# Interim Condensed Consolidated Financial Statements

## Consolidated Statements of Earnings

| *(unaudited)*<br>*(in thousands of Canadian dollars, except shares and per share amounts)* | THREE MONTHS ENDED SEPTEMBER 30 **2015** | 2014 | NINE MONTHS ENDED SEPTEMBER 30 **2015** | 2014 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Management fees | **$ 508,531** | $ 517,063 | **$ 1,534,921** | $ 1,506,716 |
| Administration fees | **104,595** | 101,997 | **312,826** | 296,529 |
| Distribution fees | **92,695** | 84,968 | **282,514** | 263,492 |
| Net investment income and other | **19,545** | 21,257 | **63,787** | 50,180 |
| Proportionate share of affiliate's earnings | **26,362** | 24,877 | **81,772** | 68,316 |
| | **751,728** | 750,162 | **2,275,820** | 2,185,233 |
| **Expenses** | | | | |
| Commission | **263,158** | 249,833 | **797,712** | 738,701 |
| Non-commission | **208,471** | 190,802 | **637,946** | 597,741 |
| Interest | **23,200** | 23,200 | **68,914** | 68,913 |
| | **494,829** | 463,835 | **1,504,572** | 1,405,355 |
| Earnings before income taxes | **256,899** | 286,327 | **771,248** | 779,878 |
| Income taxes | **55,660** | 64,456 | **166,776** | 168,883 |
| **Net earnings** | **201,239** | 221,871 | **604,472** | 610,995 |
| Perpetual preferred share dividends | **2,213** | 2,213 | **6,638** | 6,638 |
| **Net earnings available to common shareholders** | **$ 199,026** | $ 219,658 | **$ 597,834** | $ 604,357 |
| Average number of common shares *(in thousands) (Note 11)* | | | | |
| – Basic | **246,953** | 252,089 | **249,025** | 252,247 |
| – Diluted | **247,059** | 252,788 | **249,169** | 253,079 |
| Earnings per share *(in dollars) (Note 11)* | | | | |
| – Basic | **$ 0.81** | $ 0.87 | **$ 2.40** | $ 2.40 |
| – Diluted | **$ 0.81** | $ 0.87 | **$ 2.40** | $ 2.39 |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Comprehensive Income

| *(unaudited)* *(in thousands of Canadian dollars)* | Three months ended September 30 2015 | 2014 | Nine months ended September 30 2015 | 2014 |
|---|---|---|---|---|
| **Net earnings** | **$ 201,239** | $ 221,871 | **$ 604,472** | $ 610,995 |
| **Other comprehensive income (loss), net of tax** | | | | |
| **Items that will not be reclassified to Net earnings** | | | | |
| Employee benefits | | | | |
| Net actuarial gains (losses), *net of tax of $971, $2,856, $(3,803) and $12,674* | **(2,625)** | (7,724) | **10,283** | (34,276) |
| Investment in affiliate – employee benefits and other | | | | |
| Other comprehensive income (loss), *net of tax of nil* | **9,306** | (3,384) | **(3,140)** | (971) |
| **Items that may be reclassified subsequently to Net earnings** | | | | |
| Available for sale securities | | | | |
| Net unrealized gains (losses), *net of tax of $(147), $54, $(1,436) and nil* | **405** | (151) | **3,903** | (3) |
| Reclassification of realized (gains) losses to net earnings, *net of tax of $200, $2, $532 and $36* | **(548)** | (5) | **(1,460)** | (96) |
| | **(143)** | (156) | **2,443** | (99) |
| Investment in affiliate and other | | | | |
| Other comprehensive income (loss), *net of tax of $349, $232, $710 and $758* | **1,001** | (10,279) | **36,529** | 24,620 |
| | **7,539** | (21,543) | **46,115** | (10,726) |
| **Comprehensive income** | **$ 208,778** | $ 200,328 | **$ 650,587** | $ 600,269 |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Balance Sheets

| *(unaudited)* *(in thousands of Canadian dollars)* | SEPTEMBER 30 2015 | DECEMBER 31 2014 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 933,716** | $ 1,215,980 |
| Securities | **76,094** | 89,545 |
| Accounts and other receivables | **523,762** | 470,708 |
| Income taxes recoverable | **8,082** | 22,710 |
| Loans *(Note 3)* | **7,282,227** | 7,018,893 |
| Derivative financial instruments | **64,053** | 39,449 |
| Other assets | **56,502** | 45,757 |
| Investment in affiliate | **861,161** | 794,381 |
| Capital assets | **124,887** | 121,854 |
| Deferred selling commissions | **733,517** | 710,447 |
| Deferred income taxes | **65,832** | 69,405 |
| Intangible assets | **1,202,091** | 1,161,513 |
| Goodwill | **2,659,856** | 2,656,539 |
| | **$ 14,591,780** | $ 14,417,181 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 368,989** | $ 374,369 |
| Income taxes payable | **33,837** | 30,916 |
| Derivative financial instruments | **64,526** | 29,788 |
| Deposits and certificates | **269,148** | 223,328 |
| Other liabilities | **439,812** | 528,289 |
| Obligations to securitization entities *(Note 4)* | **6,939,571** | 6,754,048 |
| Deferred income taxes | **322,628** | 310,564 |
| Long-term debt | **1,325,000** | 1,325,000 |
| | **9,763,511** | 9,576,302 |
| **Shareholders' Equity** | | |
| Share capital | | |
| Perpetual preferred shares | **150,000** | 150,000 |
| Common shares | **1,632,181** | 1,655,581 |
| Contributed surplus | **34,516** | 33,504 |
| Retained earnings | **3,076,175** | 3,112,512 |
| Accumulated other comprehensive income (loss) | **(64,603)** | (110,718) |
| | **4,828,269** | 4,840,879 |
| | **$ 14,591,780** | $ 14,417,181 |

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 5, 2015.

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Changes in Shareholders' Equity

| (unaudited) (in thousands of Canadian dollars) | Share Capital: Perpetual Preferred Shares (Note 5) | Share Capital: Common Shares (Note 5) | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) (Note 8) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | | | | | | Nine months ended September 30 |
| **2015** | | | | | | |
| **Balance, beginning of period** | **$ 150,000** | **$ 1,655,581** | **$ 33,504** | **$ 3,112,512** | **$ (110,718)** | **$ 4,840,879** |
| Net earnings | **–** | **–** | **–** | **604,472** | **–** | **604,472** |
| Other comprehensive income (loss), net of tax | **–** | **–** | **–** | **–** | **46,115** | **46,115** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **604,472** | **46,115** | **650,587** |
| Common shares | | | | | | |
| Issued under stock option plan | **–** | **14,688** | **–** | **–** | **–** | **14,688** |
| Purchased for cancellation | **–** | **(38,088)** | **–** | **–** | **–** | **(38,088)** |
| Stock options | | | | | | |
| Current period expense | **–** | **–** | **3,387** | **–** | **–** | **3,387** |
| Exercised | **–** | **–** | **(2,375)** | **–** | **–** | **(2,375)** |
| Perpetual preferred share dividends | **–** | **–** | **–** | **(6,638)** | **–** | **(6,638)** |
| Common share dividends | **–** | **–** | **–** | **(418,698)** | **–** | **(418,698)** |
| Common share cancellation excess and other *(Note 5)* | **–** | **–** | **–** | **(215,473)** | **–** | **(215,473)** |
| **Balance, end of period** | **$ 150,000** | **$ 1,632,181** | **$ 34,516** | **$ 3,076,175** | **$ (64,603)** | **$ 4,828,269** |
| 2014 | | | | | | |
| Balance, beginning of period | $ 150,000 | $ 1,630,844 | $ 32,627 | $ 2,977,083 | $ (82,959) | $ 4,707,595 |
| Net earnings | – | – | – | 610,995 | – | 610,995 |
| Other comprehensive income (loss), net of tax | – | – | – | – | (10,726) | (10,726) |
| Total comprehensive income (loss) | – | – | – | 610,995 | (10,726) | 600,269 |
| Common shares | | | | | | |
| Issued under stock option plan | – | 32,384 | – | – | – | 32,384 |
| Purchased for cancellation | – | (6,805) | – | – | – | (6,805) |
| Stock options | | | | | | |
| Current period expense | – | – | 4,492 | – | – | 4,492 |
| Exercised | – | – | (4,512) | – | – | (4,512) |
| Perpetual preferred share dividends | – | – | – | (6,638) | – | (6,638) |
| Common share dividends | – | – | – | (406,638) | – | (406,638) |
| Common share cancellation excess and other *(Note 5)* | – | – | – | (48,902) | – | (48,902) |
| Balance, end of period | $ 150,000 | $ 1,656,423 | $ 32,607 | $ 3,125,900 | $ (93,685) | $ 4,871,245 |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Cash Flows

| *(unaudited)* *(in thousands of Canadian dollars)* | NINE MONTHS ENDED SEPTEMBER 30 2015 | 2014 |
|---|---|---|
| **Operating activities** | | |
| Earnings before income taxes | **$ 771,248** | $ 779,878 |
| Income taxes paid | **(141,043)** | (116,599) |
| Adjustments to determine net cash from operating activities | | |
| Deferred selling commission amortization | **174,261** | 176,038 |
| Amortization of capital and intangible assets | **29,109** | 25,339 |
| Changes in operating assets and liabilities and other | **(179,896)** | (89,625) |
| | **653,679** | 775,031 |
| Deferred selling commissions paid | **(197,331)** | (198,291) |
| | **456,348** | 576,740 |
| **Financing activities** | | |
| Net increase in deposits and certificates | **45,820** | 18,536 |
| Net increase in obligations to securitization entities | **183,125** | 874,105 |
| Issue of common shares | **13,482** | 31,103 |
| Common shares purchased for cancellation | **(242,175)** | (54,515) |
| Perpetual preferred share dividends paid | **(6,638)** | (6,638) |
| Common share dividends paid | **(421,636)** | (406,817) |
| | **(428,022)** | 455,774 |
| **Investing activities** | | |
| Purchase of securities | **(97,867)** | (53,849) |
| Proceeds from the sale of securities | **110,638** | 48,534 |
| Net increase in loans | **(252,280)** | (1,048,881) |
| Net additions to capital assets | **(16,120)** | (10,441) |
| Net cash used in additions to intangible assets and acquisitions | **(54,961)** | (26,068) |
| | **(310,590)** | (1,090,705) |
| Decrease in cash and cash equivalents | **(282,264)** | (58,191) |
| Cash and cash equivalents, beginning of period | **1,215,980** | 1,082,437 |
| **Cash and cash equivalents, end of period** | **$ 933,716** | $ 1,024,246 |
| Cash | **$ 70,414** | $ 79,583 |
| Cash equivalents | **863,302** | 944,663 |
| | **$ 933,716** | $ 1,024,246 |
| Supplemental disclosure of cash flow information related to operating activities | | |
| Interest and dividends received | **$ 188,378** | $ 174,794 |
| Interest paid | **$ 155,893** | $ 149,252 |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Notes to the Interim Condensed Consolidated Financial Statements

SEPTEMBER 30, 2015 *(unaudited) (In thousands of Canadian dollars, except shares and per share amounts)*

## 1. CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2014. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2014 IGM Financial Inc. Annual Report.

### Future accounting changes

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

***IFRS 9 Financial Instruments***

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

***IFRS 15 Revenue from Contracts with Customers***

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

## 3. LOANS

| | Contractual maturity: 1 year or less | 1 – 5 years | Over 5 years | September 30 2015 Total | December 31 2014 Total |
|---|---|---|---|---|---|
| **Loans and receivables** | | | | | |
| Residential mortgages | **$ 1,210,528** | **$ 5,610,803** | **$ 4,210** | **$ 6,825,541** | $ 6,653,428 |
| Less: Collective allowance | | | | **673** | 762 |
| | | | | **6,824,868** | 6,652,666 |
| **Held for trading** | | | | **457,359** | 366,227 |
| | | | | **$ 7,282,227** | $ 7,018,893 |

| | | |
|---|---|---|
| The change in the collective allowance for credit losses is as follows: | | |
| Balance, beginning of period | **$ 762** | $ 728 |
| Write-offs, net of recoveries | **(71)** | (236) |
| Provision for credit losses | **(18)** | 270 |
| Balance, end of period | **$ 673** | $ 762 |

Total impaired loans as at September 30, 2015 were $2,143 (December 31, 2014 – $2,056).

Total interest income on loans classified as loans and receivables was $141.8 million (2014 – $131.1 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $101.5 million (2014 – $95.4 million). Gains realized on the sale of residential mortgages totalled $16.9 million (2014 – $9.0 million). Fair value adjustments related to mortgage banking operations totalled $1.0 million (2014 – $1.7 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

## 4. SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded an offsetting liability for the net proceeds received as Obligations to securitization entities which is carried at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $50.5 million at September 30, 2015 (December 31, 2014 – negative $26.3 million).

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

## 4. SECURITIZATIONS *(continued)*

| SEPTEMBER 30, 2015 | SECURITIZED MORTGAGES | OBLIGATIONS TO SECURITIZATION ENTITIES | NET |
|---|---|---|---|
| Carrying value | | | |
| NHA MBS and CMB Program | **$ 4,495,423** | **$ 4,583,483** | **$ (88,060)** |
| Bank sponsored ABCP | **2,303,532** | **2,356,088** | **(52,556)** |
| Total | **$ 6,798,955** | **$ 6,939,571** | **$ (140,616)** |
| Fair value | **$ 7,049,692** | **$ 7,164,092** | **$ (114,400)** |

| DECEMBER 31, 2014 | | | |
|---|---|---|---|
| Carrying value | | | |
| NHA MBS and CMB Program | $ 4,611,253 | $ 4,691,792 | $ (80,539) |
| Bank sponsored ABCP | 2,012,702 | 2,062,256 | (49,554) |
| Total | $ 6,623,955 | $ 6,754,048 | $ (130,093) |
| Fair value | $ 6,819,531 | $ 6,858,924 | $ (39,393) |

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

## 5. SHARE CAPITAL

**Authorized**

Unlimited number of:

First preferred shares, issuable in series
Second preferred shares, issuable in series
Class 1 non-voting shares
Common shares, no par value

**Issued and outstanding**

| | SEPTEMBER 30, 2015 SHARES | SEPTEMBER 30, 2015 STATED VALUE | SEPTEMBER 30, 2014 SHARES | SEPTEMBER 30, 2014 STATED VALUE |
|---|---|---|---|---|
| Perpetual preferred shares – classified as equity: | | | | |
| First preferred shares, Series B | **6,000,000** | **$ 150,000** | 6,000,000 | $ 150,000 |
| Common shares: | | | | |
| Balance, beginning of period | **251,469,346** | **$ 1,655,581** | 252,309,767 | $ 1,630,844 |
| Issued under Stock Option Plan *(Note 7)* | **329,520** | **14,688** | 684,471 | 32,384 |
| Purchased for cancellation | **(5,744,300)** | **(38,088)** | (1,041,300) | (6,805) |
| Balance, end of period | **246,054,566** | **$ 1,632,181** | 251,952,938 | $ 1,656,423 |

## 5. SHARE CAPITAL *(continued)*

**Normal course issuer bid**

In the third quarter of 2015, 1,423,800 shares (2014 – 416,300) were purchased at a cost of $52.3 million (2014 – $21.3 million). In the nine months ended September 30, 2015, 5,744,300 shares (2014 – 1,041,300) were purchased at a cost of $242.2 million (2014 – $54.5 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid on March 20, 2015 which is effective until March 19, 2016. Pursuant to this bid, the Company may purchase up to 12.5 million or 5% of its common shares outstanding as at March 13, 2015. On April 14, 2014, the Company commenced a normal course issuer bid, effective until March 19, 2015, which authorized it to purchase up to 12.6 million or 5% of its common shares outstanding as at March 31, 2014.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how the Company's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

## 6. CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2015 Report to Shareholders and in Note 17 to the Consolidated Financial Statements in the 2014 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2014.

## 7. SHARE-BASED PAYMENTS

**Stock option plan**

| | SEPTEMBER 30 2015 | DECEMBER 31 2014 |
|---|---|---|
| Common share options | | |
| – Outstanding | **7,542,160** | 6,940,248 |
| – Exercisable | **3,553,737** | 3,124,226 |

In the third quarter of 2015, the Company did not grant options to employees (2014 – nil). In the nine months ended September 30, 2015, the Company granted 1,295,770 options to employees (2014 – 1,024,685). The weighted average fair value of options granted during the nine months ended September 30, 2015 has been estimated at $3.49 per option (2014 – $6.59) using the Black-Scholes option pricing model. The weighted average closing share price at the grant dates was $44.09. The assumptions used in these valuation models include:

| | NINE MONTHS ENDED SEPTEMBER 30 2015 | 2014 |
|---|---|---|
| Exercise price | **$ 43.97** | $ 53.81 |
| Risk-free interest rate | **1.04%** | 1.90% |
| Expected option life | **6 years** | 6 years |
| Expected volatility | **20.00%** | 21.00% |
| Expected dividend yield | **5.12%** | 4.00% |

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met.

## 8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| SEPTEMBER 30, 2015 | EMPLOYEE BENEFITS | AVAILABLE FOR SALE SECURITIES | INVESTMENT IN AFFILIATE AND OTHER | TOTAL |
|---|---|---|---|---|
| Balance, beginning of period | **$ (123,510)** | **$ 194** | **$ 12,598** | **$ (110,718)** |
| Other comprehensive income (loss) | **10,283** | **2,443** | **33,389** | **46,115** |
| Balance, end of period | **$ (113,227)** | **$ 2,637** | **$ 45,987** | **$ (64,603)** |
| SEPTEMBER 30, 2014 | | | | |
| Balance, beginning of period | $ (68,593) | $ 420 | $ (14,786) | $ (82,959) |
| Other comprehensive income (loss) | (34,276) | (99) | 23,649 | (10,726) |
| Balance, end of period | $ (102,869) | $ 321 | $ 8,863 | $ (93,685) |

Amounts are recorded net of tax.

## 9. RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2015 Report to Shareholders and in Note 20 to the Consolidated Financial Statements in the 2014 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2014.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Fair value is determined using the following methods and assumptions:

Securities and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 financial instruments include exchange-traded equity securities and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include securities with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

| | | FAIR VALUE | | | |
|---|---|---|---|---|---|
| | CARRYING VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| SEPTEMBER 30, 2015 | | | | | |
| **Financial assets recorded at fair value** | | | | | |
| Securities | | | | | |
| – Available for sale | **$ 6,244** | **$ 6,244** | **$ –** | **$ –** | **$ 6,244** |
| – Held for trading | **69,850** | **67,056** | **1,483** | **1,311** | **69,850** |
| Loans | | | | | |
| – Held for trading | **457,359** | **–** | **457,359** | **–** | **457,359** |
| Derivative financial instruments | **64,053** | **–** | **63,853** | **200** | **64,053** |
| Other financial assets | **9,273** | **–** | **–** | **9,273** | **9,273** |
| **Financial assets recorded at amortized cost** | | | | | |
| Loans | | | | | |
| – Loans and receivables | **6,824,868** | **–** | **26,818** | **7,049,692** | **7,076,510** |
| **Financial liabilities recorded at fair value** | | | | | |
| Derivative financial instruments | **64,526** | **–** | **13,849** | **50,677** | **64,526** |
| Other financial liabilities | **6,227** | **6,227** | **–** | **–** | **6,227** |
| **Financial liabilities recorded at amortized cost** | | | | | |
| Deposits and certificates | **269,148** | **–** | **270,531** | **–** | **270,531** |
| Obligations to securitization entities | **6,939,571** | **–** | **–** | **7,164,092** | **7,164,092** |
| Long-term debt | **1,325,000** | **–** | **1,667,822** | **–** | **1,667,822** |
| DECEMBER 31, 2014 | | | | | |
| **Financial assets recorded at fair value** | | | | | |
| Securities | | | | | |
| – Available for sale | $ 10,220 | $ 10,220 | $ – | $ – | $ 10,220 |
| – Held for trading | 79,325 | 76,953 | 769 | 1,603 | 79,325 |
| Loans | | | | | |
| – Held for trading | 366,227 | – | 366,227 | – | 366,227 |
| Derivative financial instruments | 39,449 | – | 39,449 | – | 39,449 |
| **Financial assets recorded at amortized cost** | | | | | |
| Loans | | | | | |
| – Loans and receivables | 6,652,666 | – | 29,749 | 6,819,531 | 6,849,280 |
| **Financial liabilities recorded at fair value** | | | | | |
| Derivative financial instruments | 29,788 | – | 3,461 | 26,327 | 29,788 |
| Other financial liabilities | 6,585 | 6,585 | – | – | 6,585 |
| **Financial liabilities recorded at amortized cost** | | | | | |
| Deposits and certificates | 223,328 | – | 225,266 | – | 225,266 |
| Obligations to securitization entities | 6,754,048 | – | – | 6,858,924 | 6,858,924 |
| Long-term debt | 1,325,000 | – | 1,681,954 | – | 1,681,954 |

There were no significant transfers between Level 1 and Level 2 in 2015 and 2014.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

| | BALANCE JANUARY 1 | GAINS/ (LOSSES) INCLUDED IN NET EARNINGS(1) | GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME(2) | PURCHASES AND ISSUANCES | SETTLEMENTS | TRANSFERS IN/OUT | BALANCE SEPTEMBER 30 |
|---|---|---|---|---|---|---|---|
| **SEPTEMBER 30, 2015** | | | | | | | |
| **Assets** | | | | | | | |
| Securities | | | | | | | |
| – Held for trading | **$ 1,603** | **$ 44** | **$ –** | **$ 69** | **$ –** | **$ (405)** | **$ 1,311** |
| Other financial assets(3) | **–** | **–** | **3,562** | **–** | **–** | **5,711** | **9,273** |
| **Liabilities** | | | | | | | |
| Derivative financial instruments, net | **26,327** | **(32,843)** | **–** | **(741)** | **7,952** | **–** | **50,477** |
| SEPTEMBER 30, 2014 | | | | | | | |
| **Assets** | | | | | | | |
| Securities | | | | | | | |
| – Held for trading | $ 1,446 | $ 1,036 | $ – | $ 138 | $ 48 | $ – | $ 2,572 |
| **Liabilities** | | | | | | | |
| Derivative financial instruments, net | 16,163 | (16,508) | – | (1,932) | 11,781 | – | 18,958 |

*(1) Included in Net investment income in the Consolidated Statements of Earnings.*
*(2) Included in Available for sale securities – Net unrealized gains (losses) in the Consolidated Statements of Comprehensive Income.*
*(3) Other financial assets previously recorded at cost were re-measured at fair value using recent market transactions.*

## 11. EARNINGS PER COMMON SHARE

| | THREE MONTHS ENDED SEPTEMBER 30 2015 | THREE MONTHS ENDED SEPTEMBER 30 2014 | NINE MONTHS ENDED SEPTEMBER 30 2015 | NINE MONTHS ENDED SEPTEMBER 30 2014 |
|---|---|---|---|---|
| **Earnings** | | | | |
| Net earnings | **$ 201,239** | $ 221,871 | **$ 604,472** | $ 610,995 |
| Perpetual preferred share dividends | **2,213** | 2,213 | **6,638** | 6,638 |
| Net earnings available to common shareholders | **$ 199,026** | $ 219,658 | **$ 597,834** | $ 604,357 |
| **Number of common shares** *(in thousands)* | | | | |
| Average number of common shares outstanding | **246,953** | 252,089 | **249,025** | 252,247 |
| Add: Potential exercise of outstanding stock options | **106** | 699 | **144** | 832 |
| Average number of common shares outstanding – diluted basis | **247,059** | 252,788 | **249,169** | 253,079 |
| **Earnings per common share** *(in dollars)* | | | | |
| – Basic | **$ 0.81** | $ 0.87 | **$ 2.40** | $ 2.40 |
| – Diluted | **$ 0.81** | $ 0.87 | **$ 2.40** | $ 2.39 |

## 12. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

These segments reflect the current organizational structure and internal financial reporting. Management measures and evaluates the performance of these segments based on earnings before interest and taxes.

Investors Group earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, Investors Group earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Great-West Lifeco Inc. (Lifeco), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

| | | | | 2015 |
|---|---|---|---|---|
| Three months ended September 30 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Revenues | | | | |
| Management fees | $ 319,313 | $ 173,755 | $ 15,463 | $ 508,531 |
| Administration fees | 76,140 | 24,307 | 4,148 | 104,595 |
| Distribution fees | 46,970 | 2,490 | 43,235 | 92,695 |
| Net investment income and other | 16,800 | 682 | 28,425 | 45,907 |
| | 459,223 | 201,234 | 91,271 | 751,728 |
| Expenses | | | | |
| Commission | 144,932 | 75,231 | 42,995 | 263,158 |
| Non-commission | 123,660 | 71,522 | 13,289 | 208,471 |
| | 268,592 | 146,753 | 56,284 | 471,629 |
| Earnings before undernoted | $ 190,631 | $ 54,481 | $ 34,987 | 280,099 |
| Interest expense | | | | (23,200) |
| Earnings before income taxes | | | | 256,899 |
| Income taxes | | | | 55,660 |
| Net earnings | | | | 201,239 |
| Perpetual preferred share dividends | | | | 2,213 |
| Net earnings available to common shareholders | | | | $ 199,026 |

## 12. SEGMENTED INFORMATION *(continued)*

| Three months ended September 30 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|---|---|---|---|
| | | | | 2014 |
| Revenues | | | | |
| Management fees | $ 321,169 | $ 181,275 | $ 14,619 | $ 517,063 |
| Administration fees | 71,943 | 26,703 | 3,351 | 101,997 |
| Distribution fees | 41,516 | 2,658 | 40,794 | 84,968 |
| Net investment income and other | 16,463 | 1,456 | 28,215 | 46,134 |
| | 451,091 | 212,092 | 86,979 | 750,162 |
| Expenses | | | | |
| Commission | 134,054 | 75,405 | 40,374 | 249,833 |
| Non-commission | 109,931 | 67,452 | 13,419 | 190,802 |
| | 243,985 | 142,857 | 53,793 | 440,635 |
| Earnings before undernoted | $ 207,106 | $ 69,235 | $ 33,186 | 309,527 |
| Interest expense | | | | (23,200) |
| Earnings before income taxes | | | | 286,327 |
| Income taxes | | | | 64,456 |
| Net earnings | | | | 221,871 |
| Perpetual preferred share dividends | | | | 2,213 |
| Net earnings available to common shareholders | | | | $ 219,658 |

## 12. SEGMENTED INFORMATION *(continued)*

| Nine months ended September 30 | Investors Group | Mackenzie | Corporate and Other | Total |
|---|---|---|---|---|
| | | | | 2015 |
| Revenues | | | | |
| Management fees | $ 959,050 | $ 530,357 | $ 45,514 | $ 1,534,921 |
| Administration fees | 226,395 | 74,694 | 11,737 | 312,826 |
| Distribution fees | 142,668 | 8,241 | 131,605 | 282,514 |
| Net investment income and other | 52,549 | 4,902 | 88,108 | 145,559 |
| | 1,380,662 | 618,194 | 276,964 | 2,275,820 |
| Expenses | | | | |
| Commission | 437,361 | 230,539 | 129,812 | 797,712 |
| Non-commission | 372,090 | 222,247 | 43,609 | 637,946 |
| | 809,451 | 452,786 | 173,421 | 1,435,658 |
| Earnings before undernoted | $ 571,211 | $ 165,408 | $ 103,543 | 840,162 |
| Interest expense | | | | (68,914) |
| Earnings before income taxes | | | | 771,248 |
| Income taxes | | | | 166,776 |
| Net earnings | | | | 604,472 |
| Perpetual preferred share dividends | | | | 6,638 |
| Net earnings available to common shareholders | | | | $ 597,834 |
| Identifiable assets | $ 8,590,870 | $ 1,322,106 | $ 2,018,948 | $11,931,924 |
| Goodwill | 1,347,781 | 1,168,580 | 143,495 | 2,659,856 |
| Total assets | $ 9,938,651 | $ 2,490,686 | $ 2,162,443 | $14,591,780 |

## 12. SEGMENTED INFORMATION *(continued)*

| Nine months ended September 30 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|---|---|---|---|
| | | | | 2014 |
| Revenues | | | | |
| Management fees | $ 933,872 | $ 530,831 | $ 42,013 | $ 1,506,716 |
| Administration fees | 207,311 | 79,328 | 9,890 | 296,529 |
| Distribution fees | 134,225 | 8,632 | 120,635 | 263,492 |
| Net investment income and other | 35,619 | 3,165 | 81,274 | 120,058 |
| | 1,311,027 | 621,956 | 253,812 | 2,186,795 |
| Expenses | | | | |
| Commission | 397,376 | 223,997 | 117,328 | 738,701 |
| Non-commission | 333,383 | 205,111 | 42,493 | 580,987 |
| | 730,759 | 429,108 | 159,821 | 1,319,688 |
| Earnings before undernoted | $ 580,268 | $ 192,848 | $ 93,991 | 867,107 |
| Interest expense | | | | (68,913) |
| Restructuring and other charges | | | | (18,316) |
| Earnings before income taxes | | | | 779,878 |
| Income taxes | | | | 168,883 |
| Net earnings | | | | 610,995 |
| Perpetual preferred share dividends | | | | 6,638 |
| Net earnings available to common shareholders | | | | $ 604,357 |
| Identifiable assets | $ 8,046,334 | $ 1,336,781 | $ 1,960,674 | $ 11,343,789 |
| Goodwill | 1,347,781 | 1,168,580 | 140,178 | 2,656,539 |
| Total assets | $ 9,394,115 | $ 2,505,361 | $ 2,100,852 | $ 14,000,328 |