclassified in the Income Statement in the period in which the net investment in foreign operations is subject to a total or partial disposition.

vi) Embedded Derivative Financial Instruments

Embedded derivative financial instruments are separate from the host contract and are accounted for at fair value if the economic characteristics and risks of the embedded derivative financial instruments are not closely linked to the economic characteristics and risks of the host contract, if the terms of the embedded derivative financial instrument are the same as an independent derivative financial instrument, and if the host instrument itself is not accounted for at fair value through profit or loss. Changes in the fair value of embedded derivative financial instruments are recorded in the Income Statement under *Change in fair value of investments*.

vii) Policy Loans

Policy loans, classified as loans and receivables, correspond to the unpaid capital balance and are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made.

viii) Other Invested Assets

Other invested assets include the investment in associates and joint ventures and notes receivable. Notes receivable are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. Investments in associates and joint ventures are accounted for according to the equity method as described in section c) “Basis of Consolidation and Method”, in the present note.

ix) Investment Properties

Investment properties are properties owned by the Company that are not owner-occupied and that are held to earn rental income or capital appreciation. Investment properties are recognized at the transaction price plus transaction costs upon acquisition. These properties are subsequently valued at fair value, except in the case of properties under construction, when the fair value cannot be reliably assessed. These are recorded at unamortized cost until the fair value can be reliably assessed. The fair value excludes the fair value of the linearization of rents, which is recorded in *Other assets*. Changes in fair value are recognized in *Change in fair value of investments* in the Income Statement. Rental income is recognized in the Income Statement linearly according to the term of the lease, and operating expenses of properties are recorded in *General expenses*.

x) Derecognition

A financial asset (or portion of a financial asset) is derecognized when the contractual rights to the cash flows from the financial asset expire, or if the Company transfers to a third party the financial asset and substantially all the risks and rewards of the financial asset. If the Company does not transfer or retain substantially all the risks and rewards of the financial asset and keeps control over the ceded asset, the Company accounts for the part of the asset it kept and recognizes a corresponding liability for the amount payable.

e) Other Assets

Other assets mainly include investment income due and accrued, outstanding premiums, due from reinsurers, due from agents, accounts receivable, deferred sales commissions, prepaid expenses, real estate held for resale, linearization of rents, income tax receivable, funds deposited in trust and securities purchased under reverse repurchase agreements. Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost. Real estate held for resale (foreclosed properties) is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Funds deposited in trust represent amounts received from clients held in trust.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. These reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

The Company is involved in a public-private type service agreement, which must be accounted for in accordance with IFRIC 12 *Service Concession Arrangements*. The concession service to be received increases based on the fair value of operational and maintenance services, recovery costs, administrative costs and financing costs, and decreases through payments received. The concession account receivable, included in *Accounts receivable*, is classified as a loan and receivable and is carried at amortized cost using the effective interest rate.

f) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation and mainly include own-use properties, right-of-use assets and other items classified under fixed assets. Right-of-use assets consist of fixed assets, such as rental space and other assets arising from leases, recognized at the commencement date of the contract, which is when the leased asset is made available to the Company. Before the adoption of IFRS 16 *Leases*, fixed assets held under a finance lease were recognized as other fixed assets.

The Company calculates depreciation using the straight-line method. The depreciation period is based on the estimated useful life using the following periods:

Own-use property components	10	to	60 years
Right-of-use assets	2	to	30 years
Other	3	to	15 years

At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

g) Intangible Assets
Intangible assets are composed of assets with finite and indefinite useful life. Intangible assets are initially recorded at cost.

Intangible assets with finite useful life primarily include capitalized software applications, distribution networks and customer relationships. These assets are depreciated linearly over their estimated useful life varying between 4 and 30 years. Useful life is reassessed each year and any depreciation expense is adjusted prospectively, if applicable. Finite life intangible assets are subject to impairment testing if there is evidence of impairment and losses in value are calculated and recorded on an individual basis for each asset.

Intangible assets with indefinite useful life primarily include fund management contracts and distribution networks. These assets are not subject to depreciation and are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recognized in the Income Statement under *General expenses* when the carrying value exceeds the recoverable value. Intangible assets are considered to have indefinite useful lives when, on the basis for analysis of all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash inflows for the Company.

h) Goodwill
Goodwill represents the difference between the acquisition cost and the fair value of identifiable assets, assumed liabilities and contingent liabilities of the acquired entities at the acquisition date. Following its initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill resulting from business combinations is presumed to have an indefinite life and is not amortized.

The Company allocates goodwill to a cash-generating unit (CGU), which is the smallest group of identifiable assets that generate cash flows that are largely independent of cash flows from other assets or groups of assets. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. To determine whether there is impairment, the Company compares for each CGU the net carrying value and the recoverable amount. The recoverable amount is the higher of the fair value less costs of sale and the value in use. The value in use of a CGU is the discounted value of expected future cash flows resulting from a CGU. When the assets and liabilities of the CGU have not changed significantly, the recoverable amount substantially exceeds the carrying value of the CGU and impairment is unlikely under current circumstances, the most recent detailed calculation of the recoverable amount of the CGU carried out during a prior period is used in the impairment test for the period considered. Goodwill impairments are recorded as *General expenses* in the Income Statement and cannot be reversed subsequently.

i) Segregated Funds
Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. The underlying assets are registered in the name of the Company and the segregated funds policyholders have no direct access to the specific assets. The policyholders bear the risks and rewards of the funds' investment performance. The Company derives fee income from the management of its segregated funds. These revenues are accounted for in *Other revenues* in the Income Statement. Investment income and changes in fair value of the segregated fund assets are not presented separately in the Income Statement and are offset by a corresponding change in the liabilities related to segregated funds net assets.

Segregated Funds Net Assets
Segregated funds net assets are accounted for separately from the total general fund assets in the Statement of Financial Position and investments constituting segregated funds assets are accounted for at fair value. Fair value is determined according to market prices or, if market prices are not available, according to the estimated fair values that the Company has established. The liabilities included in the segregated funds net assets are accounted for at amortized cost.

Liabilities Related to Segregated Funds Net Assets
Insurance or investment contract liabilities whose financial risk corresponds to the risk assumed by insureds are presented separately from the total general fund liabilities in the Statement of Financial Position and are accounted for at the fair value of segregated funds net assets.

Liabilities related to the segregated funds guarantees granted by the Company are included in *Insurance contract liabilities* or *Investment contract liabilities* in the Statement of Financial Position.

j) Reinsurance Assets
In the normal course of business, the Company uses reinsurance to limit its risk exposure. Reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who share the risks. Reinsurance assets represent the amounts due to the Company for ceded insurance and investment contract liabilities and unearned premiums. The calculation of these amounts is similar to the calculation of the underlying insurance and investment contract liabilities and unearned premiums, in accordance with the contract provisions of reinsurance agreements. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured.

Gains or losses that could occur on buying reinsurance are recognized in *Net income* immediately and are not amortized. The gross amounts of assets and liabilities related to reinsurance are presented separately in the Statement of Financial Position. The amounts due to or from reinsurers for premiums received or claims made are included in *Other assets* and *Other liabilities* in the Statement of Financial Position. Premiums for ceded reinsurance are shown under *Ceded premiums* in the Income Statement. The *Ceded benefits and claims on contracts* item in the Income Statement shows expense recoveries related to reinsurance contracts.

The reinsurance assets are tested for impairment. The Company considers impairment if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the reinsurance agreement if it represents objective evidence of impairment, such as the third party's financial difficulty, a bankruptcy or default of payment of amounts due. This provision is immediately recorded in *General expenses* in the Income Statement.

k) Insurance and Investment Contract Liabilities

i) Classification of Contracts

The Company issues contracts that contain an insurance risk, a financial risk or both. Insurance contracts, including reinsurance acceptances, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. This risk is assessed by reviewing a portfolio of contracts with similar risk features.

Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. The financial risk represents the risk of a possible future change in one or more of the following items: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Service contracts are contracts that do not contain any significant insurance risk and no financial risk and for which the Company offers administrative services only. Service contracts also include the service components of investment contracts. The accounting policy relating to the fee income earned from these contracts is described in section q) "Other Revenues" in the present note.

Management uses judgment to evaluate the classification of contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Insurance contracts are accounted for in accordance with IFRS 4 *Insurance Contracts*, whereas investment contracts are accounted for according to IAS 39 *Financial Instruments, Recognition and Measurement*, and service contracts according to IFRS 15 *Revenue from Contracts with Customers*.

ii) Insurance Contract Liabilities

The Company's appointed actuary determines the amount of insurance contract liabilities using the Canadian Asset Liability Method (CALM), in accordance with the standards of the Canadian Institute of Actuaries (CIA), and as permitted by IFRS 4 *Insurance Contracts*. Pursuant to the CALM method, insurance contract liabilities represent the amount which, added to future premiums and investment income, will be sufficient to cover estimated future benefits, policyholder dividends and experience rating refunds, taxes (other than income taxes), commissions and fees to administer in-force policies. The change in the insurance contract liabilities is included in *Increase (decrease) in insurance contract liabilities* in the Income Statement.

iii) Investment Contract Liabilities

Investment contract liabilities are the amounts that the Company owes to clients since these contracts do not have significant insurance risk. These contracts are initially carried at fair value less transaction cost directly related to the establishment of the contract and are subsequently re-measured at amortized cost. This liability is derecognized when all the obligations relating to this type of contract are performed, extinguish or expire.

l) Other Liabilities

Other liabilities are primarily made up of unearned premiums, post-employment benefits, amounts on deposit on products other than insurance contracts, accounts payable, securities sold under repurchase agreements, short-selling securities, securitization liabilities, lease liabilities and other liabilities.

Financial liabilities included in the *Other liabilities* are classified as financial liabilities at amortized cost, except for short-selling securities, which are classified as held for trading. The commitments related to short-selling securities reflect the Company's obligation to deliver securities that it sold without owning them at the time of sale. Short-selling securities are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in *Change in fair value of investments* in the Income Statement. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

The Company sells securities and, simultaneously, agrees to repurchase them in the short term, at a set price and date. These repurchase agreements are recorded in the Statement of Financial Position at the consideration received plus accrued interest. Commitments related to securities acquired under repurchase agreements are recorded at amortized cost using the effective interest method. Interest on repurchase operations is recorded in the Income Statement under *Financing charges*.

Lease liabilities are recognized, from the commencement date of the contract, at the discounted value of the lease payments that have not yet been paid, discounted at the interest rate implicit in the lease, or if this rate is not available, at the incremental borrowing rate. Subsequently, lease liabilities are recorded at amortized cost using the effective interest method and the related interest expense is recognized in *Financing charges* in the Income Statement. Lease liabilities exclude amounts relating to variable lease payments or payments for which the Company is reasonably certain not to exercise. The Company has elected to recognize lease payments for short-term and low-value contracts on a straight-line basis over the lease term in *General expenses*. Before the adoption of IFRS 16 *Leases*, lease liabilities on finance leases were recognized under *Miscellaneous.*

The purchased businesses in force are initially recorded at fair value. If negative, this fair value is recorded in the Statement of Financial Position in *Other liabilities* for an amount equal to the discounted value of estimated future gains or losses related to purchased businesses in force at the acquisition date. The discounted value of the future gain or loss takes into consideration the cost of capital and is estimated using actuarial assumptions that are similar to the ones used to establish the insurance contract liability purchased and a discount rate integrating a risk premium. The fair value of purchased businesses in force recorded as part of a business combination is amortized over the useful life of the portfolio contracts.

m) Income Taxes

The income tax expense includes current taxes and deferred taxes. The calculation of current income tax expense is based on taxable income for the year. Current tax assets and liabilities for the current and previous periods are measured at the amount expected to be paid to or received from tax authorities using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred income taxes result from temporary differences between the assets' and liabilities' carrying value and their value for tax purposes, using those rates enacted or substantively enacted applicable to the periods the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences subject to certain exceptions, carry forward for unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which these assets can be utilized. The Company assesses all available evidence, both positive and negative, to determine the amount of deferred tax assets to be recognized.

Deferred tax liabilities are recognized for all taxable temporary differences, subject to certain exceptions in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset them, for the same legal entity and levied by the same taxation authority, and if the Company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The current and deferred taxes are presented in the Income Statement except when they relate to items that are recognized in *Other comprehensive income* or directly in Equity. In this case, they are presented in the Comprehensive Income Statement and the Statement of Financial Position respectively.

To determine the impact of taxes, the Company must comply with both IFRS and actuarial standards of practice. Consequently, according to the CALM method, the determination of insurance contract liabilities must account for all cash flows associated with the insurance contract liabilities provided, including income taxes. Insurance contract liabilities are determined by considering the tax impacts related to these contracts on a discounted basis, adjusted for all related deferred tax assets and liabilities. The net result of this adjustment is to leave the discounting effect of deferred taxes related to temporary differences on tax items related to insurance contracts in *Insurance contract liabilities*.

The Company is subject to income tax laws in Canada and the United States. Tax laws are complex and may be subject to different interpretations by the Company and by the tax authority. The provision for income taxes and deferred income taxes represents the Company's interpretation of the tax laws and estimates of current and future tax consequences of the transactions and events during the period. In addition, future events, such as changes in tax laws, tax regulations or the interpretations of such laws or regulations could have a material effect on the amounts of the tax expense, the deferred income tax and the effective tax rate during the year in which they occur.

n) Debentures

The Company has chosen to classify its debentures as financial liabilities at amortized cost. The fair value, net of related transaction costs, is used to initially recognize the debentures. Debentures are subsequently measured at amortized cost using the effective interest method. Interest calculated according to the effective interest method and premiums paid on redemption of debentures are recognized in the Income Statement and presented as *Financing charges*.

o) Foreign Exchange Conversion

Transactions in foreign currencies are converted into the functional currency at the rate in effect when each transaction takes place. Monetary items in the Statement of Financial Position are converted at the end-of-period exchange rate. Non-monetary items in the Statement of Financial Position that are measured at fair value are converted at the end-of-period exchange rate, while non-monetary items that are measured at historical cost are converted at the exchange rate in effect when each transaction takes place. Gains and losses on foreign currency conversions are recognized in the Income Statement.

The financial statements of certain entities of the group, whose functional currency (the currency of the principal economic environment in which the entity operates) differs from the parent company, are converted into the reporting currency. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the end-of-period exchange rate. Revenues and expenses are translated at the average rate. Gains and losses on foreign currency and hedge results of some of these investments are accounted for in *Other comprehensive income, net of income taxes*.

p) Premiums and Expenses
Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, including assumed premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

General insurance premiums are recorded when written. Premiums are recognized as premiums earned over the contract period. The unrecognized portion is recorded as unearned premiums in *Other liabilities* in the Statement of Financial Position.

Benefits and claims on contracts mainly consist of amounts paid on death, annuities, redemptions and health.

Benefits and claims as well as expenses are recognized when incurred.

q) Other Revenues
Other revenues mainly come from contracts that meet the definition of service contracts and especially include fees earned from the management of the Company's segregated fund and mutual fund assets, commissions from intermediary activities and administrative services only (ASO) income. Revenues are recognized based on the considerations specified in the contract with the customer and exclude any amounts received on behalf of third parties. The nature of the activities included in other revenues represents a single performance obligation (service) which consists of a series of similar services provided to the same customer. The Company recognizes other revenues in the Income Statement on an accrual basis when services are rendered and when it is unlikely that they will be reversed.

r) Net Transfer to Segregated Funds
Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund at the request of policyholders.

s) Post-Employment Benefits
The Company has established defined benefit plans and provides certain post-retirement benefits to eligible employees. In some cases, eligible retirees have to pay a portion of premiums for these benefits. The cost of the retirement plans is determined using the Projected Unit Credit Method and management's best estimate regarding the discount rate, salary increases, mortality and expected health care costs. Defined benefit costs are divided into four components: service cost, net interest and administrative expense, which are shown in the Income Statement as *General expenses,* and revaluations, which are presented in *Other comprehensive income*.

The revaluations of defined benefit net liabilities (assets) includes the actuarial gain or loss, the yield on plan assets (excluding amounts included in net interest on the defined benefit net liabilities (assets)) and the variation of the effect of the asset ceiling, if applicable, and are recognized immediately as *Other liabilities (Other assets)* in the Statement of Financial Position and in *Other comprehensive income* on the other side. The Company decided to transfer the amounts recorded in *Other comprehensive income* to *Retained earnings*. The cost of past service is recognized in *Net income* in the period in which there has been a change, reduction or liquidation of the pension plan. The net interest is calculated by multiplying the defined benefit net liabilities (assets) at the beginning of the period by the discount rate. The difference between defined benefit assets and defined benefit obligations under defined benefit plans is recognized as an asset or liability in the Statement of Financial Position. The discount rate used to determine obligations under defined benefit plans is based on the market interest rate at the valuation date for debt securities with high quality and cash flows in line with forecast benefit payments.

t) Stock-Based Compensation

i) Stock Option Plan
The stock option plan is accounted for as a transaction which is settled in equity. The cost of stock options granted is calculated using the fair value method. Fair value of options is estimated at the grant dates taking into account a forfeiture rate and using the graded vesting method. The cost of stock options is accounted for as a remuneration expense included in *General expenses* in the Income Statement. The corresponding amount is recorded in the Company's contributed surplus in the Statement of Financial Position. For options that are cancelled before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital. Stock-based compensation is recognized at the grant date for grants to management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to management personnel who will become eligible to retire during the vesting period.

ii) Share Purchase Plan for Employees
The Company's cash contribution is charged to the Income Statement as *General expenses* in the period the shares are purchased.

iii) Deferred Share Units (DSU)
Measurement of deferred share units, which are settled in cash, is based on the value of the Company's shares. When a grant is made, the Company recognizes a remuneration expense in the Income Statement and a liability equivalent to the fair value of the Company's common shares in the Statement of Financial Position. This liability is revalued at the end of each reporting period and on the settlement date according to the value of the Company's shares and the change in fair value is recorded in *General expenses* in the Income Statement.

iv) Mid-Term Incentive Plan

Measurement of the mid-term incentive plan, which is settled in cash, is based on the value of the Company's shares. At the end of each reporting period, the Company records a remuneration expense in the Income Statement and a liability in the Statement of Financial Position, equal to the average fair value of the Company's common shares for the reference period. This expense is amortized linearly according to the estimated number of shares expected to be vested at the end of the vesting period. Changes in the fair value of liabilities are recorded in *General expenses* in the Income Statement.

3 › Changes in Accounting Policies

New Accounting Policies Applied

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

Standards or amendments	Description of the standards or amendments and impacts on financial statements of the Company
IFRS 4 *Insurance Contracts*	*Description:* On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts*. This amendment, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, provides two options to entities applying IFRS 4: • the deferral approach is an optional temporary exemption from applying IFRS 9 until January 1, 2021 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; • the overlay approach permits entities to adopt IFRS 9 but adjust some of the impacts arising from designated financial assets, those being assets related to the insurance contract liabilities. On November 14, 2018, the IASB decided to propose extending the deferral approach until January 1, 2022. This decision is subject to public consultation currently underway. *Status:* The Company met all criteria and chose the deferral approach, as described below. The Company will apply IFRS 9 only to financial statements beginning on January 1, 2021, or January 1, 2022 if approved.
IFRS 16 *Leases*	*Description*: On January 13, 2016, the IASB published the standard IFRS 16 *Leases*, which replaces the standard IAS 17 *Leases*. This new standard specifies: • how to recognize, measure, present and disclose leases; • for the lessee: – the requirement to recognize assets and liabilities for all leases; – unless the lease term is 12 months or less or the underlying asset has a low value; • for the lessor: – that the accounting remains substantially unchanged. *Impact:* The Company has applied this new standard as of January 1, 2019 and the impact is described below.
IAS 19 *Employee Benefits*	*Description:* On February 7, 2018, the IASB published an amendment to IAS 19 *Employee Benefits*. The amendment *Plan Amendment, Curtailment or Settlement* clarifies, for defined benefit pension plans, when changes require a revaluation of the net cost of assets and liabilities involved. The amendment requires the entity to use the adjusted assumptions resulting from the reassessment to determine the cost of services rendered during the period and the net interest for the period following the changes made to the pension plans or the revaluation. This amendment applies prospectively. *Impact:* No impact on the Company's financial statements.
IFRIC 23 *Uncertainty over Income Tax Treatments*	*Description:* On June 7, 2017, the IASB published Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*. This interpretation clarifies how to apply the recognition and measurement requirement in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. This interpretation applies to the determination of taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates when there is doubt as to the tax treatments to be used in accordance with IAS 12. *Impact:* No impact on the Company's financial statements.
IAS 28 *Investments in Associates and Joint Ventures*	*Description:* On October 12, 2017, the IASB published an amendment to IAS 28 *Investments in Associates and Joint Ventures*. The amendment *Long-term Interest in Associates and Joint Ventures* clarifies the situation where an entity applies the equity method and owns long-term interests that meet the criteria to be qualified in substance as long-term net investments. This amendment applies more specifically to shares when there are losses that must be absorbed by long-term interests. *Impact:* No impact on the Company's financial statements.
IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*	*Description*: On September 26, 2019, the IASB published an amendment to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendment *Interest Rate Benchmark Reform* seeks to modify certain hedge accounting requirements so that this accounting is not affected by uncertainties related to interest rate benchmark reform. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted. The nominal value of the financial instruments used in hedging relationships impacted by the reform is $150. *Impact:* The Company chose to apply this amendment early during the year with retrospective application as at January 1, 2019. There was no impact on the Company's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle	*Description:* In December 2017, the IASB published the Annual Improvements to IFRSs 2015-2017 Cycle. The Annual Improvements clarify situations specific to four standards: • IFRS 3 *Business Combinations* related to the fact that a business combination achieved in stages is applicable when a party to a joint arrangement obtains control of a business that is a joint operation, and this improvement will apply prospectively; • IFRS 11 *Joint Arrangements* related to the fact that an interest previously owned by an entity in a joint operation is not remeasured when the entity obtains joint control of the joint operation, and this improvement will apply prospectively; • IAS 12 *Income Taxes* related to the recognition of income taxes on dividend liabilities to be paid, and this improvement will apply retrospectively; • IAS 23 *Borrowing Costs* related to the fact that an entity shall exclude from the calculation of capitalized borrowing costs the borrowing costs for the period during the completion of the assets, and this improvement will apply prospectively. *Impact:* No impact on the Company's financial statements.

Impact of the application of IFRS 16

The Company chose to apply this new standard on a modified retrospective basis as at January 1, 2019. As a result, the comparative figures are not restated. The Company also elected to use the simplification measure relating to the identification of leases at transition date. Accordingly, this standard has been applied to leases previously identified as such in accordance with IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. The Company has also elected to use the exemption for lease periods with a term of 12 months or less, or those whose underlying asset has a low value. As a result, these leases are recognized in *General expenses.*

On January 1, 2019, the Company recognized right-of-use assets of $140 and lease liabilities of $142, calculated using a weighted average incremental borrowing rate of 3%. The Company also reversed a liability of $2 that was presented in *Other liabilities*.

Reconciliation of lease liabilities as at January 1, 2019:

	$
Commitments related to operating leases as at December 31, 2018	187
Exemptions related to short-term or low-value contracts	(1)
Variable costs and non-lease components	(74)
Extension options considered in the lease liabilities	72
	184
Effect of discount at the incremental borrowing rate as at January 1, 2019	(42)
Lease liabilities as at January 1, 2019	**142**

Right-of-use assets are recognized in *Fixed assets* and lease liabilities are recognized in *Other liabilities*.

Future Changes in Accounting Policies

Standards or amendments are presented on the basis of their publication date unless a more relevant approach allows for better information.

Standards or amendments	Description of the standards or amendments
IFRS 9 *Financial Instruments*	The Company adopted the amendment IFRS 4 *Insurance Contracts*, described in the section "New Accounting Policies Applied". Consequently, even if the provisions of IFRS 9 applied to financial statements beginning on January 1, 2018, the Company will apply these provisions simultaneously to the application of the standard IFRS 17. *Description:* On July 24, 2014, the IASB published the standard IFRS 9 *Financial Instruments* which replaces the provisions of the standard IAS 39 *Financial Instruments: Recognition and Measurement*. The standard IFRS 9: • requires financial assets to be measured at amortized cost or at fair value on the basis of the entity's business model for managing assets; • changes the accounting for financial liabilities measured using the fair value option; • proposes a new accounting model related to the recognition of expected credit losses, requiring the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date; • modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities. The provisions of this new standard will apply retrospectively or on a modified retrospective basis. On October 12, 2017, the IASB published an amendment to IFRS 9 *Financial Instruments*. The amendment *Prepayment Features with Negative Compensation* enables entities to measure at amortized cost some prepayable financial assets with so-called negative compensation. *Status:* The Company is evaluating the impact of this standard on its financial statements.

IFRS 17 *Insurance Contracts*	*Description:* On May 18, 2017, the IASB published the standard IFRS 17 *Insurance Contracts* which replaces the provisions of the standard IFRS 4 *Insurance Contracts*. The standard IFRS 17: • has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flows statement; • establishes the principles for recognition, measurement, presentation and disclosure; • defines a general model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities; • defines a specific model for contracts of one year or less. The provisions of this new standard will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements beginning on or after January 1, 2021. Early adoption is permitted if IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are previously applied. On November 14, 2018, the IASB decided to propose extending the date of application to financial statements beginning on or after January 1, 2022. This decision is subject to public consultation currently underway. *Status:* The Company is evaluating the impact on presentation, disclosure and measurement of the insurance contract liabilities that this standard will have on its financial statements.
Conceptual Framework for Financial Reporting	*Description:* On March 29, 2018, the IASB published a revised version of the Conceptual Framework for Financial Reporting. The IASB decided to revise the Conceptual Framework because important issues were not addressed and some indications were outdated or unclear. This revised version includes, among other things, a new chapter on valuation, guidance on the presentation of financial performance and improved definitions of an asset and a liability and guidance in support of those definitions. The Conceptual Framework helps entities to develop their accounting method when no IFRS is applicable to a specific situation. The provisions will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted. *Status:* The Company has completed the analysis of this revised version and concluded that it will not have a significant impact on its financial statements.
IFRS 3 *Business Combinations*	*Description:* On October 22, 2018, the IASB published an amendment to the standard IFRS 3 *Business Combinations*. The amendment *Definition of a Business* clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The provisions of this amendment will apply prospectively to transactions for which the acquisition date is on or after January 1, 2020. Early adoption is permitted. *Status:* The Company has completed the analysis of this amendment and concluded that it will not have a significant impact its financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	*Description:* On October 31, 2018, the IASB published an amendment to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment *Definition of Material* clarifies the definition of material in IAS 1 along with the explanation accompanying that definition and aligns the definitions used across IFRS standards. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted. *Status:* The Company has completed the analysis of this amendment and concluded that it will not have a significant impact its financial statements.

Information on the Deferral of the Application of IFRS 9*Financial Instruments*

The Company applies IFRS 4 *Insurance Contracts* in its operations. This standard was amended in 2016 to allow entities that apply IFRS 4 to defer the application of IFRS 9 *Financial Instruments* if total liabilities for insurance activities represent more than 90% of the entity's total liabilities. This calculation is made as of the closing date preceding April 1, 2016, the calculation date identified in the standard.

For this calculation, the Company primarily considered insurance contract liabilities, investment contract liabilities, liabilities related to segregated funds net assets and debentures as at December 31, 2015. Liabilities related to its insurance activities are greater than 90% of total liabilities.

The Company has decided to defer the application of IFRS 9 until January 1, 2021 (or January 1, 2022 if the proposition is accepted), when IFRS 17 *Insurance Contracts*, which includes the valuation of these policies, becomes effective. If the Company had applied IFRS 9, this would not have had a significant impact on the classification of financial assets designated at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* given the very close relationship between invested assets and insurance contract liabilities. For financial assets classified as loans and receivables or available for sale as at December 31, 2019, an amount of $756 ($815 as at December 31, 2018) does not meet the solely payments of principal and interest test in accordance with IFRS 9. In addition, for mortgages, the Company cannot use the low credit risk exemption in the calculation of expected credit losses.

4 › Acquisition of Businesses

During the year 2018, the Company acquired, through its subsidiary IA American Holdings Inc., 100% of the shares of IA American Warranty Group Inc. (formerly IA American Casualty Holdings Inc.), which owned 100% of the shares of Dealers Assurance Company and Southwest Reinsure Inc. Furthermore, the Company acquired, through its wholly-owned subsidiary iA Insurance, 100% of the shares of PPI Management Inc. Lastly, the Company also acquired, through its subsidiaries, insurance and mutual fund broker businesses. As at December 31, 2018, the final allocation of the acquisition price was completed for all these acquisitions.

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	2019					
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and short-term investments	489	—	619	—	1,108	1,108
Bonds						
Governments	11,714	1,870	111	—	13,695	
Municipalities	1,106	166	40	—	1,312	
Corporate and other	8,601	1,721	2,179	—	12,501	
	21,421	3,757	2,330	—	27,508	27,750
Stocks						
Common	1,621	34	—	—	1,655	
Preferred	186	374	—	—	560	
Stock indexes	215	98	—	—	313	
Investment fund units	489	7	—	—	496	
	2,511	513	—	—	3,024	3,024
Mortgages and other loans						
Insured mortgages						
Residential	—	—	846	—	846	
Multi-residential	—	—	1,419	—	1,419	
Non-residential	—	—	6	—	6	
	—	—	2,271	—	2,271	
Conventional mortgages						
Residential	—	—	293	—	293	
Multi-residential	66	—	193	—	259	
Non-residential	28	—	225	—	253	
	94	—	711	—	805	
Other loans	—	—	794	—	794	
	94	—	3,776	—	3,870	3,917
Derivative financial instruments	1,003	—	—	—	1,003	1,003
Policy loans	—	—	900	—	900	900
Other invested assets	—	—	5	424	429	429
Investment properties	—	—	—	2,077	2,077	2,099
Total investments	25,518	4,270	7,630	2,501	39,919	40,230

	2018					
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and short-term investments	465	—	581	—	1,046	1,046
Bonds						
Governments	9,857	1,996	118	—	11,971	
Municipalities	1,045	110	40	—	1,195	
Corporate and other	6,721	1,725	1,980	—	10,426	
	17,623	3,831	2,138	—	23,592	23,733
Stocks						
Common	1,793	31	—	—	1,824	
Preferred	177	320	—	—	497	
Stock indexes	236	77	—	—	313	
Investment fund units	415	6	—	—	421	
	2,621	434	—	—	3,055	3,055
Mortgages and other loans						
Insured mortgages						
Residential	—	—	859	—	859	
Multi-residential	—	—	1,427	—	1,427	
Non-residential	—	—	6	—	6	
	—	—	2,292	—	2,292	
Conventional mortgages						
Residential	—	—	221	—	221	
Multi-residential	60	—	174	—	234	
Non-residential	30	—	222	—	252	
	90	—	617	—	707	
Other loans	—	—	662	—	662	
	90	—	3,571	—	3,661	3,705
Derivative financial instruments	225	—	—	—	225	225
Policy loans	—	—	951	—	951	951
Other invested assets	—	—	7	322	329	329
Investment properties	—	—	—	1,720	1,720	1,738
Total investments	21,024	4,265	7,248	2,042	34,579	34,782

The *At fair value through profit or loss* category includes securities held for trading, mainly derivative financial instruments and short-term investments as well as securities designated at fair value through profit or loss. Other invested assets are made up of notes receivable, investments in associates and investments in joint ventures accounted for using the equity method. Investment fees are presented in Note 21 “General Expenses”.

Fair value of investment properties is $2,099 ($1,738 in 2018) and is composed of investment properties of $2,077 ($1,720 in 2018) and of linearization of rents of $22 ($18 in 2018). The linearization of rents is the total rental income under the lease, distributed evenly over the lease term, using an average rate, which considers free rents and other advantages granted to tenants. Amounts related to the linearization of rents are presented in Note 9 “Other Assets”. Rental income is presented in the investment income table in section c) of this note and operating expenses for investment properties are shown in Note 21 “General Expenses”.

b) Investments in Associates and Joint Ventures

The Company holds interests ranging from 25% to 50% as at December 31, 2019 (ranging from 25% to 30% as at December 31, 2018). The carrying value of these investments as at December 31, 2019 is $422 ($322 as at December 31, 2018). The share of net income and comprehensive income for the year ended December 31, 2019 amounts to $24 ($21 for the year ended December 31, 2018).

c) Investment Income

	2019				
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total
	$	$	$	$	$
Cash and short-term investments					
Interest	1	—	31	—	32
Change in fair value	7	—	—	—	7
Bonds					
Interest	532	101	93	—	726
Change in fair value	2,198	—	—	—	2,198
Gains (losses) realized	—	20	1	—	21
Variation in provisions for losses	—	—	(3)	—	(3)
Stocks					
Dividends	108	21	—	—	129
Change in fair value	206	—	—	—	206
Gains (losses) realized	—	(1)	—	—	(1)
Mortgages and other loans					
Interest	4	—	194	—	198
Change in fair value	(4)	—	—	—	(4)
Gains (losses) realized	—	—	10	—	10
Variation in provisions for losses	—	—	(37)	—	(37)
Derivative financial instruments					
Interest	16	—	—	—	16
Change in fair value	833	—	—	—	833
Policy loans					
Interest	—	—	46	—	46
Other invested assets	(7)	—	7	21	21
Investment properties					
Rental income	—	—	—	200	200
Change in fair value	—	—	—	44	44
Total investment income	3,894	141	342	265	4,642
Interest	537	101	364	—	1,002
Dividends	108	21	—	—	129
Derivative financial instruments	16	—	—	—	16
Rental income	—	—	—	200	200
Gains (losses) realized	—	19	11	—	30
Variation in provisions for losses	—	—	(40)	—	(40)
Other	(1)	—	7	21	27
Interest and other investment income	660	141	342	221	1,364
Cash and short-term investments	7	—	—	—	7
Bonds	2,198	—	—	—	2,198
Stocks	206	—	—	—	206
Mortgages and other loans	(4)	—	—	—	(4)
Derivative financial instruments	833	—	—	—	833
Investment properties	—	—	—	44	44
Other	(6)	—	—	—	(6)
Change in fair value of investments	3,234	—	—	44	3,278
Total investment income	3,894	141	342	265	4,642

	2018				
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total
	$	$	$	$	$
Cash and short-term investments					
Interest	—	—	30	—	30
Change in fair value	5	—	—	—	5
Bonds					
Interest	473	111	131	—	715
Change in fair value	(534)	—	—	—	(534)
Gains (losses) realized	—	(12)	5	—	(7)
Variation in provisions for losses	—	—	(2)	—	(2)
Stocks					
Dividends	138	17	—	—	155
Change in fair value	(77)	—	—	—	(77)
Gains (losses) realized	—	(16)	—	—	(16)
Mortgages and other loans					
Interest	3	—	176	—	179
Change in fair value	6	—	—	—	6
Gains (losses) realized	—	—	4	—	4
Variation in provisions for losses	—	—	(25)	—	(25)
Derivative financial instruments					
Interest	17	—	—	—	17
Change in fair value	(433)	—	—	—	(433)
Policy loans					
Interest	—	—	49	—	49
Other invested assets	(5)	—	7	34	36
Investment properties					
Rental income	—	—	—	166	166
Change in fair value	—	—	—	43	43
Total investment income	(407)	100	375	243	311
Interest	476	111	386	—	973
Dividends	138	17	—	—	155
Derivative financial instruments	17	—	—	—	17
Rental income	—	—	—	166	166
Gains (losses) realized	—	(28)	9	—	(19)
Variation in provisions for losses	—	—	(27)	—	(27)
Other	—	—	7	34	41
Interest and other investment income	631	100	375	200	1,306
Cash and short-term investments	5	—	—	—	5
Bonds	(534)	—	—	—	(534)
Stocks	(77)	—	—	—	(77)
Mortgages and other loans	6	—	—	—	6
Derivative financial instruments	(433)	—	—	—	(433)
Investment properties	—	—	—	43	43
Other	(5)	—	—	—	(5)
Change in fair value of investments	(1,038)	—	—	43	(995)
Total investment income	(407)	100	375	243	311

6 › Fair Value of Financial Instruments and Investment Properties

a) Methods and Assumptions Used to Estimate Fair Values

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management exercises its judgment to determine the data that will be used to measure the fair value of financial assets and liabilities, particularly for financial instruments classified as Level 3. Fair value of various categories of financial instruments and investment properties is determined as described below.

Financial Assets

Short-Term Investments – Carrying value of these investments represents the fair value due to their short-term maturity.

Bonds – Bonds are valued based on quoted price, observed on active markets for identical or similar assets. If prices are not available on active markets, fair value is estimated using current valuation methods, including a model based on discounting expected cash flows or other similar techniques. These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer spread, volatility and liquidity valuation and other reference data published by the market. Management uses its best estimates when such data are not available.

Stocks – Stocks are valued based on quote price, observed on active markets. If the price is not available on the active markets, fair value is determined using equity valuation models, which analyze the fair value of the net asset, and other techniques that rely on comparisons with reference data, such as market indices. Investment fund units are evaluated at the net asset value published by the fund manager.

Mortgages and Other Loans – The fair value of mortgages and other loans is estimated by discounting the cash flows with the interest rates currently prevailing on the market for loans with substantially the same credit risk and terms.

Derivative Financial Instruments – Fair value of derivative financial instruments is determined according to the type of derivative financial instrument. Fair value of derivative financial instruments, such as futures contracts and options traded on the stock exchanges is determined in accordance with quoted prices on active markets. Derivative financial instruments that are traded over the counter are valued using valuation models such as actualized cash flow analysis and other valuation models used on the market. These valuations are based on observable data on the market, including interest rates, foreign exchange rates, financial indices, rate differentials, credit risk and volatility.

Among derivative financial instruments, certain other derivative contracts are subject to trading restrictions. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to the trading restrictions period, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

Policy Loans – Policy loans are carried at amortized cost. They are guaranteed and may be reimbursed at any time. Their fair value approximates their carrying value due to their nature.

Other Investments – The fair value of other investments is approximately the same as the carrying value due to the nature of these elements.

Other Assets – The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

Investment Properties

The fair value of investment properties is determined using various recognized methods and standards of assessment in the real estate sector. Among these methods, the income approach is the most commonly used, as it is based on an investor's behaviour in relation to income expected to be generated by an investment property. Under this approach, discounting of the cash flows generated by an investment property is preferred as it measures the relationship between the market value and the reasonably discounted incomes over an investment horizon. Expected cash flows include contractual and projected income as well as the investment property's operating expenses. These cash flows reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected for future leases, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, current type and quality of the building, and market data and projections as of the date of the valuation. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. Highest and best use is one of the possible valuation methods. Highest and best use of a site is an integral part of the process to establish the fair value of an investment property. This use is the one that, at the time of the appraisal, provides the highest fair value for the investment property. As a result, this use is determined by considering possible, legally admissible, financially feasible physical use achievable in the short term based on demand and must be tied to the likelihood of being achieved rather than to the simple possibility. Valuations are performed annually by external, independent certified appraisers. During the year, 88 % of the investment properties portfolio was assessed by independent appraisers (77 % in 2018).

Financial Liabilities
Derivative Financial Instruments – The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 8 "Derivative Financial Instruments" and is equal to the carrying amounts reported in the negative fair value column. The fair value is determined according to the method and assumptions previously described in the "Financial Assets" section.

Other Liabilities – The fair value of other liabilities, except short-selling securities, securitization liabilities and mortgage debt, is approximately the same as the carrying value due to their short-term nature.

Short-selling securities, classified as held for trading, are measured using the observed market prices in active markets for identical or similar financial instruments. If quoted prices in active markets are not available, fair value is estimated using standard methods of assessment, such as a model based on discounted future cash flows or similar techniques. These methods take into account the current observable market data for financial instruments with a similar risk profile and comparable terms. Important data used in these models include, but are not limited to, yield curves, credit risk, issuer spreads, volatility and liquidity valuation and other reference data published by the markets.

The fair value of securitization liabilities is estimated by discounting cash flows with the interest rates currently prevailing in the market for new debt with substantially the same terms. This fair value is disclosed in Note 7 "Management of Risks Associated with Financial Instruments" in section b) iii).

The fair value of mortgage debt is estimated by discounting the cash flows with the interest rate currently prevailing on the market, for new mortgage debt with substantially the same terms. The fair value of the mortgage debt is $76. The mortgage debt is secured by real estate with a carrying value of $74, bearing interest of 3.143% and maturing on May 1, 2022. The interest expense on the mortgage debt is less than $1 and is included in Note 22 "Financing Charges". The carrying value of the mortgage debt is included in Note 15 "Other Liabilities".

Debentures – The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have substantially the same conditions. This fair value can fluctuate due to interest rates and credit risks associated with these instruments. Fair value of debentures is presented in Note 16 "Debentures".

b) Hierarchy of the Fair Value
Disclosures regarding financial instruments and investment properties must be presented as a hierarchy that categorizes the inputs to valuation models used to measure the fair value of financial assets and financial liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. The three levels of the hierarchy are described below:

Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market, among other things, are classified in Level 1.
Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.
Level 3 – Valuation model based on valuation techniques that use largely unobservable market parameters and that reflect management's best estimates. Most private placements are classified in Level 3.

If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2. If the measurement of its fair value requires the use of significant unobservable inputs, it is directly reclassified into Level 3.

Assets

	2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Recurring fair value measurements				
Cash and short-term investments				
Held for trading	—	489	—	489
Bonds				
Designated at fair value through profit or loss				
Governments	850	10,864	—	11,714
Municipalities	—	1,106	—	1,106
Corporate and other	—	8,472	129	8,601
	850	20,442	129	21,421
Available for sale				
Governments	76	1,794	—	1,870
Municipalities	—	166	—	166
Corporate and other	—	1,710	11	1,721
	76	3,670	11	3,757
	926	24,112	140	25,178
Stocks				
Designated at fair value through profit or loss	1,220	—	1,291	2,511
Available for sale	108	374	31	513
	1,328	374	1,322	3,024
Mortgages and other loans				
Designated at fair value through profit or loss	—	94	—	94
Derivative financial instruments				
Held for trading	229	774	—	1,003
Investment properties	—	—	2,077	2,077
General fund investments recognized at fair value	2,483	25,843	3,539	31,865
Segregated funds financial instruments and investment properties	21,343	6,373	90	27,806
Total financial assets at fair value	23,826	32,216	3,629	59,671

	2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Recurring fair value measurements				
Cash and short-term investments				
Held for trading	—	465	—	465
Bonds				
Designated at fair value through profit or loss				
Governments	358	9,499	—	9,857
Municipalities	—	1,045	—	1,045
Corporate and other	—	6,581	140	6,721
	358	17,125	140	17,623
Available for sale				
Governments	185	1,811	—	1,996
Municipalities	—	110	—	110
Corporate and other	—	1,709	16	1,725
	185	3,630	16	3,831
	543	20,755	156	21,454
Stocks				
Designated at fair value through profit or loss	1,487	—	1,134	2,621
Available for sale	86	319	29	434
	1,573	319	1,163	3,055
Mortgages and other loans				
Designated at fair value through profit or loss	—	90	—	90
Derivative financial instruments				
Held for trading	27	197	1	225
Investment properties	—	—	1,720	1,720
General fund investments recognized at fair value	2,143	21,826	3,040	27,009
Segregated funds financial instruments and investment properties	17,852	5,894	47	23,793
Total financial assets at fair value	19,995	27,720	3,087	50,802

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

There were no transfers from Level 2 to Level 3 during the years ended December 31, 2019 and 2018.

There were no transfers from Level 3 to Level 2 during the years ended December 31, 2019 and 2018.

There were no transfers from Level 3 to Level 1 during the year ended December 31, 2019 ($16 for the year ended December 31, 2018). These transfers are related to stocks designated at fair value through profit or loss. The fair value of these stocks was previously determined using internal valuation models that required the use of assumptions, including one main assumption that was not observable in the market.

The Company presents the transfers between hierarchy levels at the quarter-end fair value for the quarter during which the transfer occurred.

The Company uses unobservable inputs in the valuation of bonds and stocks classified into Level 3. Regarding bonds, unobservable inputs mainly correspond to credit and liquidity risk premiums ranging from 1.09% to 2.68% as at December 31, 2019 (1.40% to 3.25% as at December 31, 2018). Stocks classified into Level 3 are mainly valuated from information available in the financial statements of companies using models based on discounting expected cash flows as well as the use of multiples.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2019 are the discount rate, which is between 5.25% and 7.75% (5.00% and 9.00% in 2018) and the terminal capitalization rate, which is between 4.25% and 7.25% (4.25% and 7.75% in 2018). The discount rate is based on market activity by type of building and the location and reflects the expected rate of return to be realized on investments over the next 10 years. The terminal capitalization rate is based on market activity by type of building and location. This rate reflects the expected rate of return on the investment over the remaining life after the 10-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

Due to the unobservable nature of the main data used to measure bonds, stocks and investment properties classified in Level 3, the Company does not assess whether the application of other assumptions would have an impact on fair value. Also, the investment properties as well as bonds and stocks classified as designated at fair value through profit or loss support the Company's insurance contract liabilities. Consequently, changes in fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the CALM. Even if the Company were to use possible alternative assumptions affecting fair value, this would not have a significant impact on the Financial Statements.

The following table presents assets recognized at fair value evaluated according to Level 3 parameters:

	2019							
	Balance as at December 31, 2018	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers in (out) of Level 3	Balance as at December 31, 2019	Total unrealized gains (losses) included in net income on investments still held
	$	$	$	$	$	$	$	$
Bonds								
Designated at fair value through profit or loss	140	7	—	—	(18)	—	129	7
Available for sale	16	—	—	—	(5)	—	11	—
Stocks								
Designated at fair value through profit or loss	1,134	5	—	198	(46)	—	1,291	5
Available for sale	29	—	(1)	3	—	—	31	—
Derivative financial instruments								
Held for trading	1	—	—	—	(1)	—	—	—
Investment properties	1,720	44	—	318	(5)	—	2,077	44
General fund investments recognized at fair value	3,040	56	(1)	519	(75)	—	3,539	56
Segregated funds financial instruments and investment properties	47	1	—	44	(2)	—	90	2
Total	3,087	57	(1)	563	(77)	—	3,629	58

	2018							
	Balance as at December 31, 2017	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers in (out) of Level 3	Balance as at December 31, 2018	Total unrealized gains (losses) included in net income on investments still held
	$	$	$	$	$	$	$	$
Bonds								
Designated at fair value through profit or loss	145	(2)	—	—	(3)	—	140	(2)
Available for sale	15	—	1	—	—	—	16	—
Stocks								
Designated at fair value through profit or loss	902	74	—	235	(61)	(16)	1,134	77
Available for sale	18	—	2	9	—	—	29	—
Derivative financial instruments								
Held for trading	2	—	—	—	(1)	—	1	—
Investment properties	1,341	43	—	378	(42)	—	1,720	43
General fund investments recognized at fair value	2,423	115	3	622	(107)	(16)	3,040	118
Segregated funds financial instruments and investment properties	22	—	—	27	(2)	—	47	—
Total	2,445	115	3	649	(109)	(16)	3,087	118

For the year ended December 31, 2019, an amount of $55 ($46 for the year ended December 31, 2018) presented in *Purchases* for investment properties corresponds to capitalizations to *Investment properties*. Also, the *Sales and settlements* for investment properties include transfers of $2 to fixed assets ($7 for the year ended December 31, 2018).

Realized and unrealized gains (losses) included in net income and *Total unrealized gains (losses) included in net income on financial instruments still held* are presented in the *Investment income* in the Income Statement, except the value of segregated funds assets, which are not presented in the Income Statement, but are included in the change in segregated funds net assets in Note 12 "Segregated Funds Net Assets". *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 19 "Accumulated Other Comprehensive Income" in *Unrealized gains (losses).*

Fair Value Disclosed in the Notes

The Company classifies certain financial instruments as loans and receivables. These financial instruments are measured at amortized cost and fair value is disclosed in the notes. The following table shows the hierarchy level of such fair values:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Classified as loans and receivables				
Bonds				
Governments	**—**	**8**	**132**	**140**
Municipalities	**—**	**51**	**—**	**51**
Corporate and other	**—**	**243**	**2,138**	**2,381**
	—	**302**	**2,270**	**2,572**
Mortgages and other loans	**—**	**3,823**	**—**	**3,823**
Total of assets classified as loans and receivables	**—**	**4,125**	**2,270**	**6,395**

	2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Classified as loans and receivables				
Bonds				
Governments	—	9	128	137
Municipalities	—	48	—	48
Corporate and other	—	251	1,843	2,094
	—	308	1,971	2,279
Mortgages and other loans	—	3,615	—	3,615
Total of assets classified as loans and receivables	—	3,923	1,971	5,894

Financial Liabilities

The following table presents financial liabilities measured at fair value on a recurring basis and those whose fair value is disclosed in a note by hierarchy level:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Recurring fair value measurements				
Other liabilities				
Held for trading	**46**	**165**	**—**	**211**
Derivative financial instruments				
Held for trading	**80**	**339**	**36**	**455**
Total of liabilities classified as held for trading	**126**	**504**	**36**	**666**
Classified at amortized cost				
Other liabilities				
Securitization liabilities	**—**	**1,183**	**—**	**1,183**
Mortgage debt	**—**	**76**	**—**	**76**
Debentures	**—**	**1,063**	**—**	**1,063**
Total of liabilities classified at amortized cost	**—**	**2,322**	**—**	**2,322**

	2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Recurring fair value measurements				
Other liabilities				
Held for trading	48	127	—	175
Derivative financial instruments				
Held for trading	10	388	31	429
Total of liabilities classified as held for trading	58	515	31	604
Classified at amortized cost				
Other liabilities				
Securitization liabilities	—	1,154	—	1,154
Debentures	—	899	—	899
Total of liabilities classified at amortized cost	—	2,053	—	2,053

The following table presents liabilities recognized at fair value evaluated according to Level 3 parameters:

	2019							
	Balance as at December 31, 2018	**Realized and unrealized gains (losses) included in net income**	**Realized and unrealized gains (losses) included in other comprehensive income**	**Purchases**	**Sales and settlements**	**Transfers in (out of) Level 3**	**Balance as at December 31, 2019**	**Total unrealized gains (losses) included in net income on financial liabilities**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Derivative financial instruments	**31**	**—**	**—**	**9**	**(4)**	**—**	**36**	**—**

	2018							
	Balance as at December 31, 2017	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers in (out of) Level 3	Balance as at December 31, 2018	Total unrealized gains (losses) included in net income on financial liabilities
	$	$	$	$	$	$	$	$
Derivative financial instruments	42	(9)	—	18	(20)	—	31	—

7 › Management of Risks Associated with Financial Instruments

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding the principles, responsibilities and key measures and management practices of the Company's risk management is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on pages 33 to 42. The shaded information in these pages is considered an integral part of these financial statements. Market risk, credit risk and liquidity risk are the most significant risks that the Company must manage for financial instruments.

a) Market Risk

Market risk represents the risk of fluctuation in the fair value of a financial instrument, which could lead to a loss due to changes in market factors, such as interest rates, stock prices and exchange rates.

Interest Rate Risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits, whose maturity date may be a long-time in the future, such as death benefits and annuity payments. To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its insurance contract liabilities and long-term debts, matches its liabilities until they expire and uses derivative financial instruments as complementary management tools. Consequently, assets are chosen based on amount, cash flow and return in order to correspond to the characteristics of the matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization. This strategy consists in using fixed income securities to immunize a liability against interest rate variations. In the measurement of its insurance contract liabilities, as described in Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities", the Company takes into account the level of matching achieved between assets and liabilities.

Risk of a Market Downturn

The risk of a market downturn represents the risk of losses caused by stock market fluctuations or caused by private equity value fluctuations. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) the income on capital generated by the assets backing the Company's capital; and 4) benefits from guarantees on segregated funds.

In its risk management strategy, the Company has implemented a dynamic hedging program for all minimum withdrawal guarantees and almost all maturity guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents $7,366 as at December 31, 2019 ($7,276 in 2018). More detailed information on the hedging program is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on page 39.

Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for losses due to exchange rates related to foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposure to currency risk whereby liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. To protect itself against foreign currency risk, the Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in a foreign operation that has a different functional currency from the Company's functional currency. Disclosure of hedge accounting is presented in Note 8 "Derivative Financial Instruments".

Impairment of Financial Assets Classified as Available for Sale

For the years ended December 31, 2019 and 2018, the Company did not reclassify any unrealized losses of stocks classified as available for sale from *Other comprehensive income* to *Investment income* in the Income Statement.

Since the assets designated at fair value through profit or loss are matched, variations of fair value, other than those related to credit risk, are directly reflected in the *Increase (decrease) in insurance contract liabilities*, which prevents a disparity of the treatment in the net income. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

The unrealized gains and losses on financial assets classified as available for sale and included in the *Accumulated other comprehensive income* are the following:

	2019			2018		
	Fair value	**Unrealized losses**	**Unrealized gains**	Fair value	Unrealized losses	Unrealized gains
	$	**$**	**$**	$	$	$
Bonds						
Governments	**1,870**	**(1)**	**57**	1,996	(6)	31
Municipalities	**166**	**—**	**3**	110	(1)	1
Corporate and other	**1,721**	**(2)**	**40**	1,725	(23)	7
	3,757	**(3)**	**100**	3,831	(30)	39
Stocks	**513**	**(21)**	**10**	434	(21)	8
Total	**4,270**	**(24)**	**110**	4,265	(51)	47

b) Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgages and other loans as well as private placements, exposure to different investment portfolios, derivative financial instruments and reinsurance activities. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates and joint ventures.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivative financial instruments is presented in Note 8 "Derivative Financial Instruments".

b) i) Credit Quality Indicators
Bonds by Investment Grade

	2019	2018
	$	$
AAA	**1,866**	1,229
AA	**13,101**	8,355
A	**7,960**	9,882
BBB	**4,343**	3,942
BB and lower	**238**	184
Total	**27,508**	23,592

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of $2,054 as at December 31, 2019 ($1,801 as at December 31, 2018).

Mortgages and Other Loans

	2019	2018
	$	$
Insured mortgages	**2,271**	2,292
Conventional mortgages	**805**	707
Other loans	**794**	662
Total	**3,870**	3,661

The credit quality of mortgages and other loans is assessed internally, on a regular basis, when the review of the portfolio is made.

Derivative Financial Instruments
The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2019, all counterparties to derivative financial instrument contracts have a credit rating of AA- or higher (AA- or higher as at December 31, 2018).

Reinsurance Assets
The Company assesses the financial soundness of reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. It can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts. Reinsurance agreements without security held from reinsurers are with several well-established, highly rated reinsurers. The Company's reinsurance assets are with reinsurers who have a minimum credit rating of A- in a proportion of 98% (97% in 2018).

b) ii) Past Due or Impaired Financial Assets
To manage risk, the Company evaluates, among other things, the ability of the issuer to ensure current and future contractual payments of principal and interest. The Company follows up monthly to ensure that cash flows stipulated in the contract are recovered in a timely manner and takes the necessary action to address the outstanding amounts. In addition, the Company identifies the issuers that may have an unstable financial situation and classifies each of the issuer's assets under one of the following quality lists:

Watch list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require monitoring. No impairment loss is recognized in respect of assets of these issuers.

List of securities on the monitor list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require increased monitoring. An asset is moved from the watch list to the list of securities on the monitor list when changes in facts and circumstances of the issuer increase the likelihood that a security suffers as a loss-generating event in the near future. No impairment loss is accounted for in respect of assets of these issuers.

List of impaired assets: The collection of current and future contractual payments of principal and interest is no longer assured. For investments classified as available for sale or carried at amortized cost, an impairment loss is recognized in *Net income*.

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages and other loans, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired, as well as amounts for financial assets which have similar credit risks that are subject to a collective impairment test.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more in the case of mortgages and 120 days or more in the case of other loans or in foreclosure is assumed to be impaired. Any impaired loan which is not insured and fully guaranteed is considered as an impaired investment. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities matching these liabilities, in compliance with actuarial standards.

Past Due Bonds, Mortgages and Other Loans

Bonds, mortgages and other loans are considered in arrears when the counterparty has not made a payment at a contractual date.

		2019		
	Bonds classified as loans and receivables	**Mortgages classified as loans and receivables**	**Other loans**	**Total**
	$	**$**	**$**	**$**
Gross values				
Not past due and not impaired	**2,319**	**2,978**	**760**	**6,057**
Past due and not impaired				
30 – 89 days in arrears	**—**	**2**	**36**	**38**
90 – 119 days in arrears	**—**	**2**	**5**	**7**
120 days or more in arrears	**—**	**—**	**2**	**2**
Impaired	**21**	**—**	**1**	**22**
Total of gross values	**2,340**	**2,982**	**804**	**6,126**
Specific provisions for losses	**10**	**—**	**—**	**10**
	2,330	**2,982**	**804**	**6,116**
Collective provisions	**—**	**—**	**10**	**10**
Total of net values	**2,330**	**2,982**	**794**	**6,106**

		2018		
	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
	$	$	$	$
Gross values				
Not past due and not impaired	2,125	2,902	636	5,663
Past due and not impaired				
30 – 89 days in arrears	—	2	27	29
90 – 119 days in arrears	—	3	4	7
120 days or more in arrears	—	—	2	2
Impaired	21	3	1	25
Total of gross values	2,146	2,910	670	5,726
Specific provisions for losses	8	1	—	9
	2,138	2,909	670	5,717
Collective provisions	—	—	8	8
Total of net values	2,138	2,909	662	5,709

Foreclosed Properties

During the year ended December 31, 2019, the Company took possession of properties held as collateral on mortgages for a value of $3 (less than $1 for the year ended December 31, 2018). Foreclosed properties that the Company still held at year-end are presented as real estate held for resale in Note 9 “Other Assets”.

Specific Provisions for Losses

	2019			
	Bonds classified as loans and receivables	**Mortgages classified as loans and receivables**	**Other loans**	**Total**
	$	**$**	**$**	**$**
Balance at beginning	**8**	**1**	**—**	**9**
Variation in specific provisions for losses	**2**	**(1)**	**—**	**1**
Balance at end	**10**	**—**	**—**	**10**

	2018			
	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
	$	$	$	$
Balance at beginning	6	2	—	8
Variation in specific provisions for losses	2	(1)	—	1
Balance at end	8	1	—	9

b) iii) Other Information on Credit Risk
Investment properties
Minimum payments receivable from rental of investment properties in future years are as follows:

	2019	2018
	$	**$**
Due in 1 year or less	**86**	75
Due after 1 year to 5 years	**307**	261
Due after 5 years	**468**	466
Total	**861**	802

These payments are received under operating leases and are therefore not recorded in the Statement of Financial Position.

Securitization of Mortgages and Other Loans
During the years ended December 31, 2019 and 2018, as part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured mortgages to an unrelated counterparty. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. The Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. Consequently, the Company continues to recognize the full carrying value of mortgages. As at December 31, 2019, the carrying value of ceded mortgages is $1,162 ($1,115 in 2018) and the value of the corresponding liability is $1,179 ($1,160 in 2018). Their fair values are $1,160 and $1,183 respectively ($1,103 and $1,154 respectively in 2018).

Securities Lending
The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents between 102% and 107% (between 102% and 105% in 2018) of the fair value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2019, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $3,979 ($4,604 in 2018).

Right of Offset, Collateral Held and Transferred

The Company negotiates financial instruments in accordance with the Credit Support Annex, which forms part of the International Swaps and Derivative Association's (ISDA) Master Agreement and in accordance with the Supplemental Terms or Conditions Annex, which forms part of the Global Master Repurchase Agreement (GMRA). These agreements require guarantees by the counterparty or by the Company. The amount of assets to pledge is based on changes in fair value of financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of, but are not limited to cash, Treasury bills and Government of Canada bonds. The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. In addition, under the ISDA and the GMRA, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The following table presents the impact of conditional compensation on the financial situation and that of other similar agreements, namely the GMRA and the Credit Support Appendices (CSA).

	As at December 31, 2019			
	Financial instruments presented in the Statements of Financial Position	**Related amount not offset in the Statements of Financial Position**		**Net amount**
		Financial instruments	**Financial collateral/pledged**	
	$	**$**	**$**	**$**
Financial assets				
Derivative financial instruments (Note 8)	**1,003**	**339**	**498**	**166**
Financial liabilities				
Derivative financial instruments (Note 8)	**455**	**339**	**—**	**116**

	As at December 31, 2018			
	Financial instruments presented in the Statements of Financial Position	Related amount not offset in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral/pledged	
	$	$	$	$
Financial assets				
Derivative financial instruments (Note 8)	225	196	—	29
Financial liabilities				
Derivative financial instruments (Note 8)	429	196	155	78

Since the Company does not offset the financial instruments presented in the Statement of Financial Position, the net amount of the financial instruments is identical to the gross amount of the financial position.

Financial collateral received/pledged shown in the table above excludes initial margin on over-the-counter derivatives and forward currency contracts traded on the stock exchange, amounts related to segregated fund assets, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was $476 as at December 31, 2019 on the assets of derivative financial instruments (none as at December 31, 2018). As at December 31, 2019, the Company has no pledge on derivative financial instrument liabilities ($179 as at December 31, 2018).

Interests in Non-Consolidated Structured Entities

The Company has determined that its investments in asset-backed securities and its investments in investment fund units represent interests held in non-consolidated structured entities.

Asset-backed securities and mortgage securities are managed by entities that combine similar assets and sell them to investors who receive all or a portion of the cash flows generated. These entities are managed by managers who are not related to the Company.

The goal of the investment fund units in which the Company invests is to generate capital growth. These investment fund units are either managed by external managers or by internal managers through Company subsidiaries. The managers apply various investment strategies to meet their respective objectives. The Company also invests in fund units through its segregated funds.

The table below presents the non-consolidated structured entities according to their type in the Statement of Financial Position.

	2019		2018	
	Carrying amount	**Maximum risk**	Carrying amount	Maximum risk
	$	**$**	$	$
Government bonds				
Mortgage-backed securities	**75**	**75**	104	104
Corporate and other bonds				
Asset-backed securities	**6**	**6**	3	3
	81	**81**	107	107
Stocks				
Investment fund units managed internally	**285**	**285**	212	212
Investment fund units managed externally	**211**	**211**	209	209
	496	**496**	421	421
Total	**577**	**577**	528	528

The maximum risk represents the risk of total loss that the Company could suffer on investments in non-consolidated structured entities, which equals the carrying amount of these investments in the above table.

The Company develops and sponsors mutual funds to implement investment strategies on behalf of investors, and earns management fees for providing these services. The Company does not control these mutual funds. The Company's interest in mutual funds is limited to the capital invested, if any, and fees earned. The Company's mutual fund assets under management as at December 31, 2019 were $11,594 ($10,833 as at December 31, 2018).

b) iv) Concentration Risk

Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity. The following tables provide information about the Company's investment concentration risk.

Bonds by sector of activity

		2019		
	At fair value through profit or loss	**Available for sale**	**Loans and receivables**	**Total**
	$	**$**	**$**	**$**
Bonds (corporate and other)				
Financial services	**1,492**	**1,024**	**411**	**2,927**
Utilities	**2,786**	**100**	**730**	**3,616**
Consumer cyclical and non-cyclical	**1,920**	**156**	**336**	**2,412**
Energy	**944**	**249**	**420**	**1,613**
Industry	**668**	**34**	**203**	**905**
Communications	**473**	**115**	**—**	**588**
Other	**318**	**43**	**79**	**440**
Total	**8,601**	**1,721**	**2,179**	**12,501**

	2018			
	At fair value through profit or loss	Available for sale	Loans and receivables	Total
	$	$	$	$
Bonds (corporate and other)				
Financial services	1,105	1,032	350	2,487
Utilities	2,286	74	724	3,084
Consumer cyclical and non-cyclical	1,346	199	370	1,915
Energy	909	237	324	1,470
Industry	567	35	176	778
Communications	364	111	—	475
Other	144	37	36	217
Total	6,721	1,725	1,980	10,426

Mortgages and other loans by region and type

	2019					
	Atlantic provinces	**Quebec**	**Ontario**	**Western provinces**	**Outside Canada**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Insured mortgages						
Residential	**1**	**785**	**54**	**6**	**—**	**846**
Multi-residential	**28**	**833**	**165**	**393**	**—**	**1,419**
Non-residential	**—**	**—**	**2**	**4**	**—**	**6**
	29	**1,618**	**221**	**403**	**—**	**2,271**
Conventional mortgages						
Residential	**1**	**145**	**129**	**18**	**—**	**293**
Multi-residential	**—**	**49**	**45**	**23**	**142**	**259**
Non-residential	**21**	**53**	**34**	**83**	**62**	**253**
	22	**247**	**208**	**124**	**204**	**805**
Other loans	**91**	**230**	**244**	**229**	**—**	**794**
Total	**142**	**2,095**	**673**	**756**	**204**	**3,870**

	2018					
	Atlantic provinces	Quebec	Ontario	Western provinces	Outside Canada	Total
	$	$	$	$	$	$
Insured mortgages						
Residential	1	804	49	5	—	859
Multi-residential	27	796	177	427	—	1,427
Non-residential	—	—	1	5	—	6
	28	1,600	227	437	—	2,292
Conventional mortgages						
Residential	1	113	91	15	1	221
Multi-residential	—	30	25	35	144	234
Non-residential	22	54	42	86	48	252
	23	197	158	136	193	707
Other loans	65	205	209	183	—	662
Total	116	2,002	594	756	193	3,661

Investment properties by type

	2019	2018
	$	$
Office	**1,767**	1,463
Retail	**236**	216
Industrial	**66**	35
Land and other	**8**	6
Total	**2,077**	1,720

c) Interest Rate Risk

Interest rate risk arises, among other things, from the uncertainty of the future interest rates at which maturing investments will be reinvested. The following table provides information on the maturity dates of the Company's investments subject to interest rate risk. Policy loans do not have a maturity date.

	2019		2018	
	Bonds	**Mortgages and other loans**	Bonds	Mortgages and other loans
	$	**$**	$	$
Due in 1 year or less	**835**	**358**	582	288
Due after 1 year to 5 years	**2,709**	**2,476**	2,576	2,221
Due after 5 years to 10 years	**2,176**	**788**	2,586	873
Due after 10 years	**21,788**	**248**	17,848	279
Total	**27,508**	**3,870**	23,592	3,661

The effective yield is between 0.00% and 12.48% (0.00% and 15.64% in 2018) for bonds, between 1.57% and 34.99% (1.57% and 35.99% in 2018) for mortgages and other loans and between 0.00% and 15.43% (0.00% and 10.78% in 2018) for policy loans.

d) Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

The following tables present the maturities of financial liabilities and lease liabilities:

			2019		
	Due in 1 year or less	**Due in over 1 year to 3 years**	**Due in over 3 years to 5 years**	**Due in over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Benefits payable	**153**	**—**	**—**	**—**	**153**
Other policy liabilities	**45**	**6**	**2**	**—**	**53**
Amounts on deposit related to products other than insurance contracts	**1,348**	**33**	**3**	**—**	**1,384**
Investment contract liabilities	**184**	**97**	**69**	**280**	**630**
Derivative financial instruments	**123**	**48**	**38**	**246**	**455**
Other financial liabilities	**1,090**	**40**	**14**	**7**	**1,151**
Short-selling securities	**211**	**—**	**—**	**—**	**211**
Securitization liabilities	**207**	**516**	**367**	**89**	**1,179**
Mortgage debt	**2**	**72**	**—**	**—**	**74**
Lease liabilities	**19**	**24**	**26**	**68**	**137**
Debentures	**—**	**—**	**—**	**1,050**	**1,050**
Total	**3,382**	**836**	**519**	**1,740**	**6,477**

	2018				
	Due in 1 year or less	Due in over 1 year to 3 years	Due in over 3 years to 5 years	Due in over 5 years	Total
	$	$	$	$	$
Benefits payable	129	—	—	—	129
Other policy liabilities	39	6	2	—	47
Amounts on deposit related to products other than insurance contracts	1,543	60	4	—	1,607
Investment contract liabilities	217	92	61	260	630
Derivative financial instruments	142	71	48	168	429
Other financial liabilities	1,108	39	17	11	1,175
Short-selling securities	175	—	—	—	175
Securitization liabilities	100	415	496	149	1,160
Debentures	—	—	—	901	901
Total	3,453	683	628	1,489	6,253

Annual interest payments are as follows:

	2020	**2021**	**2022**	**2023**	**2024**
	$	**$**	**$**	**$**	**$**
Securitization liabilities	**23**	**20**	**17**	**11**	**5**
Mortgage debt	**2**	**2**	**1**	**—**	**—**
Lease liabilities	**5**	**4**	**4**	**3**	**2**
Debentures	**32**	**32**	**32**	**32**	**32**

Information concerning off-Statement of Financial Position commitments is presented in Note 29 “Guarantees, Commitments and Contingencies”.

8 › Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates, currency exchange rates and fair values of invested assets. Derivative financial instruments are financial contracts whose value is derived from underlying interest rates, exchange rates, other financial instruments or indexes.

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are transactions in which two counterparties exchange cash flows of the same nature and denominated in two different currencies. Total return swaps are contracts that transfer the variations in value of a reference asset, including any returns such as interest earned on these assets, in exchange for a reference return specified in the contract.

Forwards, which are OTC contractual agreements negotiated between counterparties, and futures contracts, which are traded on an organized market, are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price during a given time period or at a fixed date.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments that have a positive value, should the counterparty default. The maximum credit risk of derivative financial instruments as at December 31, 2019 is $1,001 ($220 in 2018). The Company’s exposure at the end of each reporting period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

	2019					
	Notional amount				Fair value	
	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
	$	$	$	$	$	$
Equity contracts						
Swap contracts	**490**	**719**	**97**	**1,306**	**21**	**(2)**
Futures contracts	**632**	**—**	**—**	**632**	**1**	**(4)**
Options	**5,594**	**—**	**—**	**5,594**	**236**	**(77)**
Currency contracts						
Forward contracts	**4,315**	**1,057**	**—**	**5,372**	**70**	**(34)**
Swap contracts	**21**	**777**	**2,406**	**3,204**	**33**	**(169)**
Interest rate contracts						
Swap contracts	**643**	**3,188**	**5,697**	**9,528**	**361**	**(65)**
Forward contracts	**1,165**	**2,544**	**200**	**3,909**	**280**	**(68)**
Other derivative contracts	**1**	**2**	**357**	**360**	**1**	**(36)**
Total	**12,861**	**8,287**	**8,757**	**29,905**	**1,003**	**(455)**

	2018					
	Notional amount				Fair value	
	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
	$	$	$	$	$	$
Equity contracts						
Swap contracts	521	16	88	625	4	(11)
Futures contracts	642	—	—	642	4	(3)
Options	740	225	—	965	31	(7)
Currency contracts						
Forward contracts	3,157	49	—	3,206	6	(104)
Swap contracts	20	764	1,489	2,273	25	(136)
Interest rate contracts						
Swap contracts	1,089	2,477	3,126	6,692	126	(108)
Forward contracts	760	1,898	—	2,658	28	(29)
Other derivative contracts	2	2	367	371	1	(31)
Total	6,931	5,431	5,070	17,432	225	(429)

	2019		
	Notional amount	Fair value	
		Positive	Negative
	$	$	$
Derivative financial instruments not designated as hedge accounting	**26,568**	**964**	**(425)**
Net investment hedge	**1,284**	**23**	**—**
Fair value hedges			
Interest risk	**1,002**	**14**	**(5)**
Currency risk	**17**	**1**	**—**
Cash flow hedges			
Currency risk	**1,034**	**1**	**(25)**
Total of derivative financial instruments	**29,905**	**1,003**	**(455)**

	2018		
	Notional amount	Fair value	
		Positive	Negative
	$	$	$
Derivative financial instruments not designated as hedge accounting	15,590	211	(373)
Net investment hedge	1,022	—	(46)
Fair value hedges			
Interest risk	736	14	(8)
Currency risk	15	—	(1)
Cash flow hedges			
Interest risk	44	—	—
Currency risk	25	—	(1)
Total of derivative financial instruments	17,432	225	(429)

Embedded Derivative Financial Instruments

The Company owns perpetual preferred shares with call options that give the issuer the right to redeem the shares at a predetermined price. Accounting standards require that the value of the call options be measured separately from the preferred shares. The value of the call options for embedded derivative financial instruments is determined using a valuation that relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivative financial instruments are presented as other derivative contracts.

Net Investment Hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than 2 years as at December 31, 2019 (less than 1 year in 2018). The effective portion of changes in fair value is recorded in *Other comprehensive income*, as is the foreign currency translation of the net investment in a foreign operation. For the years ended December 31, 2019 and 2018, the Company has recognized no ineffectiveness.

Fair Value Hedges

Interest rate risk hedging

The Company uses a hedging relationship in order to reduce its exposure to interest rate risk related to financial assets classified as available for sale. The Company uses interest rate swap contracts with maturities ranging from 2 years to 15 years as at December 31, 2019 (from 3 years to 9 years as at December 31, 2018).

The Company uses a hedging relationship in order to reduce its exposure to interest rate risk on financial liabilities classified as financial liabilities at amortized cost. The Company uses interest rate swap contracts with maturities of less than 1 year to 9 years as at December 31, 2019 (less than 1 year to 10 years as at December 31, 2018).

For the year ended December 31, 2019, the Company has recognized a loss of $7 on the hedging instruments (gain of $2 for the year ended December 31, 2018) and a gain of $6 on the hedged items (loss of $3 for the year ended December 31, 2018). For the year ended December 31, 2019, the Company has recognized an ineffectiveness of $1 ($1 for the year ended December 31, 2018).

Currency rate risk hedging

The Company uses a fair value hedge to manage its exposure to changes in currency rate risk related to financial assets classified as available for sale. The Company uses forward contracts with maturities of less than 2 years as at December 31, 2019 (less than 4 years as at December 31, 2018).

For the years ended December 31, 2019 and 2018, the Company has recognized no ineffectiveness.

Cash Flow Hedges

The Company uses a cash flow hedging relationship in order to manage its exposure to variations of interest risks on forecasted transactions. The Company uses forward contracts on bonds that have maturities of less than 1 year as at December 31, 2019 (less than 1 year as at December 31, 2018). For the years ended December 31, 2019 and 2018, the Company has recognized no ineffectiveness.

The Company uses a cash flow hedging relationship in order to manage its exposure to changes in currency rate risk on financial assets denominated in foreign currency. The Company uses swap contracts that have maturities from 4 years to 10 years as at December 31, 2019 (from 6 years to 10 years as at December 31, 2018). For the years ended December 31, 2019 and 2018, the Company has recognized no ineffectiveness.

During the year, the Company hedged its exposure to change of currency of its forecasted transactions. The Company uses forward contracts that have maturities of less than one year. For the year ended December 31, 2019, the Company has recognized no ineffectiveness.

9 › Other Assets

	2019	2018
	$	$
Investment income due and accrued	**186**	165
Outstanding premiums	**89**	98
Due from reinsurers	**115**	99
Due from agents	**84**	72
Accounts receivable	**963**	1,049
Deferred sales commissions	**160**	139
Prepaid expenses	**35**	35
Real estate held for resale	**9**	3
Linearization of rents	**22**	18
Income taxes receivable	**137**	82
Funds deposited in trust	**340**	409
Miscellaneous	**53**	3
Total	**2,193**	2,172

The amount of *Other assets* that the Company expects to receive within the next 12 months is $1,574 ($1,565 as at December 31, 2018).

10 › Fixed Assets

	Own-use Property		Right-of-use Assets			
	Land	Real estate	Rental space	Other	Other fixed assets	Total
	$	$	$	$	$	$
Cost						
Balance as at December 31, 2017	62	187	—	—	191	440
Acquisitions	—	24	—	—	33	57
Business acquisitions	1	3	—	—	16	20
Disposals/Write-offs	—	—	—	—	(10)	(10)
Transfer of an investment property	—	7	—	—	—	7
Transfer to properties held for resale	(15)	(11)	—	—	—	(26)
Effect of changes in exchange rates	—	1	—	—	1	2
Balance as at December 31, 2018	48	211	—	—	231	490
Impact of adopting IFRS 16 (Note 3)	**—**	**—**	**132**	**8**	**—**	**140**
Balance as at January 1, 2019	**48**	**211**	**132**	**8**	**231**	**630**
Acquisitions	**—**	**6**	**6**	**4**	**22**	**38**
Disposals/Write-offs	**—**	**—**	**(1)**	**—**	**(13)**	**(14)**
Transfer of an investment property	**1**	**1**	**—**	**—**	**—**	**2**
Transfer to properties held for resale	**—**	**(8)**	**—**	**—**	**—**	**(8)**
Effect of changes in exchange rates	**—**	**(1)**	**—**	**—**	**(1)**	**(2)**
Balance as at December 31, 2019	**49**	**209**	**137**	**12**	**239**	**646**
Accumulated depreciation						
Balance as at December 31, 2017	—	57	—	—	127	184
Depreciation for the year	—	9	—	—	21	30
Depreciation on disposals/Write-offs	—	—	—	—	(8)	(8)
Depreciation acquired through business combinations	—	—	—	—	12	12
Depreciation transferred to properties held for resale	—	(6)	—	—	—	(6)
Effect of changes in exchange rates	—	—	—	—	1	1
Balance as at December 31, 2018	—	60	—	—	153	213
Depreciation for the year	**—**	**11**	**15**	**3**	**22**	**51**
Depreciation on disposals/Write-offs	**—**	**—**	**—**	**—**	**(11)**	**(11)**
Depreciation transferred to properties held for resale	**—**	**(1)**	**—**	**—**	**—**	**(1)**
Balance as at December 31, 2019	**—**	**70**	**15**	**3**	**164**	**252**
Net carrying value as at December 31, 2019	**49**	**139**	**122**	**9**	**75**	**394**
Net carrying value as at December 31, 2018	48	151	—	—	78	277

The net carrying value of fixed assets held under a finance lease was $2 as at December 31, 2018.

During the year, an own-use property of $7 was transferred to properties held for resale under *Other assets*.

11 › Intangible Assets and Goodwill

Intangible assets	Finite useful life		Indefinite useful life	Total
	Software applications	Other		
	$	$	$	$
Cost				
Balance as at December 31, 2017	339	341	370	1,050
Acquisitions	112	11	—	123
Acquisitions through business combinations	7	177	—	184
Research and development credit	(1)	—	—	(1)
Disposals/Write-offs	(6)	(1)	—	(7)
Effect of changes in exchange rates	—	4	—	4
Balance as at December 31, 2018	451	532	370	1,353
Acquisitions	**111**	**20**	**—**	**131**
Disposals/Write-offs	**(23)**	**(2)**	**—**	**(25)**
Effect of changes in exchange rates	**—**	**(3)**	**—**	**(3)**
Balance as at December 31, 2019	**539**	**547**	**370**	**1,456**
Accumulated depreciation				
Balance as at December 31, 2017	139	84	—	223
Depreciation for the year	27	35	—	62
Depreciation on disposals/Write-offs	(4)	(1)	—	(5)
Reclassification after allocation of the purchase price	2	—	—	2
Balance as at December 31, 2018	164	118	—	282
Depreciation for the year	**38**	**37**	**—**	**75**
Depreciation on disposals/Write-offs	**(9)**	**(2)**	**—**	**(11)**
Balance as at December 31, 2019	**193**	**153**	**—**	**346**
Net carrying value as at December 31, 2019	**346**	**394**	**370**	**1,110**
Net carrying value as at December 31, 2018	287	414	370	1,071

Goodwill	$
Balance as at December 31, 2017	477
Acquisition of businesses	151
Reclassification after allocation of the purchase price	1
Effect of changes in exchange rates	4
Balance as at December 31, 2018	633
Effect of changes in exchange rates and other	**(5)**
Impairment	**(22)**
Balance as at December 31, 2019	**606**

Settlement of Contingent Consideration and Impairment of Goodwill

During the year, the Company concluded the final settlement of the contingent consideration recorded in the final allocation of the acquisition price of PPI Management Inc. The contingent consideration was settled for $10, resulting in a gain of $14 recorded in the Income Statement in *General expenses*. At the same time, the financial projections of the subsidiary were reviewed. As a result, an impairment test was performed with respect to PPI Management Inc. activities included in the Individual Insurance sector cash generating units (CGU). This led the Company to recognize an impairment of goodwill of $22. This amount was recognized in the Income Statement in *General expenses*. To determine the recoverable amount of the CGU, the value in use was determined using calculations that use cash flow projections before tax based on future financial projections approved by management covering a five-year period. Consequently, the CGU presents a higher risk of impairment considering the sensitivity to the various assumptions described below. Management has determined that reasonable changes in the most important assumptions may result in the recoverable amount being lower than the carrying amount, which would give rise to an impairment of some or all goodwill.

	2019		2018	
	Indefinite useful life intangible assets	**Goodwill**	Indefinite useful life intangible assets	Goodwill
	$	**$**	$	$
Cash generating unit				
Individual Wealth Management	**332**	**309**	332	309
Individual Insurance	**6**	**147**	6	171
Group Insurance	**1**	**81**	1	81
General Insurance	**2**	**11**	2	11
U.S. Business	**3**	**38**	3	41
Other activities	**26**	**20**	26	20
Total	**370**	**606**	370	633

Goodwill and intangible assets with indefinite useful life are tested for impairment annually, or more frequently if events or changes in circumstances occur that may cause the recoverable amount of a CGU to decrease to below its carrying value. The recoverable amount is the higher of the fair value less costs of sale and the value in use. Fair value less costs of sale is assessed by using a valuation multiples methodology. Under this methodology, fair value is assessed with reference to multiples or ratios of comparable businesses or previous business acquisition transactions. The value in use is based on the best estimates of future earnings and the level and cost of capital estimated on contract duration. The value attributed to new business is based on the business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU, the Company uses judgment and various assumptions and estimates that could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the discount rate, growth rates, the value of new sales and any significant change in projected cash flows could result in significant changes in the recoverable amounts. As at December 31, 2019, management has determined that no reasonably possible change in the assumptions used would lead to a recoverable amount of a CGU less than its carrying amount other than PPI Managements Inc. activities included in the Individual Insurance sector CGU.

Individual Wealth Management, General Insurance and Other Activities

The recoverable amount of CGUs in the Individual Wealth Management sector is determined according to calculations of the value in use, or, according to the fair value less costs of sale. The recoverable amount of CGUs in the General Insurance and Other activities sectors is determined according to calculations of the value in use.

The calculations of the recoverable amount of CGUs call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates. The calculation of the fair value less costs of sale is based on price-to-assets-under-management or price-to-assets-under-administration measures. The fair value measurements are categorized in Level 3 of the fair value hierarchy.

The Company uses several key assumptions in determining the recoverable amount. The assumed discount rate for determining the value of the CGUs is between 11% and 14% before tax (between 14% and 15% before tax in 2018).The assumptions used in the calculation are set for the medium-term growth rate between 2% and 7% (between 2% and 7% in 2018) and the long-term growth rate between 1% and 4% (between 1% and 4% in 2018).

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are projected industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before tax, which take into account specific risks in relation to relevant activity sectors.

Individual Insurance, Group Insurance and U.S. Business

The recoverable amount of CGUs in the Individual Insurance, Group Insurance and U.S. Business sectors was determined according to calculations of the value in use or according to the fair value less costs of sale when management deems that this method is more relevant and reliable. The calculation of the fair value less costs of sale is based on measures such as multiple based on results. The calculations of the recoverable amount call upon discounted cash flow projections and represent estimated actuarial amounts which take into account the present value of net shareholder assets, future profitability of in-force business and profitability of new business where insurance companies are concerned. Cash flow projections before tax based on financial budgets approved by management, and which cover a five-year period are used for other kinds of businesses. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in delivering the recoverable amount. The assumed discount rate for determining the value of the CGUs is between 6% and 12% before tax (between 13% and 16% before tax in 2018).

The key assumptions of the valuation take into account the discount rate, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

12 › Segregated Funds Net Assets

Policyholders can select from a variety of segregated funds. Although the underlying assets are registered in the name of the Company and the segregated funds policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the funds' investment performance. However, the Company offers guarantees on some contracts and is exposed to equity market risk and interest rate risk as a result of these guarantees. The Company's exposure to loss from segregated fund products is limited to the value of these guarantees and the related liabilities are recorded in *Insurance contract liabilities*.

	2019	2018
	$	$
Assets		
Cash and short-term investments	**992**	1,156
Bonds	**5,509**	5,006
Stocks	**21,362**	17,743
Mortgages	**21**	16
Investment properties	**17**	9
Derivative financial instruments	**20**	—
Other assets	**285**	166
Total assets	**28,206**	24,096
Liabilities		
Accounts payable and accrued expenses	**338**	310
Derivative financial instruments	**—**	5
Total liabilities	**338**	315
Net assets	**27,868**	23,781

The following table presents the change in segregated funds net assets:

	2019	**2018**
	$	$
Balance at beginning	**23,781**	24,117
Add:		
Amounts received from policyholders	**4,292**	3,650
Interest and dividends	**1,009**	988
Net realized gains	**554**	256
Net increase (decrease) in fair value	**2,127**	(1,906)
	31,763	27,105
Less:		
Amounts withdrawn by policyholders	**3,409**	2,860
Operating expenses	**486**	464
	3,895	3,324
Balance at end	**27,868**	23,781

	2019	2018
	%	%
Type of funds		
Equity	**42**	41
Balanced	**36**	38
Fixed income	**21**	20
Money market	**1**	1
Total	**100**	100

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed income securities and, for some funds, a small proportion in high-yield bonds. The balanced funds consist of fixed income securities and a larger equity investment component. The equity funds, which range from low volatility equity funds to aggressive equity funds, invest in a varying mix of Canadian, U.S. and global equities.

13 › Management of Insurance Risk

Insurance risk is the risk of loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing. It may arise at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when establishing provisions for future policy benefits.

When designing and pricing products, insurance risk may result from inappropriate pricing resulting in insufficient returns as compared to the Company's profitability objectives. This risk may be due to a poor estimate of the future experience regarding several factors, such as mortality, morbidity, lapse, expenses and taxes. Insurance risk may also arise when the selection of the risks to be insured or the settlement of claims is inconsistent with the design and pricing of the product. When calculating provisions for future policy benefits, a financial loss could arise in the event of inadequate use of experience results to establish assumptions.

The Company has controls and processes in place at each of these stages to ensure that these risks are adequately managed.

Product Design and Pricing

For certain types of contracts, insurance risk may be shared with or transferred to the policyholder through a dividends and experience refunds policy, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

At this stage in the life of a product, risk is primarily managed through a regular analysis of the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed or the various options offered by the reinsurance market are utilized.

Underwriting and Claims Adjudication

Given the geographic diversity of its clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company's mortality risk is in Canada.

The Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

Calculation of Provisions for Future Policy Benefits

In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. Internal reviews of changes in technical results and external sources of information are monitored for the purpose of revising the assumptions, which may result in revisions of provisions for future policy benefits.

The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the CIA (or another relevant organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

Reinsurance

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. The Company adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit associated with the amounts ceded to reinsurers in the event that the reinsurers are unable to meet their obligations.

The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured.

14 › Insurance Contract Liabilities and Investment Contract Liabilities

A) Insurance Contract Liabilities

Insurance contract liabilities are determined according to the Canadian Asset Liability Method (CALM) described in Note 2 "Significant Accounting Policies", section k) ii) "Insurance Contract Liabilities". Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits.

a) Composition

	2019	2018
	$	$
Provisions for future policy benefits	**30,002**	25,307
Other insurance contract liabilities		
Benefits payable and provisions for unreported claims	**283**	260
Policyholders' amounts on deposit	**349**	333
Provisions for dividends to policyholders and experience rating refunds	**31**	40
	663	633
Total	**30,665**	25,940

	2019						
	Individual		**Group**				
	Insurance	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Insurance contract liabilities (gross)							
Canada	**21,468**	**1,839**	**1,570**	**4,141**	**—**	**(10)**	**29,008**
United States	**—**	**—**	**—**	**—**	**1,744**	**(89)**	**1,655**
Other countries	**2**	**—**	**—**	**—**	**—**	**—**	**2**
	21,470	**1,839**	**1,570**	**4,141**	**1,744**	**(99)**	**30,665**
Reinsurance assets							
Canada	**(702)**	**—**	**154**	**132**	**—**	**(10)**	**(426)**
United States	**—**	**—**	**—**	**—**	**847**	**(83)**	**764**
	(702)	**—**	**154**	**132**	**847**	**(93)**	**338**
Net insurance contract liabilities	**22,172**	**1,839**	**1,416**	**4,009**	**897**	**(6)**	**30,327**

	2018						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Insurance contract liabilities (gross)							
Canada	17,785	1,643	1,519	3,451	—	(6)	24,392
United States	—	—	—	—	1,602	(56)	1,546
Other countries	2	—	—	—	—	—	2
	17,787	1,643	1,519	3,451	1,602	(62)	25,940
Reinsurance assets							
Canada	(697)	—	154	131	—	(6)	(418)
United States	—	—	—	—	802	(51)	751
	(697)	—	154	131	802	(57)	333
Net insurance contract liabilities	18,484	1,643	1,365	3,320	800	(5)	25,607

b) Changes in Insurance Contract Liabilities and Reinsurance Assets

	2019			
	Provisions for future policy benefits	**Other insurance contract liabilities**	**Insurance contract liabilities**	**Reinsurance assets**
	$	**$**	**$**	**$**
Balance at beginning	**25,307**	**633**	**25,940**	**333**
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	**4,724**	**—**	**4,724**	**88**
On new policies	**33**	**—**	**33**	**(44)**
Changes in methods and assumptions	**16**	**—**	**16**	**—**
	4,773	**—**	**4,773**	**44**
Changes in methods and assumptions	**—**	**(1)**	**(1)**	**—**
Effect of change in exchange rates	**(78)**	**(4)**	**(82)**	**(39)**
Other	**—**	**35**	**35**	**—**
	(78)	**30**	**(48)**	**(39)**
Balance at end	**30,002**	**663**	**30,665**	**338**

	2018			
	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
	$	$	$	$
Balance at beginning	24,964	600	25,564	347
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	(26)	—	(26)	(96)
On new policies	229	—	229	(2)
Changes in methods and assumptions	13	—	13	12
	216	—	216	(86)
Changes in methods and assumptions	—	(4)	(4)	—
Effect of change in exchange rates	127	6	133	67
Other	—	31	31	5
	127	33	160	72
Balance at end	25,307	633	25,940	333

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts.

Profits and Losses on New Reinsurance Treaties

For the years ended December 31, 2019 and 2018, the Company has not concluded any new reinsurance agreement for which it would have recorded a profit or loss in the Income Statement.

c) Risk Management and Assumptions for Valuation of Insurance Contract Liabilities

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their selection takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The use of actuarial assumptions in the valuation of insurance contract liabilities requires significant judgment. The margins for adverse deviations assumptions and methods used to establish the most significant assumptions are described below:

Mortality and Morbidity
Mortality represents the occurrence of death in a given population. The mortality assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative. For Individual Insurance, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates. For Individual Wealth Management and Group Savings and Retirement, annuity mortality improvement has been projected to occur throughout the future. For the Group Insurance segment, the expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

Morbidity represents the occurrence of accident or illness among insured risks. The morbidity assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative.

To manage mortality and morbidity risk, the Company uses detailed and uniform underwriting procedures that assess the insurability of the candidate and control exposure to large claims. The Company conducts monthly monitoring of technical results relating to claims and fixes retention limits that vary across markets and regions. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

As at December 31, 2019, the Company estimates that a 5% permanent deterioration in mortality rates would result in a $205 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities ($194 as at December 31, 2018). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

As at December 31, 2019, the Company estimates that a 5% deterioration in morbidity rates would result in a $59 reduction in net income attributed to common shareholders ($52 as at December 31, 2018). The 5% deterioration is expressed assuming 95% of the termination rate of disability when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is not disabled. An improvement of the same percentage in morbidity rates would have a similar impact, but in the opposite direction.

Investment Return and Interest Rate Risk
The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of CALM is found in Note 2 "Significant Accounting Policies", section k) ii) "Insurance Contract Liabilities".

Interest rate risk is the risk of loss due to future changing interest rates. The investment returns are projected from the current investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages interest rate risk through an asset and liability matching policy that is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long-term commitments, the Company favours an investment strategy that tends to achieve a balance between optimizing after-tax return and capital protection since it is impossible to apply a complete immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

As at December 31, 2019, the Company estimates that a 0,1% decrease in the initial reinvestment rate would lead to a decrease in the insurance contract liabilities of approximately $2 after taxes (increase of $10 after taxes as at December 31, 2018). A 0,1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about $61 after taxes ($66 after taxes as at December 31, 2018). The Company estimates that a 0,1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets suddenly decreased by 10% as at December 31, 2019, net income attributed to common shareholders would be about $31 lower than expected for its regular operations ($30 as at December 31, 2018). The Company estimates that a 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact but in the opposite direction.

Expenses
Administration expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. Policy administration expenses were calculated using the Company's internal expense allocation studies. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an inflation rate, established coherently with the interest rate assumption.

The risk related to expenses is the risk that the costs of future expenses are greater than the estimated costs in the measurement of liabilities or used in the design and pricing of products. A rigorous budget process is implemented annually. The budget is monitored on an ongoing basis throughout the year to assess the differences between budgeted costs and actual costs. To manage the risk, the Company prices its products to cover expected costs.

As at December 31, 2019, the Company estimates that a 5% increase in unit costs would result in a $62 reduction in net income attributed to common shareholders ($58 as at December 31, 2018). A decrease of the same percentage would have a similar impact, but in the opposite direction.

Lapse

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited. Long-term lapse rate assumptions take into account the usually lower lapse rates with respect to lapse-supported products compared to the rates of other products.

The Company reduces its exposure to lapse and surrender risk as much as possible through the way it develops its products. The contracts are built with modalities having a positive impact on the lapse rate. These modalities may result in charges for surrenders, limitations on the amounts surrendered or limitations regarding the moment when surrenders may be made. Finally, the Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2019, the Company estimates that a 5% deterioration in lapse rates would result in a $167 reduction in net income attributed to common shareholders ($146 as at December 31, 2018). These rates were evaluated respecting the adjustability of certain products. An improvement of the same percentage would have a similar impact, but in the opposite direction.

Premium Payment Patterns

For Universal Life contracts, assumptions must be established with respect to premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

Currency Risk

Currency risk results from a difference between the currency of liabilities and the currency of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different currency.

Guarantees on Segregated Funds

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. The Company has set up a dynamic hedging program. In this program, a large part of the variations in the economic value of liabilities is offset by variations in assets held. The hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss in the Income Statement.

A liability related to the segregated fund guarantees granted by the Company is maintained in the general fund. The amount of the liability is at least as great as the amount determined using the methodology defined by the CIA.

Margins for Adverse Deviations

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the appointed actuary must adjust these assumptions to include margins for adverse deviations and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range of margins for adverse deviations is set out in standards issued by the CIA. The factors considered in the selection of appropriate ranges include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back as an increase in *Net income*.

d) Impact of Changes in Assumptions and Methodologies on Net Insurance Contract Liabilities

A review of the assumptions and methods is performed annually to reflect changing experience and to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in assumptions and methodologies as well as their explanation:

	2019	2018	
	$	$	
Mortality and morbidity	**17**	(44)	Mainly explained by the update of annual studies of mortality and morbidity assumptions
Policyholder behaviour	**8**	4	Mainly explained by the update of lapse rates annual studies
Investment returns	**(153)**	(75)	Mainly explained by the annual update of the investment return assumptions and gains due to transactions improving asset-liability matching, partly offset by the increase of reserves coming from the universal life policies rate guarantee assumption review
Expenses, models and other	**125**	115	Mainly explained by the updated of expenses assumption and model refinements
Impact on net non-participating insurance contract liabilities	**(3)**	—	
Impact on net participating insurance contract liabilities	**18**	(3)	
Impact on net insurance contract liabilities	**15**	(3)	

B) Investment Contract Liabilities

a) Composition

Non-participating deficit reimbursement agreement group insurance contracts are classified as investment contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The fair value of these investment contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

	2019		
	Group		
	Insurance	**Savings and Retirement**	**Total**
	$	**$**	**$**
Investment Contract Liabilities (gross)			
Canada	**629**	**1**	**630**
Reinsurance assets			
Canada	**79**	**—**	**79**
Net investment contract liabilities	**550**	**1**	**551**

	2018		
	Group		
	Insurance	Savings and Retirement	Total
	$	$	$
Investment Contract Liabilities (gross)			
Canada	629	1	630
Reinsurance assets			
Canada	82	—	82
Net investment contract liabilities	547	1	548

b) Variations in Net Investment Contract Liabilities

	2019		2018	
	Investment contract liabilities	Reinsurance assets	Investment contract liabilities	Reinsurance assets
	$	$	$	$
Balance at beginning	630	82	587	73
Deposits	141	21	123	16
Withdrawals	(161)	(25)	(86)	(10)
Increase (decrease) in investment contract liabilities and reinsurance assets	27	2	9	—
Other	(7)	(1)	(3)	3
Balance at end	630	79	630	82

C) Assets Backing Liabilities and Equity

The carrying value of total assets backing insurance contract liabilities, investment contract liabilities, other liabilities and equity are as follows:

	2019									
	Individual		Group							
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Insurance contract liabilities total	Investment contract liabilities	Other liabilities and equity	Total
	$	$	$	$	$	$	$	$	$	$
Cash and short-term investments	397	67	42	43	—	—	549	23	536	1,108
Bonds	15,280	1,624	1,231	3,501	797	(6)	22,427	451	4,630	27,508
Mortgages and other loans	165	81	138	464	35	—	883	79	2,908	3,870
Stocks	2,366	2	4	—	9	—	2,381	2	641	3,024
Policy loans	823	18	1	—	56	—	898	—	2	900
Other invested assets	420	—	—	—	—	—	420	—	9	429
Derivative financial instruments[1]	541	47	—	1	—	—	589	(4)	(37)	548
Investment properties	2,069	—	—	—	—	—	2,069	—	8	2,077
Reinsurance assets	(702)	—	154	132	847	(93)	338	79	613	1,030
Other	111	—	—	—	—	—	111	—	4,220	4,331
Total	21,470	1,839	1,570	4,141	1,744	(99)	30,665	630	13,530	44,825

	2018									
	Individual		Group							
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Insurance contract liabilities total	Investment contract liabilities	Other liabilities and equity	Total
	$	$	$	$	$	$	$	$	$	$
Cash and short-term investments	287	122	60	26	—	—	495	37	514	1,046
Bonds	12,720	1,366	1,162	2,782	694	(5)	18,719	436	4,437	23,592
Mortgages and other loans	170	107	137	483	41	—	938	79	2,644	3,661
Stocks	2,451	1	4	33	8	—	2,497	2	556	3,055
Policy loans	871	21	1	—	57	—	950	—	1	951
Other invested assets	318	—	1	—	—	—	319	—	10	329
Derivative financial instruments[1]	(159)	26	—	(4)	—	—	(137)	(6)	(61)	(204)
Investment properties	1,714	—	—	—	—	—	1,714	—	6	1,720
Reinsurance assets	(697)	—	154	131	802	(57)	333	82	586	1,001
Other	112	—	—	—	—	—	112	—	4,067	4,179
Total	17,787	1,643	1,519	3,451	1,602	(62)	25,940	630	12,760	39,330

[1] In its matching process, the Company considers the net value of derivative financial instruments, therefore, both assets and liabilities. Derivative financial instruments liabilities of an amount of $338 ($284 in 2018) for Individual Insurance, $37 ($59 in 2018) for Individual Wealth Management, none for Group Insurance (none in 2018) and $5 ($3 in 2018) for Group Savings and Retirement were considered in the matching process.

The fair value of assets backing net insurance contract liabilities as at December 31, 2019 was estimated at $30,595 ($25,776 as at December 31, 2018). Insurance contract liabilities are measured at fair value as per the CALM method, except for liabilities backed by assets that are measured at amortized cost, such as mortgages, and bonds classified as loans and receivables.

The fair value of assets backing net investment contract liabilities as at December 31, 2019 represents approximately $557 ($552 as at December 31, 2018).

15 › Other Liabilities

	2019	2018
	$	$
Unearned premiums	**1,447**	1,350
Other insurance contract liabilities	**89**	77
Post-employment benefits	**274**	227
Income taxes payable	**76**	73
Amounts on deposit on products other than insurance contracts	**1,384**	1,607
Accounts payable	**988**	1,038
Due to reinsurers	**163**	137
Short-selling securities	**211**	175
Securitization liabilities	**1,179**	1,160
Mortgage debt	**74**	—
Lease liabilities	**137**	—
Fair value of purchased business in force	**12**	13
Miscellaneous	**29**	18
Total	**6,063**	5,875

16 › Debentures

	2019		2018	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Subordinated debentures bearing interest at 2.64%	**249**	**251**	249	246
Subordinated debentures bearing interest at 2.80%	**—**	**—**	250	250
Subordinated debentures bearing interest at 3.30%	**399**	**409**	398	399
Subordinated debentures bearing interest at 3.072%	**398**	**399**	—	—
Floating rate surplus notes based on LIBOR plus 4.25%	**4**	**4**	4	4
Total	**1,050**	**1,063**	901	899

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

Subordinated Debentures Bearing Interest at 2.64%
Subordinated debentures maturing February 23, 2027, bearing interest of 2.64%, payable semi-annually from August 23, 2015 to February 23, 2022, and a variable interest rate equal to the three-month Canadian Dollar Offered Rate (CDOR) plus 1.08%, payable quarterly commencing May 23, 2022 until February 23, 2027. These subordinated debentures are redeemable by the Company starting February 23, 2022, in whole or in part, subject to approval by the Autorité des marchés financiers (AMF). The carrying value of the debentures includes amortized transaction costs and issue discount for a total of $1.

Subordinated Debentures Bearing Interest at 2.80%
On May 16, 2019, the Company redeemed all of its $250 subordinated debentures maturing May 16, 2024, bearing interest of 2.80% payable semi-annually until May 16, 2019. The subordinated debentures were redeemed at nominal value plus accrued and unpaid interest. Consequently, the Company paid a total of $254.

Subordinated Debentures Bearing Interest at 3.30%
Subordinated debentures maturing September 15, 2028, bearing interest of 3.30%, payable semi-annually from September 15, 2017 to September 15, 2023, and a variable interest rate equal to the three-month CDOR plus 2.14%, payable quarterly commencing September 15, 2023 until September 15, 2028. These subordinated debentures are redeemable by the Company starting September 15, 2023, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes amortized transaction costs and issue discount for a total of $1.

Subordinated Debentures Bearing Interest at 3.072%
On September 24, 2019, the Company issued subordinated debentures in the amount of $400 due September 24, 2031, bearing interest of 3.072%, payable semi-annually from March 24, 2020 to September 24, 2026, and variable interest equal to the three-month bankers' acceptance rate (Canadian Dollar Offered Rate (CDOR)), increased by 1.31%, payable quarterly, starting December 24, 2026 and ending on September 24, 2031. These subordinated debentures are redeemable by the Company, in whole or in part, from September 24, 2026, subject to prior approval by the AMF. The carrying amount of these debentures includes transaction costs and an issue discount for a total of $2.

Floating Rate Surplus Notes Based on LIBOR plus 4.25%
Floating rate surplus notes, bearing interest equal to the LIBOR 3-month rate plus 4.25%, payable quarterly, maturing in May 2034.

17 › Share Capital

As a result of the change in company structure (Note 28), the Company's authorized share capital consists of the following:

Common Shares
Unlimited common shares without par value, with one voting right.

Preferred Shares, Class A
Preferred shares of Class A, without par value, issuable in series. The number that may be issued is limited to not more than one-half of the number of common shares issued and outstanding at the time of the proposed issue of such preferred shares.

The share capital issued by the Company is as follows:

	2019		2018	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	**108,575**	**1,655**	106,756	1,521
Shares issued on exercise of stock options	**1,206**	**54**	159	7
Shares issued	**—**	**—**	2,750	144
Shares redeemed	**(2,815)**	**(43)**	(1,090)	(17)
Balance at end	**106,966**	**1,666**	108,575	1,655

Common Shares
Issue
On March 7, 2018, the Company completed the closing of a common share issue. Under this offering, a total of 2,500,000 common shares were issued for a net cash amount of $131. On March 12, 2018, an additional 250,000 common shares were issued for a net cash amount of $13.

Normal Course Issuer Bid Redemption
With the approval of the Toronto Stock Exchange, the Board of Directors has renewed the normal course issuer bid redemption of 2018 and has authorized the Company to purchase, in the normal course of its activities, from November 12, 2019 to November 11, 2020, up to 5,335,397 common shares (5,482,768 common shares in the normal course issuer bid redemption of 2018), representing approximately 5% of its 106,707,949 common shares issued and outstanding as at November 1, 2019. For the year ended December 31, 2019, a total of 2,815,373 common shares (1,089,638 in 2018) were purchased and cancelled for a net cash amount of $139 ($50 in 2018), of which $43 was recorded against share capital ($17 in 2018) and $96 against retained earnings ($33 in 2018).

Dividends

	2019		2018	
	Total $	**Per share (in dollars)**	Total $	Per share (in dollars)
Common shares	**188**	**1.77**	173	1.59

Dividends Declared and Not Recognized on Common Shares
A dividend of 0.485 dollar per share was approved by the Board of Directors of the Company on February 13, 2020. This dividend was not recorded as a liability in these financial statements. This dividend will be paid on March 16, 2020 to the shareholders of record as of February 28, 2020, date on which it will be recognized in the equity of the Company.

Dividend Reinvestment and Share Purchase Plan
The Company offers a Dividend Reinvestment and Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized. The common shares issued under the plan will be purchased on the secondary market.

18 › Preferred Shares Issued by a Subsidiary

The preferred shares issued by iA Insurance, a subsidiary of the Company, are as follows:

An unlimited number of Class A – Series B preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders, subject to approval by the AMF, into new Class A preferred shares.

An unlimited number of Class A – Series G preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend in cash with an initial annual rate equal to 1.0750 dollars per share, redeemable in whole or in part at the option of the Company on June 30, 2017 and on June 30 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series H preferred shares commencing on June 30, 2017 and thereafter on June 30 every 5 years. On June 30, 2017, the Company modified the non-cumulative quarterly dividend to an annual rate equal to 0.94425 dollars in cash per share.

An unlimited number of Class A – Series I preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate equal to 1.20 dollars per share, redeemable in whole or in part at the option of the Company on March 31, 2023 and on March 31 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series J preferred shares commencing on March 31, 2023 and thereafter on March 31 every 5 years.

Preferred shares issued by iA Insurance are the following:

	2019		2018	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Preferred shares, Class A , issued by iA Insurance				
Balance at beginning	**21,000**	**525**	15,000	375
Shares issued	**—**	**—**	6,000	150
Balance at end	**21,000**	**525**	21,000	525

Preferred Shares, Class A
Issue
On March 7, 2018, the subsidiary iA Insurance completed the closing of a Class A – Series I preferred share issue. Under this offering, a total of 6,000,000 Class A – Series I preferred shares were issued for a gross cash amount of $150.

Dividends

	2019		2018	
	Total	**Per share**	Total	Per share
	$	**(in dollars)**	$	(in dollars)
Preferred shares, issued by iA Insurance				
Class A – Series B	**6**	**1.15**	6	1.15
Class A – Series G	**9**	**0.94**	9	0.94
Class A – Series I	**7**	**1.20**	6	0.98
Total	**22**		21	

19 › Accumulated Other Comprehensive Income

	Bonds	**Stocks**	**Currency translation**	**Hedging**	**Total**
	$	**$**	**$**	**$**	**$**
Balance as at December 31, 2017	28	7	49	(35)	49
Unrealized gains (losses)	(42)	(40)	—	—	(82)
Income taxes on unrealized gains (losses)	11	11	—	—	22
Other	—	—	86	(86)	—
Income taxes on other	—	—	—	13	13
	(31)	(29)	86	(73)	(47)
Realized losses (gains)	12	16	—	—	28
Income taxes on realized losses (gains)	(3)	(4)	—	—	(7)
	9	12	—	—	21
Balance as at December 31, 2018	6	(10)	135	(108)	23
Unrealized gains (losses)	**110**	**1**	**—**	**—**	**111**
Income taxes on unrealized gains (losses)	**(28)**	**—**	**—**	**—**	**(28)**
Other	**—**	**—**	**(62)**	**31**	**(31)**
Income taxes on other	**—**	**—**	**—**	**(5)**	**(5)**
	82	**1**	**(62)**	**26**	**47**
Realized losses (gains)	**(20)**	**1**	**—**	**—**	**(19)**
Income taxes on realized losses (gains)	**5**	**—**	**—**	**—**	**5**
	(15)	**1**	**—**	**—**	**(14)**
Balance as at December 31, 2019	**73**	**(8)**	**73**	**(82)**	**56**

20 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has an enterprise risk management framework that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This framework includes a capital management policy that describes the key processes related to capital management, including the process for determining the target operating level of the solvency ratio. The framework also comprises reporting on the Company's risk profile and a own risk and solvency assessment (ORSA) report. These reports enable the identification of risks, the evaluation of required capital to support these risks and contain proposals for possible risk management actions. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

Regulatory Requirements and Solvency Ratio

The Company is committed to respecting certain requirements of the guideline on capital adequacy requirements for life insurers (CARLI).

According to CARLI, many items are included in the solvency ratio:

The available capital represents the total Tier 1 and Tier 2 capital, less other deductions prescribed by the AMF.

Tier 1 capital contains more permanent equity items and is primarily composed of equity attributable to common shareholders and preferred shares. Goodwill and other intangible assets are deducted from this category.

Tier 2 capital is primarily composed of subordinated debentures.

The surplus allowance is the value of specific provisions for adverse deviations included in insurance contract liabilities.

The eligible deposits are amounts related to unregistered reinsurance agreements, which are deposited in guarantee instruments.

The base solvency buffer is determined according to five risk categories, namely credit risk, market risk, insurance risk, segregated funds guarantee risk and operational risk. These risk components are calculated using various methods and consider the risks associated to asset and liability elements that are on and off the Statement of Financial Position. The base solvency buffer represents the sum of risk components minus some credits (for example, between-risk diversification and adjustable products) multiplied by a scalar of 1.05.

The CARLI total ratio is calculated by dividing the sum of the available capital, the surplus allowance and the eligible deposits by the base solvency buffer.

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements. The guideline also stipulates that most of the available capital must be Tier 1, which absorbs the losses related to current operations.

The Company manages its capital on a consolidated basis. As at December 31, 2019 and 2018, the Company has satisfied the regulatory requirements.

	2019	2018
	$	$
Available capital		
Tier 1 capital	**3,213**	3,077
Tier 2 capital	**1,596**	1,392
Surplus allowance and eligible deposits	**4,462**	4,046
Total	**9,271**	8,515
Base solvency buffer	**6,980**	6,755
Total ratio	**133%**	126%

21 › General Expenses

General Expenses by Nature

	2019	2018
	$	$
Salaries, benefits and stock-based compensation	678	624
Professional fees	211	197
Depreciation of fixed assets (Note 10)	51	30
Depreciation of intangible assets (Note 11)	75	62
Revaluation of a contingent consideration (Note 11)	(14)	—
Impairment of goodwill (Note 11)	22	—
Real estate operating expenses	108	90
Other administrative expenses	341	326
Total	**1,472**	1,329

General expenses include investment fees for an amount of $70 ($62 in 2018). These investment fees exclude real estate operating expenses.

22 › Financing Charges

	2019	2018
	$	$
Interest on debentures	26	31
Interest on securitization liabilities	25	24
Interest on lease liabilities	4	—
Other	4	8
Total	**59**	63

23 › Income Taxes

a) Income Tax Expense (recovery) for the Year

Income tax

	2019	2018
	$	$
Current income tax		
Current year	172	147
Adjustments of previous years	1	2
	173	149
Deferred income tax		
Creation and reversal of temporary differences	24	21
Adjustments of previous years	(6)	12
Variation in tax rates	(3)	(1)
	15	32
Income tax expense (recovery)	**188**	181

Income tax recognized directly in equity

	2019	2018
	$	$
Recognized in other comprehensive income		
Current income tax expense (recovery)	5	(1)
Deferred income tax expense (recovery)	15	(30)
Total	**20**	(31)

	2019	2018
	$	$
Recognized in share capital and retained earnings		
Deferred income tax expense (recovery)	—	(10)

b) Reconciliation of Income Tax Expense

The effective income tax rate differs from the Canadian statutory tax rate due to the following items:

	2019		2018	
	$	%	$	%
Income before income taxes	887		819	
Income tax expense at Canadian statutory tax rate	237	27	220	27
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	(4)	—	(4)	(1)
Tax-exempt investment income	(38)	(5)	(40)	(5)
Non-taxable portion of the change in fair value of investment properties	(8)	(1)	(13)	(2)
Adjustments of previous years	(5)	(1)	14	2
Variation in tax rates	(3)	—	(1)	—
Other	9	1	5	1
Income tax expense (recovery) and effective income tax rate	188	21	181	22

c) Deferred Income Taxes

i) Recognized deferred income tax assets and liabilities

	Deferred income tax assets		Deferred income tax liabilities	
	2019	2018	2019	2018
	$	$	$	$
Insurance contract liabilities[1]	—	—	(9)	(40)
Real estate	—	—	144	126
Bonds	(1)	—	39	16
Intangible assets	1	—	168	203
Stocks	—	—	33	31
Post-employment benefits	7	4	(70)	(59)
Losses available for carryforward	15	18	(2)	(8)
Other	6	4	(16)	(3)
	28	26	287	266
Net deferred income tax liability			259	240

[1] Consists of insurance contract liabilities and investment contract liabilities, less reinsurance assets and policy loans.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities for the same taxable entity and the same taxation authority and if the Company intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

	Insurance contract liabilities	Real estate	Bonds	Stocks	Intangible assets	Post-employment benefits	Losses available for carry-forward	Other	Total
	$	$	$	$	$	$	$	$	$
Balance as at December 31, 2017	20	(111)	(13)	(3)	(139)	17	17	17	(195)
Recognized in net income	4	(15)	(2)	(28)	(21)	43	(2)	(11)	(32)
Recognized in other comprehensive income	16	—	1	—	—	3	—	10	30
Acquisition of businesses	—	—	(1)	—	(43)	—	11	(19)	(52)
Effect of changes in exchange rates	—	—	(1)	—	—	—	—	—	(1)
Recognized directly in equity other than accumulated other comprehensive income	—	—	—	—	—	—	—	10	10
Balance as at December 31, 2018	40	(126)	(16)	(31)	(203)	63	26	7	(240)
Recognized in net income	**(15)**	**(18)**	**(21)**	**(2)**	**36**	**6**	**(1)**	**—**	**(15)**
Recognized in other comprehensive income	**(16)**	**—**	**(4)**	**—**	**—**	**8**	**—**	**(3)**	**(15)**
Effect of changes in exchange rates	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**1**	**2**
Other	**—**	**—**	**—**	**—**	**—**	**—**	**(8)**	**17**	**9**
Balance as at December 31, 2019	**9**	**(144)**	**(40)**	**(33)**	**(167)**	**77**	**17**	**22**	**(259)**

Non-capital carryforward tax losses for which a deferred tax asset has not been recognized amount to $6 ($6 in 2018). These losses will expire between the years 2024 and 2039.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, associates and joint ventures unless the Company is able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2019, temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which a deferred tax liability has not been recognized amount to $798 ($491 in 2018).

24 › Segmented Information

The Company operates and manages its activities according to five main reportable operating segments, which reflect its company structure for decision making. Management uses judgment in the aggregation of business units into the Company's operating segments. Its products and services are offered to retail customers, businesses and groups. The Company primarily operates in Canada and the United States. The main products and services offered by each segment are the following:

Individual Insurance – Life, health, disability and mortgage insurance products.

Individual Wealth Management – Individual products and services for savings plans, retirement funds and segregated funds, in addition to securities brokerage, trust operations and mutual funds.

Group Insurance – Life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products for employee plans; creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services; and specialized products for special markets.

Group Savings and Retirement – Group products and services for savings plans, retirement funds and segregated funds.

US Operations – Miscellaneous insurance products sold in the United States such as life insurance products and extended warranties relating to dealer services.

Other – Auto and home insurance products, services supporting the activities that have no link with key segments such as asset management and financing, Company capital and some adjustments related to consolidation.

The Company uses assumptions, judgments and methodologies to allocate general expenses that are not directly attributable to a business segment. The allocation of other activities is mainly performed according to a formula based on equity and is uniformly applied to each operating segment.

The other assets and other liabilities, except mainly for derivative financial instruments, are classified in their entirety in the *Other* column since they are used for the operational support of the Company's activities.

Segmented Income Statements

	2019						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Revenues							
Net premiums	1,587	2,911	1,638	2,001	493	314	8,944
Investment income	3,767	57	172	332	162	152	4,642
Other revenues	120	1,463	55	97	103	(159)	1,679
	5,474	4,431	1,865	2,430	758	307	15,265
Operating expenses							
Gross benefits and claims on contracts	831	2,018	1,134	1,379	468	109	5,939
Ceded benefits and claims on contracts	(255)	—	(59)	(28)	(288)	83	(547)
Net transfer to segregated funds	—	674	—	243	—	—	917
Increase (decrease) in insurance contract liabilities	3,658	197	44	690	224	(40)	4,773
Increase (decrease) in investment contract liabilities	—	—	27	—	—	—	27
Decrease (increase) in reinsurance assets	9	—	(3)	(2)	(87)	39	(44)
Commissions, general and other expenses	860	1,307	611	107	384	(15)	3,254
Financing charges	21	2	26	—	1	9	59
	5,124	4,198	1,780	2,389	702	185	14,378
Income before income taxes and allocation of other activities	350	233	85	41	56	122	887
Allocation of other activities	92	3	6	3	18	(122)	—
Income before income taxes	442	236	91	44	74	—	887
Income taxes	75	61	24	12	16	—	188
Net income	367	175	67	32	58	—	699
Net income attributed to participating policyholders	(10)	—	—	—	—	—	(10)
Net income attributed to shareholders	377	175	67	32	58	—	709

	2018						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Revenues							
Net premiums	1,554	2,389	1,612	1,595	405	294	7,849
Investment income	(89)	118	103	95	(21)	105	311
Other revenues	112	1,471	57	89	67	(44)	1,752
	1,577	3,978	1,772	1,779	451	355	9,912
Operating expenses							
Gross benefits and claims on contracts	769	1,773	1,115	1,216	375	151	5,399
Ceded benefits and claims on contracts	(245)	—	(69)	(24)	(225)	34	(529)
Net transfer to segregated funds	—	439	—	382	—	—	821
Increase (decrease) in insurance contract liabilities	83	293	(2)	11	(167)	(2)	216
Increase (decrease) in investment contract liabilities	—	—	9	—	—	—	9
Decrease (increase) in reinsurance assets	(79)	—	(6)	23	138	—	76
Commissions, general and other expenses	776	1,261	597	97	286	21	3,038
Financing charges	19	—	18	—	1	25	63
	1,323	3,766	1,662	1,705	408	229	9,093
Income before income taxes and allocation of other activities	254	212	110	74	43	126	819
Allocation of other activities	90	13	6	—	17	(126)	—
Income before income taxes	344	225	116	74	60	—	819
Income taxes	54	61	32	21	13	—	181
Net income	290	164	84	53	47	—	638
Net income attributed to participating policyholders	4	—	—	—	—	—	4
Net income attributed to shareholders	286	164	84	53	47	—	634

Segmented Premiums

	2019						
	Individual		**Group**				
	Insurance	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Gross premiums							
Invested in general fund	**1,989**	**546**	**1,777**	**678**	**953**	**99**	**6,042**
Invested in segregated funds	**—**	**2,365**	**—**	**1,350**	**—**	**—**	**3,715**
	1,989	**2,911**	**1,777**	**2,028**	**953**	**99**	**9,757**
Premiums ceded							
Invested in general fund	**(402)**	**—**	**(139)**	**(27)**	**(460)**	**215**	**(813)**
Net premiums	**1,587**	**2,911**	**1,638**	**2,001**	**493**	**314**	**8,944**

	2018						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Gross premiums							
Invested in general fund	1,928	401	1,787	279	708	190	5,293
Invested in segregated funds	—	1,988	—	1,341	—	—	3,329
	1,928	2,389	1,787	1,620	708	190	8,622
Premiums ceded							
Invested in general fund	(374)	—	(175)	(25)	(303)	104	(773)
Net premiums	1,554	2,389	1,612	1,595	405	294	7,849

Segmented Assets and Liabilities

	2019						
	Individual		**Group**				
	Insurance	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Assets							
Invested assets	**23,113**	**1,880**	**1,881**	**3,998**	**1,058**	**7,989**	**39,919**
Segregated funds net assets	**—**	**16,392**	**—**	**11,476**	**—**	**—**	**27,868**
Reinsurance assets	**(702)**	**—**	**233**	**132**	**1,491**	**(124)**	**1,030**
Other	**121**	**866**	**—**	**—**	**38**	**3,306**	**4,331**
Total assets	**22,532**	**19,138**	**2,114**	**15,606**	**2,587**	**11,171**	**73,148**
Liabilities							
Insurance contract liabilities and investment contract liabilities	**21,470**	**1,839**	**2,199**	**4,142**	**1,744**	**(99)**	**31,295**
Liabilities related to segregated funds net assets	**—**	**16,392**	**—**	**11,476**	**—**	**—**	**27,868**
Other	**342**	**37**	**5**	**5**	**—**	**7,466**	**7,855**
Total liabilities	**21,812**	**18,268**	**2,204**	**15,623**	**1,744**	**7,367**	**67,018**

	2018						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Assets							
Invested assets	19,056	1,823	1,869	3,349	926	7,556	34,579
Segregated funds net assets	—	13,994	—	9,787	—	—	23,781
Reinsurance assets	(697)	—	236	131	1,317	14	1,001
Other	121	940	—	—	27	3,091	4,179
Total assets	18,480	16,757	2,105	13,267	2,270	10,661	63,540
Liabilities							
Insurance contract liabilities and investment contract liabilities	17,787	1,643	2,148	3,452	1,602	(62)	26,570
Liabilities related to segregated funds net assets	—	13,994	—	9,787	—	—	23,781
Other	287	59	6	3	—	7,116	7,471
Total liabilities	18,074	15,696	2,154	13,242	1,602	7,054	57,822

25 › Earnings Per Common Share

Basic Earnings Per Share

Basic earnings per share are calculated by dividing the net income attributed to common shareholders by the weighted average number of outstanding common shares during the year.

	2019	2018
Net income attributed to common shareholders	**687**	613
Weighted average number of outstanding shares (in millions of units)	**107**	109
Basic earnings per share (in dollars)	**6.43**	5.62

Diluted Earnings Per Share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares.

The dilutive effect of stock options considers the number of shares presumed issued without consideration, calculated as the difference between the number of shares deemed to have been issued (by assuming the outstanding stock option grants are exercised) and the number of shares that would have been issued at the average market price for the year (the number of shares that would have been issued using the issuance proceeds, using the average market price of the Company's common shares for the year). In 2019, an average of 39,522 antidilutive stock options (150,368 in 2018) were excluded from the calculation.

	2019	2018
Net income attributed to common shareholders	**687**	613
Weighted average number of outstanding shares (in millions of units)	**107**	109
Add: dilutive effect of stock options granted and outstanding (in millions of units)	**—**	1
Weighted average number of outstanding shares on a diluted basis (in millions of units)	**107**	110
Diluted earnings per share (in dollars)	**6.40**	5.59

Apart from the normal course issuer bid redemption, there was no transaction on common shares that could affect these calculations after the closing date and before the date of authorization for issue of these financial statements.

26 › Stock-Based Compensation

Stock Option Plan

Following the change in company structure (Note 28), the stock option plan of iA Insurance was exchanged for an identical plan with the Company. The Company grants a certain number of common stock options to management and to senior management and determines the exercise price of the options, the expiry date and the date on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of the Company.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first four anniversaries of the grant. In certain cases, the Human Resources and Compensation Committee can modify the number of options purchased following an event, moving up the expiration date of the option.

The Board can grant options for a total of 11,350,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of the Company per person eligible for the plan.

The following table presents the activities of the plan:

	2019		2018	
	Number of stock options (in thousands)	**Weighted average exercise price (in dollars)**	Number of stock options (in thousands)	Weighted average exercise price (in dollars)
Balance at beginning	**2,875**	**42.89**	2,735	40.85
Options granted	**348**	**49.85**	311	58.18
Options exercised	**(1,206)**	**37.26**	(159)	37.25
Options cancelled	**(52)**	**52.03**	(12)	48.19
Balance at end	**1,965**	**47.34**	2,875	42.89
Exercisable at end	**1,058**	**43.06**	1,841	36.18

The stock options outstanding as at December 31, 2019 by exercise price are as follows:

Exercise price (in dollars)	Number of stock options (in thousands)	Weighted average exercise price (in dollars)	Average remaining life (in years)
23.45 – 28.72	**89**	**26.03**	**2.12**
28.73 – 32.08	**2**	**32.08**	**0.10**
32.09 – 43.51	**823**	**40.37**	**4.89**
43.52 – 55.85	**773**	**53.27**	**8.03**
55.86 – 58.43	**278**	**58.43**	**8.12**
Total	**1,965**	**47.34**	**6.45**

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The weighted average fair value of the options granted in 2019 is 8.26 dollars (13.12 dollars in 2018). The pricing model assumes the following information:

	2019	2018
Risk-free interest rate	**1.74 %**	2.17 %
Expected volatility	**25.30 %**	29.01 %
Expected life (in years)	**5.6**	5.6
Expected dividends	**3.51 %**	2.70 %
Exercise price (in dollars)	**49.85**	58.18

The stock-based compensation expense during the year is $4 ($5 in 2018), and an equivalent amount was accounted for in *Contributed surplus* in the Equity Statements.

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. The expected volatility is based on historical volatility of the common shares as well as comparable market data analysis. Changes in assumptions can materially affect estimates of fair values.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding shares of the Company and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years. During the year, the remuneration expense for this plan is $2 ($2 in 2018).

Deferred Share Units (DSU)

This plan is offered to Company's directors, management and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration, or management or senior management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis and rights issued are vested immediately. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 303,713 (368,487 in 2018). The variation related to the fluctuation of the Company's common share quoted price, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income,* generated a loss of $11 in 2019 (a gain of $5 in 2018) recorded in *General expenses*. The liability for this plan is $22 ($16 in 2018).

Mid-Term Incentive Plan

This plan was created for the Company's management and senior management. Under this plan, each member may receive performance share units (PSU), a compensation based on the Company's performance over three years. Performance is measured based on the Company's total net income attributed to common shareholders and the common share price. Each PSU is equivalent to one common share and earns dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. The value at the time of settlement will be based on the fair market value of common shares for the last 20 working days of the period, increased by a vesting factor based on the Company's net income attributed to common shareholders return on equity over the three-year period. Settlement is made in cash. As at December 31, 2019, 116,050 (107,084 in 2018) performance share units are outstanding. The compensation expense recognized in respect of this plan is $4 ($1 in 2018) and the liabilities are $5 ($4 in 2018).

Stock-Based Compensation Expense

	2019	2018
	$	$
Expense arising from equity-settled stock-based payment transactions	4	5
Loss (gain) arising from cash-settled stock-based payment transactions	17	(2)
Total of stock-based compensation expense	**21**	3

These expenses are recorded in the Income Statement as *General expenses*.

27 › Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans that provide pension benefits and defined contribution plans.

Defined Benefit Plans

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end-of-career plans based on the average of the best five years of salary. No indexation clause is included in the plan. The defined benefit plans are administered separately from the Company by retirement funds that are legally distinct entities. The retirement committees of the retirement plans are made up of members from the Company, members of retirement plans and non-members of retirement plans. The laws and regulations that the retirement plans are subject to require that the retirement committees act in the interests of the retirement funds and stakeholders, such as active, inactive and retired members. The retirement committees are responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2018 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2018. The next required valuation will be performed as at December 31, 2019 and will be available later in 2020.

Other Post-Retirement Benefits

The Company provides other post-retirement benefits. These include additional health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits such as salary continuation for short-term disabilities.

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the year is as follows:

	2019		2018	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Accrued benefit plan obligation				
Balance at beginning	1,216	40	1,199	42
Current service cost	43	2	43	2
Interest cost	48	2	44	2
Employee contributions	22	—	21	—
Actuarial losses (gains) following remeasurement				
Actuarial losses (gains) on demographic assumption changes	(4)	1	11	(1)
Actuarial losses (gains) on financial assumption changes	183	6	(69)	(2)
Actuarial losses (gains) arising from members' experience	1	(1)	4	—
Benefits paid	(42)	(2)	(37)	(3)
Balance at end	**1,467**	**48**	1,216	40

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
	$	**$**	$	$
Defined benefit plan assets				
Fair value at beginning	**1,029**	**—**	1,046	—
Interest income	**40**	**—**	38	—
Actuarial gains (losses) following remeasurement				
Return on assets (excluding the amount included in the net interest)	**157**	**—**	(70)	—
Administrative expense	**(1)**	**—**	(1)	—
Employee contributions	**22**	**—**	21	—
Employer contributions	**36**	**—**	32	—
Benefits paid	**(42)**	**—**	(37)	—
Fair value at end	**1,241**	**—**	1,029	—

Amounts Recognized in the Statement of Financial Position

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
	$	**$**	$	$
Obligation in respect of capitalized defined benefit plans[1]	**1,324**	**—**	1,095	—
Obligation in respect of non-capitalized defined benefit plans	**143**	**48**	121	40
Accrued benefit plan obligation	**1,467**	**48**	1,216	40
Fair value of plan assets[1]	**1,241**	**—**	1,029	—
Net liabilities (assets) resulting from the obligation in respect of defined benefits	**226**	**48**	187	40

[1] As at December 31, 2019, there is a pension plan deficit of $83 ($66 in 2018).

The amounts presented in Note 15 “Other Liabilities” are:

	2019	2018
	$	$
Pension plans	**226**	187
Other plans	**48**	40
Post-employment benefits	**274**	227

Amounts Recognized in Net Income and Other Comprehensive Income

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
	$	**$**	$	$
Current service cost	**43**	**2**	43	2
Net interest	**8**	**2**	6	2
Administrative expense	**1**	**—**	1	—
Components of the cost of defined benefits recognized in the net income	**52**	**4**	50	4
Remeasurement of net liabilities (assets) as defined benefits				
Rate of return on assets (excluding amounts included in the net interest above)	**(157)**	**—**	70	—
Actuarial losses (gains) on demographic assumption changes	**(4)**	**1**	11	(1)
Actuarial losses (gains) on financial assumption changes	**183**	**6**	(69)	(2)
Actuarial losses (gains) arising from members’ experience	**1**	**(1)**	4	—
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	**23**	**6**	16	(3)
Total of defined benefit cost components	**75**	**10**	66	1

Items that will not be reclassified subsequently to net income

	2019		2018	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income				
Remeasurement of post-employment benefits	**23**	**6**	16	(3)
Income taxes on remeasurement of post-employment benefits	**(7)**	**(1)**	(3)	—
Total of other comprehensive income	**16**	**5**	13	(3)

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2018). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the year is 20.2 years (18.5 years in 2018) for pension plans and 12.2 years (12.9 years in 2018) for the other plans. The Company estimates that it will have to contribute an amount of $38 to its defined benefit plans in 2020.

The plan assets are divided as follows:

	2019	2018
	%	%
Asset classes		
Fund units		
Diversified Fund	**100**	98
Canadian Equity Fund	**—**	1
Global Equity Fund	**—**	1
Total	**100**	100

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the plan, the laws and regulations that the plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The main objectives of the investment policy, which are dictated by the financing policy, are to maintain a stable and sustainable cost of the plan, as well as an appropriate level of funding to ensure the security of the plan's commitments. The plan is exposed to various investment risks, namely the risks that the investments suffer losses or do not produce the expected return. The investment policy contains several quantitative and qualitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as Level 1.

The effective return of plan assets is positive 19% (negative 3% in 2018). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of the Company in 2019 and 2018.

Significant Assumptions

Significant judgment and assumptions are used by management in determining the expense and benefits obligations for the Company's defined benefit pension plans and other post-employment benefits. The significant actuarial assumptions used are detailed as follows:

	2019		2018	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit plan obligation				
Discount rate	**3.2%**	**3.2%**	3.9%	3.9%
Rate of compensation increase	**3.3%**	**—**	3.3%	—
Rate of mortality (table)	**CPM-2014Publ**	**CPM-2014Publ**	CPM-2014Publ	CPM-2014Publ
Benefit plan expenses				
Discount rate	**3.9%**	**3.9%**	3.7%	3.7%
Rate of compensation increase	**3.3%**	**—**	3.3%	—

	2019		
	Other plans		
	Drug	**Dental**	**Other**
Assumed health care cost trend rates			
Initial health care cost trend rates	**5.8%**	**4.5%**	**4.8%**
Cost trend rate declines to	**3.9%**	**4.5%**	**4.8%**
Number of years required to stabilize the rate	**9**	**—**	**—**

	2018		
	Other plans		
	Drug	Dental	Other
Assumed health care cost trend rates			
Initial health care cost trend rates	6.1%	4.5%	4.8%
Cost trend rate declines to	3.9%	4.5%	4.8%
Number of years required to stabilize the rate	10	—	—

Sensitivity Analysis
Retirement Plan
The significant assumptions used to determine the accrued benefit plan obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

Sensitivity of Key Assumptions of Benefit Plan Obligation

	2019		2018	
	Pension plans		Pension plans	
	Increase	**Decrease**	Increase	Decrease
	$	**$**	$	$
Discount rate assumption				
Impact of an absolute change of 1.0%	**(249)**	**344**	(190)	260
Rate of compensation increase				
Impact of an absolute change of 1.0%	**83**	**(71)**	74	(63)
Rate of mortality				
Impact of a relative change of 10.0%	**(21)**	**23**	(18)	20

	2019	2018
Sample life expectancies based on mortality assumptions (in years)		
Male		
Age 65 in fiscal year	**23.2**	23.1
Age 65 in fiscal year + 30 years	**25.2**	25.2
Female		
Age 65 in fiscal year	**25.1**	25.1
Age 65 in fiscal year + 30 years	**27.0**	27.0

Other Post-Retirement Benefits
Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	2019		2018	
	Increase	**Decrease**	Increase	Decrease
	$	**$**	$	$
Accrued benefit obligation	**6**	**(5)**	5	(4)

The impact of the one percentage-point fluctuation in the assumed health care cost trend on the total of service and interest cost is less than $1 for 2019 (less than $1 in 2018).

The Company could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

Defined Contribution Plan
A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is $3 ($3 in 2018).The liability related to this plan is presented in Note 15 "Other Liabilities" included in *Accounts payable* for an amount of $2 ($2 in 2018).

28 › Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various members of its group of companies on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company concludes transactions with associates. These transactions are concluded in the normal course of business and are subject to normal market conditions.

Change in Company Structure
On January 1, 2019, iA Insurance implemented a change in its company structure whereby iA Insurance became a wholly-owned subsidiary of the Company. Pursuant to a plan of arrangement, all iA Insurance common shares outstanding as at January 1, 2019 were exchanged for newly issued common shares of the Company, on a one for one basis. Issued and outstanding iA Insurance preferred shares and debentures remain issued by iA Insurance and have been guaranteed by the Company in accordance with the terms of the arrangement. The Company is a "successor issuer" of iA Insurance as defined in the securities regulations with respect to previously issued common shares of iA Insurance.

This change in company structure was recorded at the carrying amount and the Consolidated Financial Statements present comparative information as published in the financial statements of the absorbed issuer, iA Insurance, as at December 31, 2018.

Key Management Personnel
The Company's key management personnel are members of senior management, who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

	2019	2018
	$	$
Salaries and other short-term benefits	**7**	9
Post-retirement benefits	**1**	1
Stock-based compensation	**3**	3
Total	**11**	**13**

29 › Guarantees, Commitments and Contingencies

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

Business Acquisition
On December 4, 2019, the Company entered into an agreement to acquire the American company IAS Parent Holdings, Inc. and its subsidiaries (collectively "IAS"). The agreed purchase price is US $720. IAS is one of the largest independent providers of solutions in the U.S. vehicle warranty market. IAS provides a comprehensive portfolio of vehicle warranties and related software and services sold through one of the industry's broadest and most diverse distribution networks. The closing of the transaction, subject to usual regulatory approvals, is expected in the first half of 2020. This commitment has not been reflected in the financial statements and may not be executed.

Contractual Commitments
The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The minimum commitment amounts for the coming years represent $61 in 2020, $56 in 2021, $49 in 2022, $39 in 2023 and $104 in 2024 and beyond.

Lease Commitments
The Company is also involved in short term leases and leases for which the underlying asset is of low value, including equipment. The minimum commitment for the next 12 months represents $1.

In the normal course of business, the Company is involved in lease agreements that will come into effect shortly. These leases are not reflected in the financial statements.

Commitments

The Company is committed to a third party for one of its subsidiaries for an amount of less than $1 ($6 in 2018). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

Investment Commitments

In the normal course of the Company's business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. As at December 31, 2019, there were $803 ($809 as at December 31, 2018) of outstanding commitments, of which the estimated disbursements will be $65 ($42 as at December 31, 2018) in 30 days, $314 ($324 as at December 31, 2018) in 31 to 365 days and $424 ($443 as at December 31, 2018) in more than one year.

Letters of Credit

In the normal course of operations, banks issue letters of credit on behalf of the Company. As at December 31, 2019, the balance of these letters is $7 ($2 as at December 31, 2018).

Indemnifications

In the normal course of business, the Company enters into several types of agreements that could include indemnities in favour of third parties. Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. These indemnifications could vary based upon the nature and terms of the agreements. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Lines of Credit

As at December 31, 2019, the Company had operating lines of credit totalling $56 ($56 as at December 31, 2018). As at December 31, 2019 and 2018, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

Legal and Regulatory Proceedings

The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management uses judgment to evaluate the possible outcomes and does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

30 › Subsidiaries

The following is a list of directly and indirectly held major operating subsidiaries.

As at December 31, 2019	Ownership (%)	Address	Description
Industrial Alliance Insurance and Financial Services Inc.[1]	100	Quebec City, Canada	Life and health insurance company that distributes life and health insurance products, savings and retirement plans, mortgages and other financial products and services
The Excellence Life Insurance Company[2]	100	Montreal, Canada	Life and health insurance company that specializes in distribution of life and health insurance products
Michel Rhéaume et associés ltée	100	Montreal, Canada	Life insurance broker
PPI Management Inc.[1]	100	Toronto, Canada	Insurance broker
IA Clarington Investments Inc.[1]	100	Toronto, Canada	Fund management firm that markets investment products, including mutual funds and segregated funds
Investia Financial Services Inc.	100	Quebec City, Canada	Mutual fund broker
FundEX Investments Inc.	100	Vaughan, Canada	Mutual fund broker
Industrial Alliance Securities Inc.[1]	100	Montreal, Canada	Securities broker
Forstrong Global Asset Management Inc.	73	Kelowna, Canada	International wealth management and mutual fund portfolio management (exchange-traded funds)
iA Investment Counsel Inc.	100	Toronto, Canada	Asset portfolio management
Industrial Alliance Investment Management Inc.	100	Quebec City, Canada	Investment advisor that oversees the management of the Company's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Trust Inc.	100	Quebec City, Canada	Trust services
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Prysm General Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Industrial Alliance Pacific General Insurance Corporation	100	Quebec City, Canada	Property and casualty insurance, and other ancillary products company
SAL Marketing Inc.	100	Vancouver, Canada	Extended warranty and other ancillary products company

National Warranties MRWV Limited	100	Laval, Canada	Extended warranty and other ancillary products company
iA Auto Finance Inc.[1]	100	Oakville, Canada	Auto finance company
IA American Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer Security Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
American-Amicable Life Insurance Company of Texas	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer American Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Occidental Life Insurance Company of North Carolina	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Dealers Alliance Corporation[1]	100	Addison, Texas, United States	Extended warranty/service contracts and other ancillary products company
Dealers Assurance Company	100	Addison, Texas, United States	Property and casualty insurer providing liability insurance coverage to companies offering extended warranty/service contracts and other ancillary products
Southwest Reinsure, Inc.	100	Albuquerque, New Mexico, United States	Administrator of extended warranty/service contracts and other ancillary products
Ecoblock, Inc.	100	Albuquerque, New Mexico, United States	Provider of ancillary automotive products
First Automotive Service Corporation	100	Albuquerque, New Mexico, United States	Extended warranty/service contracts and other ancillary products company

[1] These subsidiaries hold directly or indirectly other subsidiaries with essentially a 100% ownership.
[2] On January 1, 2020, Industrial Alliance Insurance and Financial Services Inc. and its subsidiary The Excellence Life Insurance Company have merged.

31 › Subsequent Event

On January 10, 2020, the Company announced the acquisition of three companies specializing in vehicle warranties in Canada: WGI Service Plan Division Inc. and WGI Manufacturing Inc. as well as Lubrico Warranty Inc. for a total purchase price of $107. WGI wholesale manufactures and administrates chemical protection products for the automobile industry through independent dealers across Canada. As for Lubrico Warranty, it sells car warranties through used vehicle dealerships across Canada (except in the province of Quebec).