

## CONSOLIDATED FINANCIAL STATEMENTS

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# Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

We have audited the accompanying consolidated financial statements of IGM Financial Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IGM Financial Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

February 12, 2016

Winnipeg, Manitoba

# Consolidated Statements of Earnings

For the years ended December 31 (in thousands of Canadian dollars, except shares and per share amounts)

2015

2014

## Revenues

Management fees	<b>\$ 2,036,234</b>	\$ 2,014,086
Administration fees	<b>417,563</b>	397,235
Distribution fees	<b>379,558</b>	351,257
Net investment income and other	<b>83,640</b>	68,248
Proportionate share of affiliate's earnings (Note 8)	<b>110,950</b>	96,458
	<b>3,027,945</b>	2,927,284

## Expenses

Commission	<b>1,062,069</b>	992,673
Non-commission (Note 3)	<b>882,969</b>	877,496
Interest	<b>92,115</b>	92,152
	<b>2,037,153</b>	1,962,321

Earnings before income taxes	<b>990,792</b>	964,963
Income taxes (Note 14)	<b>210,250</b>	202,862

<b>Net earnings</b>	<b>780,542</b>	762,101
Perpetual preferred share dividends	<b>8,850</b>	8,850

<b>Net earnings available to common shareholders</b>	<b>\$ 771,692</b>	\$ 753,251
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Average number of common shares (in thousands) (Note 23)

– Basic	<b>248,173</b>	252,108
– Diluted	<b>248,299</b>	252,778

Earnings per share (in dollars) (Note 23)

– Basic	<b>\$ 3.11</b>	\$ 2.99
– Diluted	<b>\$ 3.11</b>	\$ 2.98

(See accompanying notes to consolidated financial statements.)

# Consolidated Statements of Comprehensive Income

For the years ended December 31 (in thousands of Canadian dollars)

2015

2014

<b>Net earnings</b>	<b>\$ 780,542</b>	<b>\$ 762,101</b>
<b>Other comprehensive income (loss), net of tax</b>		
<b>Items that will not be reclassified to Net earnings</b>		
Employee benefits		
Net actuarial gains (losses), <i>net of tax of \$(4,304) and \$20,312</i>	<b>11,636</b>	(54,917)
Investment in affiliate - employee benefits and other		
Other comprehensive income (loss), <i>net of tax of nil</i>	<b>(4,581)</b>	(4,598)
<b>Items that may be reclassified subsequently to Net earnings</b>		
Available for sale securities		
Net unrealized gains (losses), <i>net of tax of \$(1,445) and \$21</i>	<b>3,929</b>	(58)
Reclassification of realized (gains) losses to net earnings, <i>net of tax of \$534 and \$58</i>	<b>(1,465)</b>	(168)
	<b>2,464</b>	(226)
Investment in affiliate and other		
Other comprehensive income (loss), <i>net of tax of \$457 and \$885</i>	<b>69,205</b>	31,982
	<b>78,724</b>	(27,759)
<b>Comprehensive income</b>	<b>\$ 859,266</b>	<b>\$ 734,342</b>

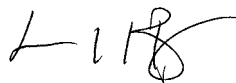
(See accompanying notes to consolidated financial statements.)

# Consolidated Balance Sheets

<i>(in thousands of Canadian dollars)</i>	DECEMBER 31 2015	DECEMBER 31 2014
<b>Assets</b>		
Cash and cash equivalents	\$ 983,016	\$ 1,215,980
Securities <i>(Note 4)</i>	50,762	89,545
Accounts and other receivables	564,660	470,708
Income taxes recoverable	10,243	22,710
Loans <i>(Note 5)</i>	7,392,448	7,018,893
Derivative financial instruments <i>(Note 21)</i>	58,364	39,449
Other assets <i>(Note 7)</i>	54,926	45,757
Investment in affiliate <i>(Note 8)</i>	904,257	794,381
Capital assets	140,356	121,854
Deferred selling commissions <i>(Note 9)</i>	727,527	710,447
Deferred income taxes <i>(Note 14)</i>	64,946	69,405
Intangible assets <i>(Note 10)</i>	1,219,720	1,161,513
Goodwill <i>(Note 10)</i>	2,659,856	2,656,539
	<b>\$ 14,831,081</b>	<b>\$ 14,417,181</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 386,727	\$ 374,369
Income taxes payable	53,267	30,916
Derivative financial instruments <i>(Note 21)</i>	57,836	29,788
Deposits and certificates <i>(Note 11)</i>	310,074	223,328
Other liabilities <i>(Note 12)</i>	449,018	528,289
Obligations to securitization entities <i>(Note 6)</i>	7,092,414	6,754,048
Deferred income taxes <i>(Note 14)</i>	308,349	310,564
Long-term debt <i>(Note 15)</i>	1,325,000	1,325,000
	<b>9,982,685</b>	<b>9,576,302</b>
<b>Shareholders' Equity</b>		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,623,948	1,655,581
Contributed surplus	35,569	33,504
Retained earnings	3,070,873	3,112,512
Accumulated other comprehensive income (loss)	(31,994)	(110,718)
	<b>4,848,396</b>	<b>4,840,879</b>
	<b>\$ 14,831,081</b>	<b>\$ 14,417,181</b>

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

These financial statements were approved and authorized for issuance by the Board of Directors on February 12, 2016.



Murray J. Taylor  
Director



John McCallum  
Director

# Consolidated Statements of Changes in Shareholders' Equity

	SHARE CAPITAL				RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 19)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (NOTE 16)	COMMON SHARES (NOTE 16)	CONTRIBUTED SURPLUS				
<i>(in thousands of Canadian dollars)</i>							
<b>2015</b>							
<b>Balance, beginning of year</b>	<b>\$ 150,000</b>	<b>\$ 1,655,581</b>	<b>\$ 33,504</b>	<b>\$ 3,112,512</b>	<b>\$ (110,718)</b>	<b>\$ 4,840,879</b>	
Net earnings	-	-	-	780,542	-	780,542	
Other comprehensive income (loss), net of tax	-	-	-	-	78,724	78,724	
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>780,542</b>	<b>78,724</b>	<b>859,266</b>	
Common shares							
Issued under stock option plan	-	14,908	-	-	-	14,908	
Purchased for cancellation	-	(46,541)	-	-	-	(46,541)	
Stock options							
Current period expense	-	-	4,452	-	-	4,452	
Exercised	-	-	(2,387)	-	-	(2,387)	
Perpetual preferred share dividends	-	-	-	(8,850)	-	(8,850)	
Common share dividends	-	-	-	(556,450)	-	(556,450)	
Common share cancellation excess and other (Note 16)	-	-	-	(256,881)	-	(256,881)	
<b>Balance, end of year</b>	<b>\$ 150,000</b>	<b>\$ 1,623,948</b>	<b>\$ 35,569</b>	<b>\$ 3,070,873</b>	<b>\$ (31,994)</b>	<b>\$ 4,848,396</b>	
<b>2014</b>							
Balance, beginning of year	\$ 150,000	\$ 1,630,844	\$ 32,627	\$ 2,977,083	\$ (82,959)	\$ 4,707,595	
Net earnings	-	-	-	762,101	-	762,101	
Other comprehensive income (loss), net of tax	-	-	-	-	(27,759)	(27,759)	
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>762,101</b>	<b>(27,759)</b>	<b>734,342</b>	
Common shares							
Issued under stock option plan	-	35,137	-	-	-	35,137	
Purchased for cancellation	-	(10,400)	-	-	-	(10,400)	
Stock options							
Current period expense	-	-	5,744	-	-	5,744	
Exercised	-	-	(4,867)	-	-	(4,867)	
Perpetual preferred share dividends	-	-	-	(8,850)	-	(8,850)	
Common share dividends	-	-	-	(548,088)	-	(548,088)	
Common share cancellation excess and other (Note 16)	-	-	-	(69,734)	-	(69,734)	
<b>Balance, end of year</b>	<b>\$ 150,000</b>	<b>\$ 1,655,581</b>	<b>\$ 33,504</b>	<b>\$ 3,112,512</b>	<b>\$ (110,718)</b>	<b>\$ 4,840,879</b>	

(See accompanying notes to consolidated financial statements.)

# Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of Canadian dollars)

2015

2014

## Operating activities

Earnings before income taxes	\$ 990,792	\$ 964,963
Income taxes paid	(181,514)	(170,220)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	232,840	233,373
Amortization of capital and intangible assets	39,272	34,158
Changes in operating assets and liabilities and other	(209,709)	(65,743)
	<b>871,681</b>	996,531
Deferred selling commissions paid	(249,920)	(255,590)
	<b>621,761</b>	740,941

## Financing activities

Net increase in deposits and certificates	86,746	36,908
Net increase in obligations to securitization entities	335,983	1,184,643
Issue of common shares	14,231	34,015
Common shares purchased for cancellation	(288,367)	(79,500)
Perpetual preferred share dividends paid	(8,850)	(8,850)
Common share dividends paid	(560,147)	(542,250)
	<b>(420,404)</b>	624,966

## Investing activities

Purchase of securities	(127,947)	(87,195)
Proceeds from the sale of securities	167,446	71,664
Net increase in loans	(360,875)	(1,160,100)
Net additions to capital assets	(36,814)	(18,011)
Net cash used in additions to intangible assets and acquisitions	(76,131)	(38,722)
	<b>(434,321)</b>	(1,232,364)

(Decrease) increase in cash and cash equivalents	(232,964)	133,543
Cash and cash equivalents, beginning of year	1,215,980	1,082,437

**Cash and cash equivalents, end of year** **\$ 983,016** **\$ 1,215,980**

Cash	\$ 105,447	\$ 106,828
Cash equivalents	877,569	1,109,152
	<b>\$ 983,016</b>	<b>\$ 1,215,980</b>

## Supplemental disclosure of cash flow information related to operating activities

Interest and dividends received	\$ 250,602	\$ 238,344
Interest paid	\$ 221,308	\$ 218,452

(See accompanying notes to consolidated financial statements.)

# Notes to Consolidated Financial Statements

DECEMBER 31, 2015 AND 2014 (In thousands of Canadian dollars, except shares and per share amounts)

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## 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 Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

### Use of judgment, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment that significant influence exists for its investment in affiliate. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, deferred selling commissions, provisions and employee benefits. Actual results may differ from such estimates. Further detail of judgments and estimates are found in the remainder of Note 2 and in Notes 6, 8, 10, 12, 13, 14 and 22.

### Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The Company's investment in Great-West Lifeco Inc. (Lifeco) is accounted for using the equity method. The investment in Lifeco was initially recorded at cost and the carrying amount is increased or decreased to recognize the Company's share of Lifeco's comprehensive income and the dividends received since the date of acquisition.

### Revenue recognition

Management fees are based on the net asset value of investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis.

### Financial instruments

All financial assets are classified in one of the following categories: available for sale, fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Financial assets at fair value through profit or loss are financial assets classified as held for trading or upon initial recognition are designated by the Company as fair value through profit or loss. Financial assets are classified as held for trading if acquired with the intent to sell in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available for sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Financial instruments** *(continued)*

All financial assets are carried at fair value in the Consolidated Balance Sheets, except loans and receivables which are carried at amortized cost using the effective interest method. Financial liabilities are classified either as financial liabilities measured at amortized cost using the effective interest method or as fair value through profit or loss, which are carried at fair value.

Unrealized gains and losses on financial assets classified as available for sale as well as other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its affiliate, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

### **Securities**

Securities, which are recorded on a trade date basis, are classified as either available for sale or fair value through profit or loss.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary investment funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Earnings. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment in value, at which time they are reclassified to the Consolidated Statements of Earnings.

Fair value through profit or loss securities are held for trading and are comprised of fixed income and equity securities and investments in proprietary investment funds. Unrealized and realized gains and losses, dividends declared, and interest income on these securities are recorded in Net investment income and other in the Consolidated Statements of Earnings.

### **Loans**

Loans are classified as either held for trading or loans and receivables, based on the Company's intent to sell the loans in the near term.

Loans classified as held for trading are recorded at fair value, with changes in fair value recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans classified as loans and receivables are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, the collective allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by management suggests that losses have occurred but where such losses cannot yet be identified on an individual loan basis.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Derecognition**

The Company enters into transactions where it transfers financial assets recognized on its balance sheet. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in Net investment income and other in the Consolidated Statements of Earnings. The transactions for financial assets that are not derecognized are accounted for as secured financing transactions.

### **Deferred selling commissions**

Commissions paid on the sale of certain investment funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units or shares in investment funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by the Company. Any unamortized deferred selling commission asset recognized on the initial sale of these investment fund units or shares is recorded as a disposal. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

### **Capital assets**

Capital assets are recorded at cost of \$357.9 million at December 31, 2015 (2014 - \$321.9 million), less accumulated amortization of \$217.5 million (2014 - \$200.0 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### **Goodwill and intangible assets**

The Company tests the carrying value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

Investment fund management contracts have been assessed to have an indefinite useful life as the contractual right to manage the assets has no fixed term.

Trade names have been assessed to have an indefinite useful life as they contribute to the revenues of the Company's integrated asset management business as a whole and the Company intends to utilize them for the foreseeable future.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

### **Employee benefits**

The Company maintains a number of employee benefit plans including defined benefit plans and defined contribution pension plans for eligible employees. These plans are related parties in accordance with IFRS. The Company's defined benefit plans include a funded defined benefit pension plan for eligible employees, unfunded supplementary executive retirement plans (SERP) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Employee benefits** *(continued)*

The cost of the defined benefit plans is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company's accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Company determines the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Current service costs, past service costs and curtailment gains or losses are included in Non-commission expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate. Remeasurements are recognized immediately through Other comprehensive income (OCI) and are not reclassified to net earnings.

The accrued benefit liability represents the deficit related to defined benefit plans and is included in Other liabilities.

Payments to the defined contribution pension plans are expensed as incurred.

### **Share-based payments**

The Company uses the fair value based method to account for stock options granted to employees. The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

The Company recognizes a liability for cash settled awards including those granted under the Performance Share Unit plan and the Deferred Share Unit plan. Compensation expense is recognized over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

### **Provisions**

A provision is recognized if, as a result of a past event, the Company has a present obligation where a reliable estimate can be made, and it is probable that an outflow of resources will be required to settle the obligation.

### **Income taxes**

The Company uses the liability method in accounting for income taxes whereby deferred income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax loss carryforwards. Deferred income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

### **Earnings per share**

Basic earnings per share is determined by dividing Net earnings available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Derivative financial instruments**

Derivative financial instruments are utilized by the Company in the management of equity price and interest rate risks. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all hedging relationships, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets.

Derivative financial instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Earnings. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. These instruments are not designated as hedging instruments. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these derivatives are not designated as hedging instruments and changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Earnings.

Derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if specific hedge accounting requirements are not met.

### **Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheets when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

### **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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Future accounting changes *(continued)*

#### *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.

## 3. NON-COMMISSION EXPENSE

	2015	2014
Salaries and employee benefits	\$ 408,870	\$ 375,420
Client distributions and other costs <i>(Note 12)</i>	-	80,968
Occupancy	55,831	56,770
Amortization of capital and intangible assets	39,272	34,158
Other	378,996	330,180
	<b>\$ 882,969</b>	<b>\$ 877,496</b>

## 4. SECURITIES

	2015		2014	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Proprietary investment funds	\$ 5,941	\$ 6,092	\$ 9,614	\$ 10,220
Fair value through profit or loss:				
Equity securities	12,220	10,462	11,009	10,233
Proprietary investment funds	33,710	34,208	66,385	69,092
	<b>45,930</b>	<b>44,670</b>	77,394	79,325
	<b>\$ 51,871</b>	<b>\$ 50,762</b>	\$ 87,008	\$ 89,545

### Available for sale

#### *Proprietary investment funds*

The Company manages and provides services and earns management and administration fees, in respect of investment funds that are not recognized in the Consolidated Balance Sheets. As at December 31, 2015, there were \$127.5 billion in investment fund assets under management (2014 - \$126.0 billion). The Company's investments in proprietary investment funds are included on the Company's Consolidated Balance Sheets as available for sale securities. These investments are generally made in the process of launching a new fund and are sold as third party investors subscribe. This balance represents the Company's maximum exposure to loss associated with these investments.

#### 4. SECURITIES *(continued)*

##### Fair value through profit or loss

##### *Proprietary investment funds*

Certain investment funds are consolidated where the Company has made the assessment that it controls the investment fund. As at December 31, 2015, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments of \$6.0 million (2014 - \$8.8 million), equity securities of \$23.3 million (2014 - \$30.2 million) and fixed income securities of \$5.6 million (2014 - \$30.0 million). The underlying securities of these funds are classified as held for trading and recognized at fair value.

#### 5. LOANS

	CONTRACTUAL MATURITY			2015 TOTAL	2014 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
<b>Loans and receivables</b>					
Residential mortgages	\$ 1,164,599	\$ 5,841,619	\$ 2,718	\$ 7,008,936	\$ 6,653,428
Less: Collective allowance				705	762
				<b>7,008,231</b>	6,652,666
<b>Held for trading</b>				<b>384,217</b>	366,227
				<b>\$ 7,392,448</b>	\$ 7,018,893
The change in the collective allowance for credit losses is as follows:					
Balance, beginning of year				\$ 762	\$ 728
Write-offs, net of recoveries				(132)	(236)
Provision for credit losses				75	270
Balance, end of year				\$ 705	\$ 762

Total impaired loans as at December 31, 2015 were \$2,902 (2014 - \$2,056).

Total interest income on loans classified as loans and receivables was \$189.2 million (2014 - \$179.1 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$132.1 million (2014 - \$130.2 million). Gains realized on the sale of residential mortgages totalled \$20.7 million (2014 - \$14.8 million). Fair value adjustments related to mortgage banking operations totalled \$(1.3) million (2014 - \$0.2 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.

## 6. 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 offsetting liabilities for the net proceeds received as Obligations to securitization entities which are 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 \$47.4 million at December 31, 2015 (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.

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
<b>2015</b>			
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)
<b>2014</b>			
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.

## 7. OTHER ASSETS

	2015	2014
Deferred and prepaid expenses	<b>\$ 43,224</b>	\$ 39,635
Other	<b>11,702</b>	6,122
	<b>\$ 54,926</b>	\$ 45,757

Total other assets of \$20.9 million as at December 31, 2015 (2014 - \$18.4 million) are expected to be realized within one year.

## 8. INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's investment in Lifeco. Lifeco is a publicly listed company that is incorporated and domiciled in Canada and is controlled by Power Financial Corporation. Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia.

At December 31, 2015, the Company held 39,737,388 (2014 - 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (2014 - 4.0%). The Company uses the equity method to account for its investment in Lifeco as it exercises significant influence. Significant influence arises from several factors, including but not limited to, the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies. The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings.

	2015	2014
Balance, beginning of year	<b>\$ 794,381</b>	\$ 717,775
Proportionate share of earnings	<b>110,950</b>	96,458
Dividends received	<b>(51,818)</b>	(48,877)
Proportionate share of other comprehensive income (loss) and other adjustments	<b>50,744</b>	29,025
Balance, end of year	<b>\$ 904,257</b>	\$ 794,381
Share of equity, end of year	<b>\$ 776,386</b>	\$ 663,018
Fair value, end of year	<b>\$ 1,371,337</b>	\$ 1,334,779

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2015.

Lifeco's financial information as at December 31, 2015 can be obtained in its publicly available information.



## 9. DEFERRED SELLING COMMISSIONS

	2015	2014
Cost	<b>\$ 1,356,177</b>	\$ 1,346,530
Less: accumulated amortization	<b>(628,650)</b>	(636,083)
	<b>\$ 727,527</b>	\$ 710,447
Changes in deferred selling commissions:		
Balance, beginning of year	<b>\$ 710,447</b>	\$ 688,230
Changes due to:		
Sales of investment funds	<b>249,920</b>	255,590
Amortization	<b>(232,840)</b>	(233,373)
	<b>17,080</b>	22,217
Balance, end of year	<b>\$ 727,527</b>	\$ 710,447

Amortization of deferred selling commissions includes \$30.3 million (2014 - \$30.0 million) of disposals related to redemption activity and is recorded in Commission expense in the Consolidated Statements of Earnings.

## 10. GOODWILL AND INTANGIBLE ASSETS

The components of goodwill and intangible assets are as follows:

	FINITE LIFE		INDEFINITE LIFE			TOTAL INTANGIBLE ASSETS	GOODWILL
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES			
<b>2015</b>							
Cost	\$ 225,617	\$ 112,278	\$ 740,559	\$ 285,177	\$ 1,363,631	\$ 2,659,856	
Less: accumulated amortization	(81,264)	(62,647)	–	–	(143,911)	–	
	\$ 144,353	\$ 49,631	\$ 740,559	\$ 285,177	\$ 1,219,720	\$ 2,659,856	
Changes in goodwill and intangible assets:							
Balance, beginning of year	\$ 80,167	\$ 55,610	\$ 740,559	\$ 285,177	\$ 1,161,513	\$ 2,656,539	
Additions	72,321	1,743	–	–	74,064	3,317	
Disposals	–	(589)	–	–	(589)	–	
Amortization	(8,135)	(7,133)	–	–	(15,268)	–	
Balance, end of year	\$ 144,353	\$ 49,631	\$ 740,559	\$ 285,177	\$ 1,219,720	\$ 2,659,856	
<b>2014</b>							
Cost	\$ 153,296	\$ 111,124	\$ 740,559	\$ 285,177	\$ 1,290,156	\$ 2,656,539	
Less: accumulated amortization	(73,129)	(55,514)	–	–	(128,643)	–	
	\$ 80,167	\$ 55,610	\$ 740,559	\$ 285,177	\$ 1,161,513	\$ 2,656,539	
Changes in goodwill and intangible assets:							
Balance, beginning of year	\$ 48,818	\$ 62,296	\$ 740,559	\$ 285,177	\$ 1,136,850	\$ 2,655,859	
Additions	37,701	1,041	–	–	38,742	680	
Disposals	–	(369)	–	–	(369)	–	
Amortization	(6,352)	(7,358)	–	–	(13,710)	–	
Balance, end of year	\$ 80,167	\$ 55,610	\$ 740,559	\$ 285,177	\$ 1,161,513	\$ 2,656,539	

## 10. GOODWILL AND INTANGIBLE ASSETS *(continued)*

The goodwill and indefinite life intangible assets consisting of investment fund management contracts and trade names are allocated to each cash generating unit (CGU) as summarized in the following table:

	2015		2014	
	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
Investors Group	\$ 1,347,781	\$ -	\$ 1,347,781	\$ -
Mackenzie	1,168,580	1,002,681	1,168,580	1,002,681
Other	143,495	23,055	140,178	23,055
Total	\$ 2,659,856	\$ 1,025,736	\$ 2,656,539	\$ 1,025,736

The Company tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of the Company's CGUs is based on the best available evidence of fair value less costs of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

The fair value less costs of disposal of the Company's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of CGUs can result in significant adjustments to the valuation of the CGUs.

## 11. DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other financial liabilities measured at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, loans, and accounts and other receivables amounting to \$310.1 million (2014 - \$223.3 million) related to deposits and certificates.

	TERM TO MATURITY				2015 TOTAL	2014 TOTAL
	DEMAND	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Deposits	\$ 291,748	\$ 6,938	\$ 7,111	\$ 1,062	\$ 306,859	\$ 219,845
Certificates	-	52	1,272	1,891	3,215	3,483
	\$ 291,748	\$ 6,990	\$ 8,383	\$ 2,953	\$ 310,074	\$ 223,328

## 12. OTHER LIABILITIES

	2015	2014
Dividends payable	\$ 139,965	\$ 143,662
Interest payable	21,131	22,029
Client distributions and other costs	-	80,968
Accrued benefit liabilities (Note 13)	208,182	211,209
Provisions	37,992	29,062
Other	41,748	41,359
	<b>\$ 449,018</b>	<b>\$ 528,289</b>

In the third quarter of 2012, Investors Group introduced investment solutions for clients with household investments in Investors Group funds in excess of \$500 thousand. At December 31, 2014, an estimated accrual of \$81.0 million was recorded related to these lower fee investment solutions. During 2015, additional amounts of \$9.3 million were recorded. These amounts, which were paid in 2015, primarily reflect distributions to clients who did not transfer to these lower-priced solutions when eligible.

The Company establishes restructuring provisions related to business acquisitions, divestitures and other items, as well as other provisions in the normal course of its operations. Changes in provisions during 2015 consisted of additional estimates of \$17.9 million, provision reversals of \$0.4 million and payments of \$8.6 million.

Total other liabilities of \$215.5 million as at December 31, 2015 (2014 - \$290.3 million) are expected to be settled within one year.

## 13. EMPLOYEE BENEFITS

### Defined benefit plans

The Company maintains a number of employee pension and post-employment benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans (SERPs) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

Effective July 1, 2012, the defined benefit pension plan was closed to new members. For all eligible employees hired after July 1, 2012, the Company has a registered defined contribution pension plan.

The defined benefit pension plan is a separate trust that is legally separated from the Company. The defined benefit pension plan is registered under the Pension Benefits Act of Manitoba (Act) and the Income Tax Act (ITA). As required by the Act, the defined benefit pension plan is governed by a pension committee which includes current and retired employees. The Pension Committee has certain responsibilities as described in the Act but may delegate certain activities to the Company. The ITA governs the employer's ability to make contributions and also has parameters that the plan must meet with respect to investments in foreign property.

The defined benefit pension plan provides lifetime pension benefits to all eligible employees based on length of service and final average earnings subject to limits established by the ITA. Death benefits are available on the death of an active member or a retired member.

Employees who are not senior officers are required to make annual contributions based on a percentage of salaries which are subject to a maximum amount.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$23.4 million compared to \$106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. During 2015, the Company made contributions of \$19.6 million (2014 - \$19.4 million). The Company expects to make contributions of approximately \$19.3 million in 2016. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. The next required actuarial valuation will be based on a measurement date of December 31, 2016.

### 13. EMPLOYEE BENEFITS *(continued)*

#### Defined benefit plans *(continued)*

The SERPs are non-registered, non-contributory defined benefit plans which provide supplementary benefits to certain retired executives.

The other post-employment benefit plan is a non-contributory plan and provides eligible employees a reimbursement of medical costs or a fixed amount per year to cover medical costs during retirement.

The SERPs and other post-employment benefit plans are managed by the Company with oversight from the Board of Directors.

The defined benefit plans expose the Company to actuarial risks such as mortality risk which represents life expectancy and impacts the calculation of the obligations; interest rate risk which impacts the discount rate used to calculate the obligations and the actual return on plan assets; salary risk as estimated salary increases are used in the calculation of the obligations; and investment risk as the nature of the investments impact the actual return on the plan assets. The risks are managed by regular monitoring of the plans, applicable regulations and other factors that could impact the Company's expenses and cash flows.

Plan assets, benefit obligations and funded status:

	2015			2014		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS
<b>Fair value of plan assets</b>						
Balance, beginning of year	\$ 310,095	\$ –	\$ –	\$ 275,950	\$ –	\$ –
Employee contributions	3,687	–	–	3,813	–	–
Employer contributions	19,593	–	–	19,384	–	–
Benefits paid	(11,466)	–	–	(11,232)	–	–
Interest income	12,956	–	–	14,282	–	–
Remeasurements:						
– Return on plan assets	1,413	–	–	7,898	–	–
Balance, end of year	336,278	–	–	310,095	–	–
<b>Accrued benefit obligation</b>						
Balance, beginning of year	415,946	54,392	50,966	319,690	47,106	44,265
Benefits paid	(11,466)	(1,527)	(1,994)	(11,232)	(1,548)	(2,054)
Current service cost	22,723	1,299	1,455	15,513	1,168	1,199
Past service costs	–	–	2,461	–	–	–
Employee contributions	3,687	–	–	3,813	–	–
Interest expense	16,890	2,118	2,038	15,986	2,240	2,030
Remeasurements:						
Actuarial losses (gains)						
– Demographic assumption	1,803	–	(3,545)	11,535	697	1,160
– Experience adjustments	(907)	879	(904)	104	(1,015)	(103)
– Financial assumptions	(9,509)	(680)	(1,665)	60,537	5,744	4,469
Balance, end of year	439,167	56,481	48,812	415,946	54,392	50,966
<b>Accrued benefit liability</b>	<b>\$ 102,889</b>	<b>\$ 56,481</b>	<b>\$ 48,812</b>	<b>\$ 105,851</b>	<b>\$ 54,392</b>	<b>\$ 50,966</b>

### 13. EMPLOYEE BENEFITS *(continued)*

#### Defined benefit plans *(continued)*

Significant actuarial assumptions used to calculate the defined benefit obligation:

	2015			2014		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	4.25%	3.85%-4.15%	3.90%	4.10%	2.05%-4.15%	3.90%
Rate of compensation increase	3.90%	3.75%	N/A	3.90%	3.75%	N/A
Health care cost trend rate <sup>(1)</sup>	N/A	N/A	5.89%	N/A	N/A	5.91%
Mortality rates at age 65 for current pensioners	23.3 years	23.3 years	23.3 years	23.3 years	23.3 years	23.3 years

(1) Trending to 4.50% in 2034 and remaining at that rate thereafter.

The weighted average duration of the pension plans' defined benefit obligation at the end of the reporting period is 18.1 years (2014 - 18.4 years).

Benefit expense:

	2015			2014		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	\$ 22,723	\$ 1,299	\$ 1,455	\$ 15,513	\$ 1,168	\$ 1,199
Past service costs	—	—	2,461	—	—	—
Net interest cost	3,934	2,118	2,038	1,704	2,240	2,030
	\$ 26,657	\$ 3,417	\$ 5,954	\$ 17,217	\$ 3,408	\$ 3,229

### 13. EMPLOYEE BENEFITS *(continued)*

#### Defined benefit plans *(continued)*

Sensitivity analysis:

The calculation of the accrued benefit liability and the related benefit expense are sensitive to the significant actuarial assumptions. The following table presents the sensitivity analysis:

	2015		2014	
	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE
<b>Defined benefit pension plan</b>				
Discount rate (+ / - 0.25%)				
Increase	\$ (18,004)	\$ (1,797)	\$ (17,708)	\$ (1,677)
Decrease	19,237	1,854	18,947	1,733
Rate of compensation increase (+ / - 0.25%)				
Increase	7,014	855	6,286	682
Decrease	(6,914)	(842)	(6,223)	(669)
Mortality				
Increase 1 year	7,461	823	8,951	722
<b>SERPs</b>				
Discount rate (+ / - 0.25%)				
Increase	(1,697)	19	(1,723)	7
Decrease	1,779	(22)	1,809	(9)
Rate of compensation increase (+ / - 0.25%)				
Increase	132	26	154	28
Decrease	(131)	(26)	(152)	(28)
Mortality				
Increase 1 year	1,236	57	1,218	54
<b>Other post-employment benefits</b>				
Discount rate (+ / - 0.25%)				
Increase	(1,346)	23	(1,460)	11
Decrease	1,410	(26)	1,531	(13)
Health care cost trend rates (+ / - 1.00%)				
Increase	1,922	75	3,104	120
Decrease	(1,654)	(64)	(2,617)	(102)
Mortality				
Increase 1 year	1,370	71	1,708	88

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in certain assumptions may be correlated.

### 13. EMPLOYEE BENEFITS *(continued)*

#### Defined benefit plans *(continued)*

Asset allocation of defined benefit pension plan by asset category:

	2015	2014
Equity securities	67.7 %	64.3 %
Fixed income securities	29.1	33.5
Cash and cash equivalents	3.2	2.2
	100.0 %	100.0 %

The defined benefit pension plan adheres to its Statement of Investment Policies and Procedures which includes investment objectives, asset allocation guidelines and investment limits by asset class. The defined benefit pension plan assets are invested in proprietary investment funds with the exception of cash on deposit with Schedule I Canadian chartered banks.

#### Defined contribution pension plans

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Non-commission expense was \$2.0 million (2014 - \$1.4 million).

#### Group Retirement Savings Plan (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Non-commission expense as paid and totalled \$6.2 million (2014 - \$6.4 million).

### 14. INCOME TAXES

Income tax expense:

	2015	2014
<b>Income taxes recognized in net earnings</b>		
Current taxes		
Tax on current year's earnings	\$ 216,966	\$ 196,947
Adjustments in respect of prior years	(4,342)	(17,783)
	212,624	179,164
Deferred taxes	(2,374)	23,698
	\$ 210,250	\$ 202,862

Effective income tax rate:

	2015	2014
Income taxes at Canadian federal and provincial statutory rates	26.72 %	26.58 %
Effect of:		
Proportionate share of affiliate's earning <i>(Note 8)</i>	(3.01)	(2.68)
Tax loss consolidation <i>(Note 25)</i>	(2.44)	(2.06)
Other items	(0.05)	(0.82)
Effective income tax rate	21.22 %	21.02 %



## 14. INCOME TAXES *(continued)*

### Deferred income taxes

Sources of deferred income taxes:

	2015	2014
Deferred income tax assets		
Accrued benefit liabilities	\$ 56,180	\$ 57,000
Loss carryforwards	4,555	5,607
Other	47,440	42,679
	<b>108,175</b>	105,286
Deferred income tax liabilities		
Deferred selling commissions	195,090	189,820
Intangible assets	141,369	141,287
Other	15,119	15,338
	<b>351,578</b>	346,445
	<b>\$ 243,403</b>	\$ 241,159

Deferred income tax assets and liabilities are presented on the Consolidated Balance Sheets as follows:

	2015	2014
Deferred income tax assets	\$ 64,946	\$ 69,405
Deferred income tax liabilities	308,349	310,564
	<b>\$ 243,403</b>	\$ 241,159

As at December 31, 2014, the Company had non-capital losses of \$7.9 million available to reduce future taxable income, the benefit of which had not been recognized.

## 15. LONG-TERM DEBT

MATURITY	RATE	SERIES	2015	2014
March 7, 2018	6.58%	2003	\$ 150,000	\$ 150,000
April 8, 2019	7.35%	2009	375,000	375,000
December 13, 2027	6.65%	1997	125,000	125,000
May 9, 2031	7.45%	2001	150,000	150,000
December 31, 2032	7.00%	2002	175,000	175,000
March 7, 2033	7.11%	2003	150,000	150,000
December 10, 2040	6.00%	2010	200,000	200,000
			<b>\$ 1,325,000</b>	\$ 1,325,000

Long-term debt consists of unsecured debentures which are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Long-term debt is classified as other financial liabilities and is carried at amortized cost.

Interest expense relating to long-term debt was \$92.1 million (2014 - \$92.2 million).

## 16. 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

	2015		2014	
	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 year	251,469,346	\$ 1,655,581	252,309,767	\$ 1,630,844
Issued under Stock Option Plan (Note 18)	337,292	14,908	747,379	35,137
Purchased for cancellation	(7,018,500)	(46,541)	(1,587,800)	(10,400)
Balance, end of year	244,788,138	\$ 1,623,948	251,469,346	\$ 1,655,581

### Normal course issuer bid

In 2015, 7,018,500 (2014 - 1,587,800) shares were purchased at a cost of \$288.4 million (2014 - \$79.5 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.

## 17. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

## 17. CAPITAL MANAGEMENT *(continued)*

The total outstanding long-term debt was \$1,325.0 million at December 31, 2015, unchanged from December 31, 2014. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of \$150 million at December 31, 2015 remain unchanged from December 31, 2014.

The Company purchased 7,018,500 common shares during the year ended December 31, 2015 at a cost of \$288.4 million under its normal course issuer bid (Note 16). The Company commenced a normal course issuer bid on March 20, 2015 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in 2015 included the declaration of perpetual preferred share dividends of \$8.9 million or \$1.475 per share and common share dividends of \$556.5 million or \$2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

## 18. SHARE-BASED PAYMENTS

### Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date. 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. At December 31, 2015, 21,030,691 (2014 - 21,367,983) common shares were reserved for issuance under the Plan.

During 2015, the Company granted 1,295,770 options to employees (2014 - 1,024,685). The weighted-average fair value of options granted during the year ended December 31, 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:

	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. Stock options were exercised regularly throughout 2015 and the average share price in 2015 was \$40.67.

## 18. SHARE-BASED PAYMENTS *(continued)*

### Stock option plan *(continued)*

The Company recorded compensation expense related to its stock option program of \$4.4 million (2014 - \$5.7 million).

	2015		2014	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	6,940,248	\$ 44.57	7,442,999	\$ 42.87
Granted	1,295,770	43.97	1,024,685	53.81
Exercised	(337,292)	37.12	(747,379)	40.50
Forfeited	(457,561)	44.59	(780,057)	44.42
Balance, end of year	7,441,165	\$ 44.80	6,940,248	\$ 44.57
Exercisable, end of year	3,526,658	\$ 44.28	3,124,226	\$ 43.12

Options outstanding at December 31, 2015	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2016	46.68	244,935	244,935
	2017	50.60 - 50.92	553,760	553,760
	2018	43.19 - 44.60	285,840	285,840
	2019	26.67 - 44.00	731,236	372,074
	2020	40.45 - 42.82	796,767	681,147
	2021	42.49 - 46.72	611,103	443,668
	2022	45.56 - 47.23	894,507	449,163
	2023	44.73 - 47.26	1,138,195	347,280
	2024	53.81	936,262	148,791
	2025	43.28 - 43.97	1,248,560	-
			7,441,165	3,526,658

### Performance share unit plan

The Company has a Performance Share Unit (PSU) plan for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. Under the terms of the plan, PSUs are awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Company's common shares. The PSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional PSUs and deferred share units are issued in respect of dividends payable on common shares based on a value of the PSU or deferred share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of \$4.3 million in 2015 (2014 - \$7.4 million) and a liability of \$11.6 million at December 31, 2015 (2014 - \$14.2 million).

## 18. SHARE-BASED PAYMENTS *(continued)*

### Share purchase plans

Under the Company's share purchase plans, eligible employees and Investors Group consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled \$12.0 million (2014 - \$11.4 million).

### Deferred share unit plan

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual board retainer in the form of DSUs and may elect to receive the balance of their annual board retainer in cash or DSUs. Directors may elect to receive certain fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of DSU). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a DSU at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by cash payments, based on the value of the deferred share units at that time. At December 31, 2015, the fair value of the DSUs outstanding was \$12.3 million (2014 - \$18.9 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

## 19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
<b>2015</b>				
Balance, beginning of year	\$ (123,510)	\$ 194	\$ 12,598	\$ (110,718)
Other comprehensive income (loss)	11,636	2,464	64,624	78,724
Balance, end of year	\$ (111,874)	\$ 2,658	\$ 77,222	\$ (31,994)
<b>2014</b>				
Balance, beginning of year	\$ (68,593)	\$ 420	\$ (14,786)	\$ (82,959)
Other comprehensive income (loss)	(54,917)	(226)	27,384	(27,759)
Balance, end of year	\$ (123,510)	\$ 194	\$ 12,598	\$ (110,718)

Amounts are recorded net of tax.

## 20. RISK MANAGEMENT

The Company actively manages its liquidity, credit and market risks.

### Liquidity and funding risk related to financial instruments

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by Committees of the Board of Directors.

A key funding requirement for the Company is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of the Company are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in Principal Reinvestment Accounts.

The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

The Company's contractual maturities of certain financial liabilities were as follows:

As at December 31, 2015 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 18.9	\$ 38.9	\$ -	\$ 57.8
Deposits and certificates	291.8	7.0	8.4	2.9	310.1
Obligations to securitization entities	-	1,234.8	5,798.9	58.7	7,092.4
Long-term debt	-	-	525.0	800.0	1,325.0
Pension funding <sup>(1)</sup>	-	19.3	-	-	19.3
<b>Total contractual maturities</b>	<b>\$ 291.8</b>	<b>\$ 1,280.0</b>	<b>\$ 6,371.2</b>	<b>\$ 861.6</b>	<b>\$ 8,804.6</b>

(1) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2016 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$525 million as at December 31, 2015, unchanged from December 31, 2014. The lines of credit as at December 31, 2015 consisted of committed lines of \$350 million (2014 - \$350 million) and uncommitted lines of \$175 million (2014 - \$175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2015 and December 31, 2014, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2014.

## 20. RISK MANAGEMENT *(continued)*

### Credit risk related to financial instruments

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations. The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2015, cash and cash equivalents of \$983.0 million (2014 - \$1,216.0 million) consisted of cash balances of \$105.4 million (2014 - \$106.8 million) on deposit with Canadian chartered banks and cash equivalents of \$877.6 million (2014 - \$1,109.2 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$132.2 million (2014 - \$190.8 million), provincial government and government guaranteed commercial paper of \$446.6 million (2014 - \$665.8 million) and bankers' acceptances issued by Canadian chartered banks of \$298.8 million (2014 - \$252.6 million). The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2015, residential mortgages, recorded on the Company's balance sheet, of \$7.4 billion (2014 - \$7.0 billion) consisted of \$7.0 billion sold to securitization programs (2014 - \$6.6 billion), \$384.2 million held pending sale or securitization (2014 - \$366.2 million) and \$27.7 million related to the Company's intermediary operations (2014 - \$29.5 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling \$4.6 billion (2014 - \$4.6 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.4 billion (2014 - \$2.0 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$47.7 million (2014 - \$35.1 million) and \$38.9 million (2014 - \$30.0 million), respectively, at December 31, 2015. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 36.6% of mortgages held in ABCP Trusts insured at December 31, 2015 (2014 - 51.0%).

At December 31, 2015, residential mortgages recorded on balance sheet were 76.8% insured (2014 - 83.7%). As at December 31, 2015, impaired mortgages on these portfolios were \$2.9 million, compared to \$2.1 million at December 31, 2014. Uninsured non-performing mortgages over 90 days on these portfolios were \$1.4 million at December 31, 2015, compared to \$0.3 million at December 31, 2014.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

## **20. RISK MANAGEMENT** *(continued)*

### **Credit risk related to financial instruments** *(continued)*

The Company regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

The Company's collective allowance for credit losses was \$0.7 million at December 31, 2015, compared to \$0.8 million at December 31, 2014, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2014.

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfill their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$58.4 million (2014 - \$43.3 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$1.0 million at December 31, 2015 (2014 - \$2.5 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2015. Management of credit risk related to derivatives has not changed materially since December 31, 2014.



## 20. RISK MANAGEMENT *(continued)*

### **Market risk related to financial instruments**

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars and do not have significant exposure to changes in foreign exchange rates.

### ***Interest Rate Risk***

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$47.4 million (2014 - negative \$26.3 million) and an outstanding notional value of \$740 million at December 31, 2015 (2014 - \$437 million). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$54.5 million (2014 - \$35.2 million), on an outstanding notional amount of \$1.8 billion at December 31, 2015 (2014 - \$2.0 billion). The net fair value of these swaps of \$7.1 million at December 31, 2015 (2014 - \$8.9 million) are recorded on balance sheet and have an outstanding notional amount of \$2.6 billion (2014 - \$2.4 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. The negative fair value of these swaps totalled \$0.1 million (2014 - negative \$0.5 million) on an outstanding notional amount of \$88 million at December 31, 2015 (2014 - \$101 million).

As at December 31, 2015, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$0.7 million (2014 - decrease of \$2.2 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2014.

### ***Equity Price Risk***

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and on its equity securities and proprietary investment funds which are classified as fair value through profit or loss (Note 4).

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

### **Risks related to assets under management**

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are counterparties to the Company's securitization transactions. In all cases, the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Forward contracts are contractual agreements to buy or sell a financial instrument on a future date at a specified price.

Certain of the Company's derivative financial instruments are subject to master netting arrangements and are presented on a gross basis. The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position and recorded as assets on the Consolidated Balance Sheets. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments:

	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
<b>2015</b>							
Swaps	\$ 743,122	\$ 1,929,462	\$ 2,901	\$ 2,675,485	\$ 58,364	\$ 58,364	\$ 52,621
Forward contracts	7,848	18,661	–	26,509	–	–	5,215
	<b>\$ 750,970</b>	<b>\$ 1,948,123</b>	<b>\$ 2,901</b>	<b>\$ 2,701,994</b>	<b>\$ 58,364</b>	<b>\$ 58,364</b>	<b>\$ 57,836</b>
<b>2014</b>							
Swaps	\$ 936,850	\$ 1,657,116	\$ 423	\$ 2,594,389	\$ 37,822	\$ 37,822	\$ 28,660
Forward contracts	7,760	18,476	–	26,236	1,627	1,627	1,128
	<b>\$ 944,610</b>	<b>\$ 1,675,592</b>	<b>\$ 423</b>	<b>\$ 2,620,625</b>	<b>\$ 39,449</b>	<b>\$ 39,449</b>	<b>\$ 29,788</b>

The credit risk related to the Company's derivative financial instruments after giving effect to any netting agreements was \$1.8 million (2014 - \$10.4 million).

The credit risk related to the Company's derivative financial instruments after giving effect to netting agreements and including rights to future net interest income, was \$1.0 million (2014 - \$2.5 million). Rights to future net interest income are related to the Company's securitization activities and are not reflected on the Consolidated Balance Sheets.

## 22. 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.

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.

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

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.

2015	CARRYING VALUE	FAIR VALUE			TOTAL
		LEVEL 1	LEVEL 2	LEVEL 3	
<b>Financial assets recorded</b>					
<b>at fair value</b>					
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
<b>Financial assets recorded</b>					
<b>at amortized cost</b>					
Loans					
– Loans and receivables	7,008,231	–	27,856	7,238,046	7,265,902
<b>Financial liabilities recorded</b>					
<b>at fair value</b>					
Derivative financial instruments	57,836	–	10,422	47,414	57,836
Other financial liabilities	4,145	4,145	–	–	4,145
<b>Financial liabilities recorded</b>					
<b>at amortized cost</b>					
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

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

2014	CARRYING VALUE	FAIR VALUE			TOTAL
		LEVEL 1	LEVEL 2	LEVEL 3	
<b>Financial assets recorded at fair value</b>					
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
<b>Financial assets recorded at amortized cost</b>					
Loans					
– Loans and receivables	6,652,666	–	29,749	6,819,531	6,849,280
<b>Financial liabilities recorded at fair value</b>					
Derivative financial instruments	29,788	–	3,461	26,327	29,788
Other financial liabilities	6,585	6,585	–	–	6,585
<b>Financial liabilities recorded at amortized cost</b>					
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.

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

2015	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS <sup>(1)</sup>	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME <sup>(2)</sup>	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE DECEMBER 31
<b>Assets</b>							
Securities							
– Held for trading	\$ 1,603	\$ 21	\$ –	\$ 69	\$ –	\$ (405)	\$ 1,288
Other financial assets <sup>(3)</sup>	–	–	3,562	–	–	5,711	9,273
<b>Liabilities</b>							
Derivative financial instruments, net	26,327	(33,929)	–	(143)	12,699	–	47,414
2014							
<b>Assets</b>							
Securities							
– Held for trading	\$ 1,446	\$ 964	\$ –	\$ 138	\$ 945	\$ –	\$ 1,603
<b>Liabilities</b>							
Derivative financial instruments, net	16,163	(25,458)	–	(1,413)	13,881	–	26,327

(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.

## 23. EARNINGS PER COMMON SHARE

	2015	2014
<b>Earnings</b>		
Net earnings	\$ 780,542	\$ 762,101
Perpetual preferred share dividends	8,850	8,850
Net earnings available to common shareholders	\$ 771,692	\$ 753,251
<b>Number of common shares (in thousands)</b>		
Average number of common shares outstanding	248,173	252,108
Add:		
– Potential exercise of outstanding stock options <sup>(1)</sup>	126	670
Average number of common shares outstanding – Diluted basis	248,299	252,778
<b>Earnings per common share (in dollars)</b>		
Basic	\$ 3.11	\$ 2.99
Diluted	\$ 3.11	\$ 2.98

(1) Excludes 1,145 thousand shares in 2015 related to outstanding stock options that were anti-dilutive (2014 - 140 thousand).

## 24. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

### Contingent liabilities

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

### Commitments

The Company is committed to the following annual future minimum lease payments under its operating leases: 2016 - \$26.5 million; 2017 - \$24.1 million; 2018 - \$20.3 million; 2019 - \$16.2 million; and 2020 and thereafter - \$52.6 million.

### Guarantees

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

## 25. RELATED PARTY TRANSACTIONS

### Transactions and balances with related entities

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco, which is a subsidiary of Power Financial Corporation. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2015 and 2014, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received \$70.9 million in distribution fees (2014 - \$71.6 million). The Company received \$17.5 million (2014 - \$18.1 million) and paid \$21.2 million (2014 - \$18.7 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid \$72.0 million (2014 - \$67.3 million) to London Life related to the distribution of certain investment funds of the Company.
- During 2015, the Company sold residential mortgage loans to Great-West and London Life for \$205.6 million (2014 - \$183.6 million).

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.

### Key management compensation

The total compensation and other benefits to directors and employees classified as key management, being individuals having authority and responsibility for planning, directing and controlling the activities of the Company, are as follows:

	2015	2014
Compensation and employee benefits	\$ 4,451	\$ 4,218
Post-employment benefits	1,215	3,313
Share-based payments	3,973	3,572
	<b>\$ 9,639</b>	<b>\$ 11,103</b>

Share-based payments exclude the fair value remeasurement of the deferred share units associated with changes in the Company's share price (Note 18).

## 26. 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 (Note 8), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

	2015			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 1,277,897	\$ 700,149	\$ 60,935	\$ 2,038,981
Administration fees	302,797	98,521	16,245	417,563
Distribution fees	195,533	10,602	173,423	379,558
Net investment income and other	70,048	5,985	119,157	195,190
	<b>1,846,275</b>	<b>815,257</b>	<b>369,760</b>	<b>3,031,292</b>
Expenses				
Commission	586,267	304,484	171,318	1,062,069
Non-commission	499,333	294,493	58,575	852,401
	<b>1,085,600</b>	<b>598,977</b>	<b>229,893</b>	<b>1,914,470</b>
Earnings before undernoted	<b>\$ 760,675</b>	<b>\$ 216,280</b>	<b>\$ 139,867</b>	<b>1,116,822</b>
Interest expense				(92,115)
Restructuring and other charges				(33,915)
Earnings before income taxes				990,792
Income taxes				210,250
Net earnings				780,542
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				<b>\$ 771,692</b>
Identifiable assets	<b>\$ 8,683,223</b>	<b>\$ 1,330,639</b>	<b>\$ 2,157,363</b>	<b>\$ 12,171,225</b>
Goodwill	1,347,781	1,168,580	143,495	2,659,856
Total assets	<b>\$10,031,004</b>	<b>\$ 2,499,219</b>	<b>\$ 2,300,858</b>	<b>\$ 14,831,081</b>



## 26. SEGMENTED INFORMATION *(continued)*

2014

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 1,251,287	\$ 706,247	\$ 56,552	\$ 2,014,086
Administration fees	278,596	105,499	13,140	397,235
Distribution fees	179,115	11,495	160,647	351,257
Net investment income and other	51,381	2,682	112,205	166,268
	1,760,379	825,923	342,544	2,928,846
<b>Expenses</b>				
Commission	537,620	298,678	156,375	992,673
Non-commission	445,671	281,393	52,710	779,774
	983,291	580,071	209,085	1,772,447
Earnings before undernoted	\$ 777,088	\$ 245,852	\$ 133,459	1,156,399
Interest expense				(92,152)
Client distributions and other costs				(80,968)
Restructuring and other charges				(18,316)
Earnings before income taxes				964,963
Income taxes				202,862
Net earnings				762,101
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				\$ 753,251
<b>Identifiable assets</b>				
Identifiable assets	\$ 8,209,063	\$ 1,340,765	\$ 2,210,814	\$ 11,760,642
Goodwill	1,347,781	1,168,580	140,178	2,656,539
Total assets	\$ 9,556,844	\$ 2,509,345	\$ 2,350,992	\$ 14,417,181