

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars, except shares and per share amounts)</i>	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2016	2015	2016	2015
Revenues				
Management fees	\$ 497,386	\$ 517,279	\$ 981,222	\$ 1,026,390
Administration fees	104,328	105,995	204,678	208,231
Distribution fees	96,342	95,286	191,310	189,819
Net investment income and other	22,409	15,161	38,286	44,242
Proportionate share of affiliate's earnings	23,876	29,508	51,684	55,410
	744,341	763,229	1,467,180	1,524,092
Expenses				
Commission	267,128	267,687	528,643	534,554
Non-commission	231,740	215,853	459,607	429,475
Interest	22,913	22,964	45,826	45,714
	521,781	506,504	1,034,076	1,009,743
Earnings before income taxes	222,560	256,725	433,104	514,349
Income taxes	47,457	56,051	88,825	111,116
Net earnings	175,103	200,674	344,279	403,233
Perpetual preferred share dividends	2,212	2,212	4,425	4,425
Net earnings available to common shareholders	\$ 172,891	\$ 198,462	\$ 339,854	\$ 398,808
Average number of common shares <i>(in thousands)</i> (Note 12)				
– Basic	241,071	248,957	242,100	250,076
– Diluted	241,221	249,128	242,197	250,266
Earnings per share <i>(in dollars)</i> (Note 12)				
– Basic	\$ 0.72	\$ 0.80	\$ 1.40	\$ 1.59
– Diluted	\$ 0.72	\$ 0.80	\$ 1.40	\$ 1.59

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (in thousands of Canadian dollars)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2016	2015	2016	2015
Net earnings	\$ 175,103	\$ 200,674	\$ 344,279	\$ 403,233
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 \$7,915, \$(9,562), \$16,113 and \$(4,774)	(21,405)	25,858	(43,573)	12,908
Investment in affiliate – employee benefits and other				
Other comprehensive income (loss), net of tax of nil	(6,645)	(6,710)	(2,481)	(12,446)
Items that may be reclassified subsequently to Net earnings				
Available for sale securities				
Net unrealized gains (losses), net of tax of \$72, \$(104), \$(121) and \$(1,289)	(189)	290	331	3,498
Reclassification of realized (gains) losses to net earnings, net of tax of \$44, \$99, \$54 and \$332	(121)	(275)	(147)	(912)
	(310)	15	184	2,586
Investment in affiliate and other				
Other comprehensive income (loss), net of tax of \$795, \$412, \$39 and \$361	(36,919)	25,929	(27,508)	35,528
	(65,279)	45,092	(73,378)	38,576
Comprehensive income	\$ 109,824	\$ 245,766	\$ 270,901	\$ 441,809

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

CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	JUNE 30 2016	DECEMBER 31 2015
Assets		
Cash and cash equivalents	\$ 658,162	\$ 983,016
Securities	92,883	50,762
Accounts and other receivables	561,014	564,660
Income taxes recoverable	24,409	10,243
Loans <i>(Note 3)</i>	7,813,292	7,392,448
Derivative financial instruments	58,777	58,364
Other assets <i>(Note 5)</i>	125,746	54,926
Investment in affiliate	897,915	904,257
Capital assets	158,592	140,356
Deferred selling commissions	734,173	727,527
Deferred income taxes	81,358	64,946
Intangible assets	1,246,476	1,219,720
Goodwill	2,659,856	2,659,856
	\$ 15,112,653	\$ 14,831,081
Liabilities		
Accounts payable and accrued liabilities	\$ 403,176	\$ 386,727
Income taxes payable	29,743	53,267
Derivative financial instruments	61,043	57,836
Deposits and certificates	293,941	310,074
Other liabilities	499,885	449,018
Obligations to securitization entities <i>(Note 4)</i>	7,497,305	7,092,414
Deferred income taxes	313,820	308,349
Long-term debt	1,325,000	1,325,000
	10,423,913	9,982,685
Shareholders' Equity		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,596,589	1,623,948
Contributed surplus	37,938	35,569
Retained earnings	3,009,585	3,070,873
Accumulated other comprehensive income (loss)	(105,372)	(31,994)
	4,688,740	4,848,396
	\$ 15,112,653	\$ 14,831,081

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 4, 2016.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30

(unaudited) (in thousands of Canadian dollars)	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 9)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 6)	COMMON SHARES (Note 6)	CONTRIBUTED SURPLUS			
2016						
Balance, beginning of period	\$ 150,000	\$ 1,623,948	\$ 35,569	\$ 3,070,873	\$ (31,994)	\$ 4,848,396
Net earnings	-	-	-	344,279	-	344,279
Other comprehensive income (loss), net of tax	-	-	-	-	(73,378)	(73,378)
Comprehensive income	-	-	-	344,279	(73,378)	270,901
Common shares						
Issued under stock option plan	-	637	-	-	-	637
Purchased for cancellation	-	(27,996)	-	-	-	(27,996)
Stock options						
Current period expense	-	-	2,404	-	-	2,404
Exercised	-	-	(35)	-	-	(35)
Perpetual preferred share dividends	-	-	-	(4,425)	-	(4,425)
Common share dividends	-	-	-	(271,418)	-	(271,418)
Common share cancellation excess and other (Note 6)	-	-	-	(129,724)	-	(129,724)
Balance, end of period	\$ 150,000	\$ 1,596,589	\$ 37,938	\$ 3,009,585	\$ (105,372)	\$ 4,688,740
2015						
Balance, beginning of period	\$ 150,000	\$ 1,655,581	\$ 33,504	\$ 3,112,512	\$ (110,718)	\$ 4,840,879
Net earnings	-	-	-	403,233	-	403,233
Other comprehensive income (loss), net of tax	-	-	-	-	38,576	38,576
Comprehensive income	-	-	-	403,233	38,576	441,809
Common shares						
Issued under stock option plan	-	14,688	-	-	-	14,688
Purchased for cancellation	-	(28,643)	-	-	-	(28,643)
Stock options						
Current period expense	-	-	2,301	-	-	2,301
Exercised	-	-	(2,375)	-	-	(2,375)
Perpetual preferred share dividends	-	-	-	(4,425)	-	(4,425)
Common share dividends	-	-	-	(280,190)	-	(280,190)
Common share cancellation excess and other (Note 6)	-	-	-	(171,177)	-	(171,177)
Balance, end of period	\$ 150,000	\$ 1,641,626	\$ 33,430	\$ 3,059,953	\$ (72,142)	\$ 4,812,867

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30

	2016	2015
Operating activities		
Earnings before income taxes	\$ 433,104	\$ 514,349
Income taxes paid	(125,558)	(108,899)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	118,787	116,588
Amortization of capital and intangible assets	21,257	19,125
Changes in operating assets and liabilities and other	(30,793)	(109,255)
	416,797	431,908
Deferred selling commissions paid	(125,433)	(144,519)
	291,364	287,389
Financing activities		
Net (decrease) increase in deposits and certificates	(16,133)	43,056
Net increase in obligations to securitization entities	407,998	43,948
Issue of common shares	1,418	12,313
Common shares purchased for cancellation	(151,096)	(189,868)
Perpetual preferred share dividends paid	(4,425)	(4,425)
Common share dividends paid	(273,829)	(282,390)
	(36,067)	(377,366)
Investing activities		
Purchase of securities	(57,439)	(70,155)
Proceeds from the sale of securities	23,355	63,674
Net increase in loans	(415,510)	(169,223)
Purchase of other assets	(67,260)	-
Net additions to capital assets	(28,781)	(10,291)
Net cash used in additions to intangible assets and acquisitions	(34,516)	(36,216)
	(580,151)	(222,211)
Decrease in cash and cash equivalents	(324,854)	(312,188)
Cash and cash equivalents, beginning of period	983,016	1,215,980
Cash and cash equivalents, end of period	\$ 658,162	\$ 903,792
Cash	\$ 39,049	\$ 60,955
Cash equivalents	619,113	842,837
	\$ 658,162	\$ 903,792
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	\$ 125,581	\$ 126,485
Interest paid	\$ 107,094	\$ 113,751

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

NOTE 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.

NOTE 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, 2015. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2015 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 reporting 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 reporting periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

IFRS 16 LEASES

The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The impact of this standard is currently being assessed.

NOTE 3 LOANS

	CONTRACTUAL MATURITY			JUNE 30 2016 TOTAL	DECEMBER 31 2015 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
Loans and receivables					
Residential mortgages	\$ 883,951	\$ 6,510,004	\$ 6,833	\$ 7,400,788	\$ 7,008,936
Less: Collective allowance				720	705
				7,400,068	7,008,231
Held for trading				413,224	384,217
				\$ 7,813,292	\$ 7,392,448

The change in the collective allowance for credit losses is as follows:

Balance, beginning of period	\$ 705	\$ 762
Write-offs, net of recoveries	(267)	(132)
Provision for credit losses	282	75
Balance, end of period	\$ 720	\$ 705

Total impaired loans as at June 30, 2016 were \$1,690 (December 31, 2015 – \$2,902).

Total interest income on loans classified as loans and receivables was \$95.0 million (2015 – \$94.7 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$63.1 million (2015 – \$69.1 million). Gains realized on the sale of residential mortgages totalled \$8.3 million

(2015 – \$12.2 million). Fair value adjustments related to mortgage banking operations totalled negative \$4.3 million (2015 – \$2.3 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.

NOTE 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 \$51.8 million at June 30, 2016 (December 31, 2015 – negative \$47.4 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.

NOTE 4 SECURITIZATIONS *(continued)*

JUNE 30, 2016	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	\$ 4,673,150	\$ 4,727,519	\$ (54,369)
Bank sponsored ABCP	2,698,156	2,769,786	(71,630)
Total	\$ 7,371,306	\$ 7,497,305	\$ (125,999)
Fair value	\$ 7,639,126	\$ 7,663,240	\$ (24,114)
DECEMBER 31, 2015			
Carrying value			
NHA MBS and CMB Program	\$ 4,611,583	\$ 4,669,974	\$ (58,391)
Bank sponsored ABCP	2,369,681	2,422,440	(52,759)
Total	\$ 6,981,264	\$ 7,092,414	\$ (111,150)
Fair value	\$ 7,238,046	\$ 7,272,394	\$ (34,348)

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.

NOTE 5 OTHER ASSETS

	JUNE 30 2016	DECEMBER 31 2015
Deferred and prepaid expenses	\$ 49,471	\$ 43,224
Investment in Personal Capital	64,591	-
Other	11,684	11,702
	\$ 125,746	\$ 54,926

Total other assets of \$25.9 million as at June 30, 2016 (December 31, 2015 – \$20.9 million) are expected to be realized within one year.

On May 17, 2016, the Company invested \$50 million (U.S.) in Personal Capital Corporation, a market-leading digital wealth advisor based in the U.S., with an agreement that could result in an additional \$25 million (U.S.) investment in the next year for a

total of \$75 million (U.S.). This results in an initial 10% ownership interest which could increase to 15% in the next year.

The Company currently does not exercise significant influence over Personal Capital Corporation. The investment is therefore classified as Available for Sale and is measured at fair value, with changes in fair value recognized in Other Comprehensive Income.

NOTE 6 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

	JUNE 30, 2016		JUNE 30, 2015	
	SHARES	STATED VALUE	SHARES	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	244,788,138	\$ 1,623,948	251,469,346	\$ 1,655,581
Issued under Stock Option Plan	22,600	637	329,520	14,688
Purchased for cancellation	(4,219,600)	(27,996)	(4,320,500)	(28,643)
Balance, end of period	240,591,138	\$ 1,596,589	247,478,366	\$ 1,641,626

NORMAL COURSE ISSUER BID

In the second quarter of 2016, 1,227,700 shares (2015 – 2,935,500 shares) were purchased at a cost of \$46.8 million (2015 – \$127.8 million). In the six months ended June 30, 2016, 4,219,600 shares (2015 – 4,320,500) were purchased at a cost of \$151.1 million (2015 – \$189.9 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, 2016 which is effective until March 19, 2017. Pursuant to this bid, the Company may purchase up to 12.1 million or 5% of its common shares outstanding as at March 10, 2016. On March 20, 2015, the Company commenced

a normal course issuer bid, effective until March 19, 2016, which authorized it to purchase up to 12.5 million or 5% of its common shares outstanding as at March 13, 2015.

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.

NOTE 7 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 Second Quarter 2016 Report to Shareholders

and in Note 17 to the Consolidated Financial Statements in the 2015 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2015.

NOTE 8 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

	JUNE 30 2016	DECEMBER 31 2015
Common share options		
– Outstanding	8,211,752	7,441,165
– Exercisable	4,064,408	3,526,658

In the second quarter of 2016, the Company did not grant options to employees (2015 – 2,695). In the six months ended June 30, 2016, the Company granted 1,575,595 options to employees (2015 – 1,295,770). The weighted-average fair value of options granted during the six months ended June 30,

2016 has been estimated at \$1.61 per option (2015 – \$3.49) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$35.06. The assumptions used in these valuation models include:

	SIX MONTHS ENDED JUNE 30	
	2016	2015
Exercise price	\$ 34.94	\$ 43.97
Risk-free interest rate	0.96%	1.04%
Expected option life	6 years	6 years
Expected volatility	18.00%	20.00%
Expected dividend yield	6.44%	5.12%

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.

NOTE 9 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
JUNE 30, 2016				
Balance, beginning of period	\$ (111,874)	\$ 2,658	\$ 77,222	\$ (31,994)
Other comprehensive income (loss)	(43,573)	184	(29,989)	(73,378)
Balance, end of period	\$ (155,447)	\$ 2,842	\$ 47,233	\$ (105,372)
JUNE 30, 2015				
Balance, beginning of period	\$ (123,510)	\$ 194	\$ 12,598	\$ (110,718)
Other comprehensive income (loss)	12,908	2,586	23,082	38,576
Balance, end of period	\$ (110,602)	\$ 2,780	\$ 35,680	\$ (72,142)

Amounts are recorded net of tax.

NOTE 10 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 Second Quarter 2016 Report to Shareholders and in

Note 20 to the Consolidated Financial Statements in the 2015 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2015.

NOTE 11 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

arms 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.

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.

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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.

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	CARRYING VALUE	FAIR VALUE			TOTAL
		LEVEL 1	LEVEL 2	LEVEL 3	
JUNE 30, 2016					
Financial assets recorded at fair value					
Securities					
– Available for sale	\$ 15,588	\$ 15,588	\$ –	\$ –	\$ 15,588
– Held for trading	77,295	74,086	1,788	1,421	77,295
Loans					
– Held for trading	413,224	–	413,224	–	413,224
Derivative financial instruments	58,777	–	58,777	–	58,777
Other financial assets	73,864	–	–	73,864	73,864
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,400,068	–	29,783	7,639,126	7,668,909
Financial liabilities recorded at fair value					
Derivative financial instruments	61,043	–	9,251	51,792	61,043
Other financial liabilities	7,467	7,129	338	–	7,467
Financial liabilities recorded at amortized cost					
Deposits and certificates	293,941	–	295,305	–	295,305
Obligations to securitization entities	7,497,305	–	–	7,663,240	7,663,240
Long-term debt	1,325,000	–	1,676,522	–	1,676,522
DECEMBER 31, 2015					
Financial assets recorded at fair value					
Securities					
– Available for sale	\$ 6,092	\$ 6,092	\$ –	\$ –	\$ 6,092
– Held for trading	44,670	42,215	1,167	1,288	44,670
Loans					
– Held for trading	384,217	–	384,217	–	384,217
Derivative financial instruments	58,364	–	58,364	–	58,364
Other financial assets	9,273	–	–	9,273	9,273
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,008,231	–	27,856	7,238,046	7,265,902
Financial liabilities recorded at fair value					
Derivative financial instruments	57,836	–	10,422	47,414	57,836
Other financial liabilities	4,145	4,145	–	–	4,145
Financial liabilities recorded at amortized cost					
Deposits and certificates	310,074	–	311,770	–	311,770
Obligations to securitization entities	7,092,414	–	–	7,272,394	7,272,394
Long-term debt	1,325,000	–	1,661,150	–	1,661,150

There were no significant transfers between Level 1 and Level 2 in 2016 and 2015.

NOTE 11 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 JUNE 30
JUNE 30, 2016							
Assets							
Securities							
– Held for trading	\$ 1,288	\$ 33	\$ 100	\$ –	\$ –	\$ –	\$ 1,421
Other financial assets	9,273	–	(2,669)	67,260	–	–	73,864
Liabilities							
Derivative financial instruments, net	47,414	(10,746)	–	2,579	8,947	–	51,792
JUNE 30, 2015							
Assets							
Securities							
– Held for trading	\$ 1,603	\$ 67	\$ –	\$ 69	\$ –	\$ (405)	\$ 1,334
Other financial assets ⁽³⁾	–	–	3,562	–	–	5,711	9,273
Liabilities							
Derivative financial instruments, net	26,327	(25,731)	–	(689)	5,041	–	46,328

(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.

NOTE 12 EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2016	2015	2016	2015
Earnings				
Net earnings	\$ 175,103	\$ 200,674	\$ 344,279	\$ 403,233
Perpetual preferred share dividends	2,212	2,212	4,425	4,425
Net earnings available to common shareholders	\$ 172,891	\$ 198,462	\$ 339,854	\$ 398,808
Number of common shares (in thousands)				
Average number of common shares outstanding	241,071	248,957	242,100	250,076
Add: Potential exercise of outstanding stock options ⁽¹⁾	150	171	97	190
Average number of common shares outstanding – diluted basis	241,221	249,128	242,197	250,266
Earnings per common share (in dollars)				
Basic	\$ 0.72	\$ 0.80	\$ 1.40	\$ 1.59
Diluted	\$ 0.72	\$ 0.80	\$ 1.40	\$ 1.59

(1) Excludes 1,655 thousand shares for the three months ended June 30, 2016 (2015 – 732 thousand) related to outstanding stock options that were anti-dilutive. Excludes 1,913 thousand shares for the six months ended June 30, 2016 (2015 – 636 thousand) related to outstanding stock options that were anti-dilutive.

NOTE 13 RELATED PARTY TRANSACTIONS

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- On January 7, 2014, the Company acquired \$1.67 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.67 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.

- On January 6, 2015, the Company acquired \$0.33 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$0.33 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights.

The preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

NOTE 14 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 Lifeco, net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

NOTE 14 SEGMENTED INFORMATION (continued)

2016

THREE MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 318,287	\$ 163,544	\$ 15,555	\$ 497,386
Administration fees	76,527	22,846	4,955	104,328
Distribution fees	51,424	2,385	42,533	96,342
Net investment income and other	18,576	1,225	26,484	46,285
	464,814	190,000	89,527	744,341
Expenses				
Commission	152,160	72,234	42,734	267,128
Non-commission	138,522	77,561	15,657	231,740
	290,682	149,795	58,391	498,868
Earnings before undernoted	\$ 174,132	\$ 40,205	\$ 31,136	245,473
Interest expense				22,913
Earnings before income taxes				222,560
Income taxes				47,457
Net earnings				175,103
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				\$ 172,891

2015

THREE MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 323,556	\$ 178,640	\$ 15,083	\$ 517,279
Administration fees	77,226	24,847	3,922	105,995
Distribution fees	49,428	2,505	43,353	95,286
Net investment income and other	14,231	2	30,436	44,669
	464,441	205,994	92,794	763,229
Expenses				
Commission	147,450	77,450	42,787	267,687
Non-commission	127,099	74,539	14,215	215,853
	274,549	151,989	57,002	483,540
Earnings before undernoted	\$ 189,892	\$ 54,005	\$ 35,792	279,689
Interest expense				22,964
Earnings before income taxes				256,725
Income taxes				56,051
Net earnings				200,674
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				\$ 198,462

NOTE 14 SEGMENTED INFORMATION (continued)

2016

SIX MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 626,505	\$ 324,035	\$ 30,682	\$ 981,222
Administration fees	150,145	45,230	9,303	204,678
Distribution fees	101,302	4,948	85,060	191,310
Net investment income and other	32,353	1,543	56,074	89,970
	910,305	375,756	181,119	1,467,180
Expenses				
Commission	299,548	143,909	85,186	528,643
Non-commission	273,551	155,188	30,868	459,607
	573,099	299,097	116,054	988,250
Earnings before undernoted	\$ 337,206	\$ 76,659	\$ 65,065	478,930
Interest expense				45,826
Earnings before income taxes				433,104
Income taxes				88,825
Net earnings				344,279
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				\$ 339,854
Identifiable assets				
Identifiable assets	\$ 9,304,788	\$ 1,323,647	\$ 1,824,362	\$ 12,452,797
Goodwill	1,347,781	1,168,580	143,495	2,659,856
Total assets	\$ 10,652,569	\$ 2,492,227	\$ 1,967,857	\$ 15,112,653

NOTE 14 SEGMENTED INFORMATION (continued)

2015

SIX MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 639,737	\$ 356,602	\$ 30,051	\$ 1,026,390
Administration fees	150,255	50,387	7,589	208,231
Distribution fees	95,698	5,751	88,370	189,819
Net investment income and other	35,749	4,220	59,683	99,652
	921,439	416,960	185,693	1,524,092
Expenses				
Commission	292,429	155,308	86,817	534,554
Non-commission	248,430	150,725	30,320	429,475
	540,859	306,033	117,137	964,029
Earnings before undernoted	\$ 380,580	\$ 110,927	\$ 68,556	560,063
Interest expense				45,714
Earnings before income taxes				514,349
Income taxes				111,116
Net earnings				403,233
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				\$ 398,808
Identifiable assets	\$ 8,492,929	\$ 1,362,374	\$ 1,975,320	\$ 11,830,623
Goodwill	1,347,781	1,168,580	143,495	2,659,856
Total assets	\$ 9,840,710	\$ 2,530,954	\$ 2,118,815	\$ 14,490,479