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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2016 and 2015 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2016 is as of February 10, 2017.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 2 of the Consolidated Financial Statements).

PRINCIPAL HOLDERS OF VOTING SHARES

As at December 31, 2016, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 61.5% and 3.8%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided to assist the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries,

and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by applicable Canadian law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Operating earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Operating earnings available to common shareholders", "operating diluted earnings per share" (EPS) and "operating return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization" (EBITDA) and "adjusted earnings before interest, taxes, depreciation and amortization" (Adjusted EBITDA) are also non-IFRS financial measures. EBIT, EBITDA

and Adjusted EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is a common measure used in the asset management industry to assess profitability before the impact of different financing methods, income taxes, depreciation of capital assets and amortization of intangible assets. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at Adjusted EBITDA. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 and 2.

IGM FINANCIAL INC.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

IGM Financial Inc. (TSX:IGM) is one of Canada's premier financial services companies. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly, primarily within the advice segment of the financial services market.

Mutual fund assets under management were \$137.1 billion at December 31, 2016 compared with \$127.5 billion at December 31, 2015. Average mutual fund assets under management for the year ended December 31, 2016 were \$129.8 billion compared to \$129.4 billion in 2015.

Total assets under management were \$141.8 billion at December 31, 2016 compared with \$133.6 billion at December 31, 2015, as detailed in Tables 4 and 5. Average total assets under management for the year ended December 31, 2016 were \$135.6 billion compared to \$140.4 billion in 2015.

Net earnings available to common shareholders for the year ended December 31, 2016 were \$770.5 million or \$3.19 per share compared to net earnings available to common shareholders of \$771.7 million or \$3.11 per share in 2015.

Operating earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2016 were \$736.5 million or \$3.05 per share compared to operating earnings available to common shareholders of \$796.0 million or \$3.21 per share in 2015.

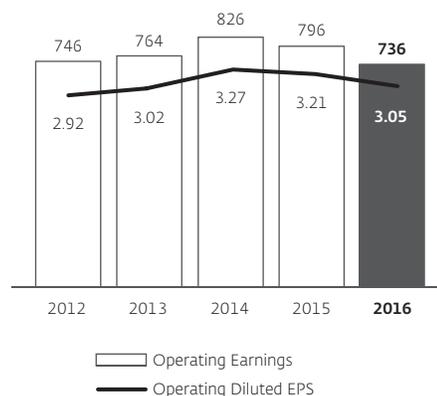
Other items for the year ended December 31, 2016 consisted of a favourable change in income tax provision estimates of \$34.0 million, recorded in the fourth quarter, related to certain tax filings.

Other items for the year ended December 31, 2015 consisted of an after-tax charge of \$24.3 million recorded in the fourth quarter related to restructuring and other charges.

Shareholders' equity was \$4.7 billion as at December 31, 2016, unchanged from December 31, 2015. Return on average common equity based on operating earnings for the year ended December 31, 2016 was 16.3%, compared with 17.4% for the comparative period in 2015. The quarterly dividend per common share was 56.25 cents in 2016, unchanged from the end of 2015.

Operating Earnings and Operating Earnings per Share

For the financial year (\$ millions, except per share amounts)



2012 excluded a reduction in income tax estimates related to certain tax filings, the proportionate share of the charge related to the changes in an affiliate's litigation provision, and a non-cash income tax charge.

2013 excluded an after-tax charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2014 excluded an after-tax charge related to client distributions and other costs, and an after-tax charge related to restructuring and other charges.

2015 excluded an after-tax charge related to restructuring and other charges.

2016 excluded a reduction in income tax estimates related to certain tax filings.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	2016		2015	
	EARNINGS	EPS ⁽¹⁾	EARNINGS	EPS ⁽¹⁾
Operating earnings available to common shareholders – Non-IFRS measure	\$ 736.5	\$ 3.05	\$ 796.0	\$ 3.21
Reduction in income tax estimates related to certain tax filings	34.0	0.14	–	–
Restructuring and other charges, net of tax	–	–	(24.3)	(0.10)
Net earnings available to common shareholders – IFRS	\$ 770.5	\$ 3.19	\$ 771.7	\$ 3.11
Adjusted EBITDA – Non-IFRS measure	\$ 1,320.8		\$ 1,392.6	
Restructuring and other charges	–		(33.9)	
EBITDA – Non-IFRS measure	1,320.8		1,358.7	
Commission amortization	(235.8)		(232.9)	
Amortization of capital assets and intangible assets and other	(45.9)		(42.9)	
Interest expense on long-term debt	(92.2)		(92.1)	
Earnings before income taxes	946.9		990.8	
Income taxes	(167.6)		(210.3)	
Perpetual preferred share dividends	(8.8)		(8.8)	
Net earnings available to common shareholders – IFRS	\$ 770.5		\$ 771.7	

(1) Diluted earnings per share

REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure and internal financial reporting, are:

- Investors Group
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other.

Management measures and evaluates the performance of these segments based on EBIT as shown in Table 2. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.
- *Restructuring and other charges*:
 - 2015 primarily reflects severance and payments to third parties related to exiting certain investment management activities and third party back office relationships. The largest components of these activities relate to:
 - ▶ *Mackenzie* - closing the investment management office in Singapore as well as implementing other personnel changes in order to redeploy resources towards other

corporate priorities, which management believes will provide greater benefits to Mackenzie over time.

- ▶ *Investors Group* - introducing a new in-house dealer platform for nominee accounts and exiting its current relationship with its third party carrying broker. This new platform was introduced in 2016 and enhances the service experience to Consultants and clients and is expected to achieve efficiencies over the long term.
- *Income taxes* – changes in the effective tax rates are shown in Table 3.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in operating earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.
- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

(\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues								
Fee income	\$ 1,833.0	\$ 1,776.2	\$ 769.0	\$ 809.3	\$ 254.9	\$ 250.6	\$ 2,856.9	\$ 2,836.1
Net investment income and other	71.6	70.1	4.0	6.0	112.2	119.1	187.8	195.2
	1,904.6	1,846.3	773.0	815.3	367.1	369.7	3,044.7	3,031.3
Expenses								
Commission	624.9	586.3	291.3	304.5	173.8	171.3	1,090.0	1,062.1
Non-Commission	543.5	499.3	310.3	294.5	61.8	58.6	915.6	852.4
	1,168.4	1,085.6	601.6	599.0	235.6	229.9	2,005.6	1,914.5
Earnings before interest and taxes	\$ 736.2	\$ 760.7	\$ 171.4	\$ 216.3	\$ 131.5	\$ 139.8	1,039.1	1,116.8
Interest expense							(92.2)	(92.1)
Restructuring and other charges							-	(33.9)
Earnings before income taxes							946.9	990.8
Income taxes							167.6	210.3
Net earnings							779.3	780.5
Perpetual preferred share dividends							8.8	8.8
Net earnings available to common shareholders							\$ 770.5	\$ 771.7
Operating earnings available to common shareholders⁽¹⁾							\$ 736.5	\$ 796.0

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 3: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31
Income taxes at Canadian federal and provincial statutory rates	26.84 %	26.84 %	26.73 %	26.84 %	26.72 %
Effect of:					
Proportionate share of affiliate's earnings	(2.76)	(2.75)	(3.57)	(2.96)	(3.01)
Loss consolidation ⁽¹⁾	(2.36)	(2.39)	(2.79)	(2.56)	(2.44)
Other items	0.49	-	(0.57)	(0.03)	(0.05)
Effective income tax rate – operating earnings	22.21	21.70	19.80	21.29	21.22
Reduction in income tax estimates related to certain tax filings	(13.15)	-	-	(3.59)	-
Effective income tax rate – net earnings	9.06 %	21.70 %	19.80 %	17.70 %	21.22 %

(1) See the Transactions with Related Parties section of this MD&A for additional information.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$141.8 billion at December 31, 2016 compared to \$133.6 billion at December 31, 2015. Changes in total assets under management are detailed in Tables 4 and 5.

Changes in assets under management for Investors Group and Mackenzie are discussed further in each of their respective Review of the Business sections in the MD&A.

TABLE 4: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q4 2016 VS. Q4 2015

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED ⁽¹⁾	
	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31
Mutual funds⁽²⁾								
Gross sales – money market	\$ 242	\$ 283	\$ 122	\$ 94	\$ 11	\$ 9	\$ 374	\$ 386
Gross sales – long-term	1,847	1,538	1,831	1,558	196	194	3,875	3,276
Total mutual fund gross sales	\$ 2,089	\$ 1,821	\$ 1,953	\$ 1,652	\$ 207	\$ 203	\$ 4,249	\$ 3,662
Net sales – money market	\$ 59	\$ 93	\$ 54	\$ 27	\$ 7	\$ 7	\$ 121	\$ 127
Net sales – long-term	202	(93)	(78)	(454)	17	35	142	(457)
Total mutual fund net sales	\$ 261	\$ –	\$ (24)	\$ (427)	\$ 24	\$ 42	\$ 263	\$ (330)
Sub-advisory, institutional and other accounts⁽³⁾⁽⁴⁾								
Gross sales	\$ –	\$ –	\$ 918	\$ 941	\$ –	\$ –	\$ 364	\$ 502
Net sales	–	–	(1,473)	61	–	–	(1,568)	3
Combined⁽²⁾⁽³⁾⁽⁴⁾								
Gross sales	\$ 2,089	\$ 1,821	\$ 2,871	\$ 2,593	\$ 207	\$ 203	\$ 4,613	\$ 4,164
Net sales	261	–	(1,497)	(366)	24	42	(1,305)	(327)
Change in total assets under management								
Net sales	\$ 261	\$ –	\$ (1,497)	\$ (366)	\$ 24	\$ 42	\$ (1,305)	\$ (327)
Investment returns	2,087	1,365	1,259	1,728	(8)	131	3,267	3,052
Net change in assets	2,348	1,365	(238)	1,362	16	173	1,962	2,725
Beginning assets	78,892	73,532	64,273	60,291	4,485	4,005	139,867	130,923
Ending assets	\$ 81,240	\$ 74,897	\$ 64,035	\$ 61,653	\$ 4,501	\$ 4,178	\$ 141,829	\$ 133,648

(1) Total Gross Sales and Net Sales excluded \$554 million and \$93 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$453 million and \$3 million in 2015).

Total assets under management excluded \$7.9 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.1 billion at December 31, 2015).

(2) During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$58 million, redemptions of \$297 million and net redemptions of \$239 million.

(3) During the fourth quarter of 2016, MD Financial Management (“MD”) reassigned sub-advisory responsibilities on a \$1.5 billion fixed income mandate advised by Mackenzie.

(4) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$43 million in the fourth quarter of 2016.

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2016 VS. 2015

TWELVE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED ⁽¹⁾	
	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31
Mutual funds⁽²⁾								
Gross sales – money market	\$ 1,077	\$ 1,091	\$ 430	\$ 391	\$ 46	\$ 58	\$ 1,553	\$ 1,540
Gross sales – long-term	6,683	6,799	6,509	6,574	813	683	14,005	14,023
Total mutual fund gross sales	\$ 7,760	\$ 7,890	\$ 6,939	\$ 6,965	\$ 859	\$ 741	\$ 15,558	\$ 15,563
Net sales – money market	\$ 312	\$ 374	\$ 99	\$ 93	\$ 31	\$ 45	\$ 443	\$ 512
Net sales – long-term	54	380	(766)	(1,351)	138	132	(573)	(793)
Total mutual fund net sales	\$ 366	\$ 754	\$ (667)	\$ (1,258)	\$ 169	\$ 177	\$ (130)	\$ (281)
Sub-advisory, institutional and other accounts⁽³⁾⁽⁴⁾								
Gross sales	\$ –	\$ –	\$ 4,065	\$ 4,973	\$ –	\$ –	\$ 2,101	\$ 2,339
Net sales	–	–	(1,453)	(9,337)	–	–	(1,716)	(9,976)
Combined⁽²⁾⁽³⁾⁽⁴⁾								
Gross sales	\$ 7,760	\$ 7,890	\$ 11,004	\$ 11,938	\$ 859	\$ 741	\$ 17,659	\$ 17,902
Net sales	366	754	(2,120)	(10,595)	169	177	(1,846)	(10,257)
Change in total assets under management								
Net sales	\$ 366	\$ 754	\$ (2,120)	\$ (10,595)	\$ 169	\$ 177	\$ (1,846)	\$ (10,257)
Investment returns	5,977	684	4,502	1,372	154	151	10,027	1,986
Net change in assets	6,343	1,438	2,382	(9,223)	323	328	8,181	(8,271)
Beginning assets	74,897	73,459	61,653	70,876	4,178	3,850	133,648	141,919
Ending assets	\$ 81,240	\$ 74,897	\$ 64,035	\$ 61,653	\$ 4,501	\$ 4,178	\$ 141,829	\$ 133,648

(1) Total Gross Sales and Net Sales excluded \$2.0 billion and \$261 million, respectively, in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$2.7 billion and \$593 million in 2015).

Total assets under management excluded \$7.9 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.1 billion at December 31, 2015).

(2) During the twelve months ended December 31, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$199 million, redemptions of \$894 million and net redemptions of \$695 million.

(3) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$113 million in the twelve months ended December 31, 2016.

(4) During the twelve months ended December 31, 2016, MD Financial Management (MD) reassigned sub-advisory responsibilities on a \$1.5 billion fixed income mandate advised by Mackenzie.

During the twelve months ended December 31, 2015, MD reassigned sub-advisory responsibilities on four fixed income mandates (totalling \$10.3 billion) advised by Mackenzie.

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 6.

Net Earnings and Earnings per Share – Except as noted in the reconciliation in Table 6, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. Mutual fund assets under management increased to \$126.0 billion in 2014, \$127.5 billion in 2015 and \$137.1 billion in 2016, driven largely by changes in financial markets during the period. Average mutual fund assets under management for the year ended December 31, 2016 were \$129.8 billion compared to \$129.4 billion in 2015. The impact on earnings and revenues of changes in average daily mutual fund assets under management and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2016 were \$141.8 billion and included mutual fund assets under

management totalling \$137.1 billion. Net earnings in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

Dividends per Common Share – Annual dividends per common share were \$2.25 in 2016, unchanged from 2015. Annual dividends per common share increased by 3.4% in 2015 and 1.2% in 2014.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 7 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily mutual fund assets under management over the eight most recent quarters, as shown in Table 7, largely reflect changes in domestic and foreign markets.

TABLE 6: SELECTED ANNUAL INFORMATION

	2016	2015	2014
Consolidated statements of earnings (\$ millions)			
Revenues			
Fee income	\$ 2,856.9	\$ 2,836.1	\$ 2,762.5
Net investment income and other	187.8	195.2	166.3
	3,044.7	3,031.3	2,928.8
Expenses			
	2,097.8	2,006.6	1,864.6
	946.9	1,024.7	1,064.2
Restructuring and other charges	-	(33.9)	(18.3)
Client distributions and other costs	-	-	(81.0)
Earnings before income taxes	946.9	990.8	964.9
Income taxes	167.6	210.3	202.8
Net earnings	779.3	780.5	762.1
Perpetual preferred share dividends	8.8	8.8	8.8
Net earnings available to common shareholders	\$ 770.5	\$ 771.7	\$ 753.3
Reconciliation of Non-IFRS financial measures ⁽¹⁾ (\$ millions)			
Operating earnings available to common shareholders – non-IFRS measure	\$ 736.5	\$ 796.0	\$ 826.1
Other items:			
Reduction in income tax estimates related to certain tax filings	34.0	-	-
Restructuring and other charges, net of tax	-	(24.3)	(13.6)
Client distributions and other costs, net of tax	-	-	(59.2)
Net earnings available to common shareholders – IFRS	\$ 770.5	\$ 771.7	\$ 753.3
Earnings per share (\$)			
Operating earnings available to common shareholders ⁽¹⁾			
– Basic	\$ 3.05	\$ 3.21	\$ 3.28
– Diluted	3.05	3.21	3.27
Net earnings available to common shareholders			
– Basic	3.19	3.11	2.99
– Diluted	3.19	3.11	2.98
Dividends per share (\$)			
Common	\$ 2.25	\$ 2.25	\$ 2.18
Preferred, Series B	1.48	1.48	1.48
Average daily mutual fund assets (\$ millions)	\$ 129,813	\$ 129,424	\$ 123,540
Total mutual fund assets under management (\$ millions)	\$ 137,053	\$ 127,517	\$ 126,039
Total assets under management (\$ millions)	\$ 141,829	\$ 133,648	\$ 141,919
Total corporate assets (\$ millions)	\$ 15,625	\$ 14,831	\$ 14,418
Total long-term debt (\$ millions)	\$ 1,325	\$ 1,325	\$ 1,325
Outstanding common shares (thousands)	240,516	244,788	251,469

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

TABLE 7: SUMMARY OF QUARTERLY RESULTS

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Consolidated statements of earnings (\$ millions)								
Revenues								
Management fees	\$ 525.7	\$ 518.3	\$ 497.4	\$ 483.8	\$ 504.1	\$ 508.5	\$ 517.3	\$ 509.1
Administration fees	109.0	107.9	104.4	100.3	104.7	104.6	106.0	102.3
Distribution fees	117.7	101.1	96.3	95.0	97.0	92.7	95.3	94.5
Net investment income and other	48.7	49.1	46.3	43.7	49.7	45.9	44.6	55.0
	801.1	776.4	744.4	722.8	755.5	751.7	763.2	760.9
Expenses								
Commission	288.2	273.1	267.2	261.5	264.3	263.2	267.7	266.9
Non-commission	231.1	224.9	231.7	227.9	214.5	208.4	215.9	213.6
Interest	23.2	23.2	22.9	22.9	23.2	23.2	22.9	22.8
	542.5	521.2	521.8	512.3	502.0	494.8	506.5	503.3
Earnings before undernoted Restructuring and other charges	258.6	255.2	222.6	210.5	253.5	256.9	256.7	257.6
	-	-	-	-	(33.9)	-	-	-
Earnings before income taxes	258.6	255.2	222.6	210.5	219.6	256.9	256.7	257.6
Income taxes	23.4	55.4	47.5	41.3	43.5	55.7	56.0	55.1
Net earnings	235.2	199.8	175.1	169.2	176.1	201.2	200.7	202.5
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5	\$ 200.3
Reconciliation of Non-IFRS financial measures⁽¹⁾ (\$ millions)								
Operating earnings available to common shareholders – non-IFRS measure	\$ 199.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 198.2	\$ 199.0	\$ 198.5	\$ 200.3
Other items:								
Reduction in income tax estimates related to certain tax filings	34.0	-	-	-	-	-	-	-
Restructuring and other charges, net of tax	-	-	-	-	(24.3)	-	-	-
Net earnings available to common shareholders – IFRS	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0	\$ 198.5	\$ 200.3
Earnings per Share (c)								
Operating earnings available to common shareholders ⁽¹⁾								
– Basic	83	82	72	69	81	81	80	80
– Diluted	83	82	72	69	81	81	80	80
Net earnings available to common shareholders								
– Basic	97	82	72	69	71	81	80	80
– Diluted	97	82	72	69	71	81	80	80
Average daily mutual fund assets (\$ billions)	\$ 134.7	\$ 132.2	\$ 127.9	\$ 124.4	\$ 127.8	\$ 128.6	\$ 131.4	\$ 129.9
Total mutual fund assets under management (\$ billions)	\$ 137.1	\$ 133.6	\$ 128.7	\$ 127.1	\$ 127.5	\$ 124.9	\$ 129.7	\$ 131.5
Total assets under management (\$ billions)	\$ 141.8	\$ 139.9	\$ 134.7	\$ 132.9	\$ 133.6	\$ 130.9	\$ 136.0	\$ 148.4

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

INVESTORS GROUP

REVIEW OF THE BUSINESS

Investors Group provides a broad range of financial and investment planning services to Canadians through its exclusive network of Consultants across the country.

Fee income is primarily generated from the management, administration and distribution of Investors Group mutual funds.

Fee income is also earned from the distribution of insurance, securities and other financial services.

Additional revenue is derived from net investment income and other income, primarily related to our mortgage business.

Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive planning approach, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in a mutual fund redemption rate lower than the industry average.

INVESTORS GROUP STRATEGY

Investors Group strives to ensure that the interests of clients, shareholders, Consultants and employees are closely aligned. Investors Group's business strategy is focused on:

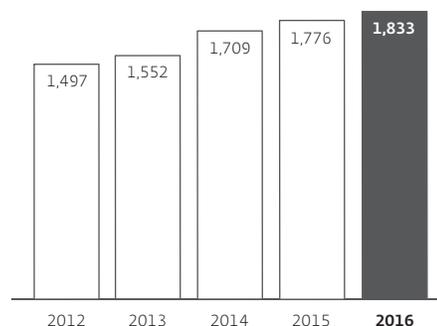
- Strengthening our distribution network by supporting our Consultants in their growth and development, and attracting and training new Consultants.
- Emphasizing the delivery of financial advice, products and services through our exclusive network of Consultants.
- Providing an effective level of administrative support to our Consultants and clients, including active communication during all economic cycles.
- Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
- Maximizing returns on business investment by focusing resources on initiatives that directly benefit clients and Consultants and result in increased efficiency and improved control over expenditures.

CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. This approach is consistent with studies in recent years which indicate that client households receiving advice from a financial advisor have higher assets than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor. At the centre of these relationships is a national distribution network of Consultants based in 115 region offices across Canada.

Fee Income – Investors Group

For the financial year (\$ millions)



At December 31, 2016, Investors Group had a Consultant network of 4,947, down from 5,320 at December 31, 2015. To help better understand the nature and composition of Investors Group's Consultant network, the following detail provides a breakdown of the Consultant network into its significant components:

- 2,300 Consultant practices at December 31, 2016 (2,395 at December 31, 2015), which reflect Consultants with more than four years of Investors Group experience. These practices may include Associates as described below. The level of Consultant practices will be a key measurement of our business going forward as they serve clientele representing over 95% of AUM.
- 1,679 New Consultants at December 31, 2016 (2,067 at December 31, 2015), which are those Consultants with less than four years of Investors Group experience. During the fourth quarter, Investors Group accelerated the departure of approximately 400 New Consultants who were not expected to develop a successful practice. We also tightened recruiting standards to promote greater likelihood of success while also enhancing our culture and brand.
- 968 Associates and Regional Directors (858 at December 31, 2015). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the teams' clientele.

Approximately 80% of Consultant practice leaders are studying to be or are qualified as Certified Financial Planners (CFP) or its Quebec equivalent, Financial Planners (F.PI.). At December 31, 2016, 1,553 individuals in our Consultant network held the CFP designation or the F.PI. designation. In addition, there were 1,193 individuals enrolled in these programs to gain these designations. The total of 2,746 of those studying to be or qualified as CFP or F.PI. is up 22% from 2,253 at December 31, 2015. The CFP and F.PI. designations are nationally recognized financial planning qualifications that require an individual to

demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2016 that Investors Group has more CFP designation holders than any other organization in Canada.

CONSULTANT DEVELOPMENT

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. This process is continually reviewed in our efforts to select the most appropriate candidates as new Consultants to improve their likelihood of success in the future.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. This core training is supplemented by annual training conferences, where education is tailored to both new and experienced Consultants, and by other educational programs throughout the year including a National Education Day by way of video in the fourth quarter. In the fourth quarter of 2016, Investors Group held its first ever National Education Day for Consultants.

Investors Group continually reviews and enhances our Consultant technology platform, bringing greater efficiencies to our Consultants' contact management and portfolio information and financial planning systems to help them serve our clients more effectively. These efforts included upgrades to the financial planning software used by Consultants.

ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting close to 1,100 Consultants throughout Quebec

and the 21 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$14 billion as at December 31, 2016.

NEW DEALER PLATFORM

A new dealer platform was launched in the fourth quarter of 2016 which delivers an enhanced service experience to Consultants and clients. This new dealer platform has allowed us to internalize carrying broker functionality and client statement preparation for Investment Industry Regulatory Organization of Canada (IIROC) and Mutual Fund Dealers Association of Canada (MFDA) nominee accounts, which were previously performed by a third party service provider, and has provided increased automation of transaction activity. This platform supports the introduction of new IIROC based products designed to support the high net worth segment of our client base. The new platform is expected to result in efficiencies over the long term.

QUARTERLY STATEMENTS

Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of having different composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year, as well as the annual returns for 2016 compared to 2015. The second chart reflects the client account median rates of return based on one, three and five year timeframes as at December 31, 2016. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of Investors Group client accounts.

For the three months ended December 31, 2016, the client account median rate of return was approximately 2.2% and 89% of client accounts experienced positive returns. For the twelve months ended December 31, 2016, the client account median rate of return was approximately 6.8% and 95% of client accounts experienced positive returns.

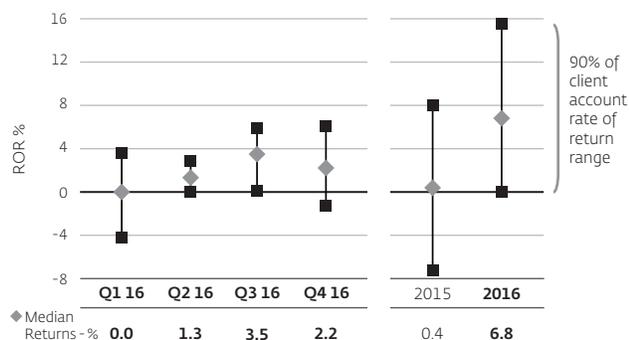
CLIENT PERFORMANCE AND RATE OF RETURN REPORTING

Investors Group has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods is a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships.

Beginning with the June 30, 2015 client statements, we added quarterly multiple-period account rate of return reporting to most Investors Group's client statements. Our clients now have

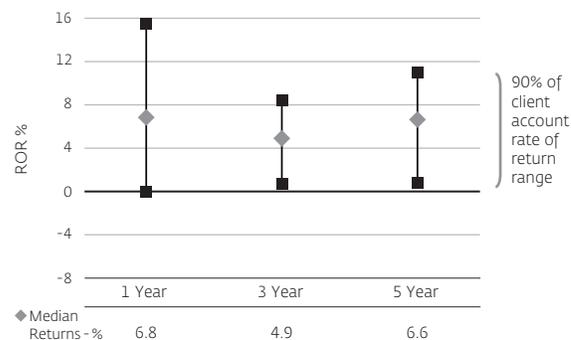
Client Account Rate of Return (ROR) Experience

Quarterly and Year to Date Returns



Client Account Rate of Return (ROR) Experience

As at December 31, 2016



a multiple-period view of their performance, including one year, three year and five year rates of return.

CLIENT EXPERIENCE SURVEY

Consultants maintain a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice and service provided by our Consultants through varying economic cycles.

The results of the surveys for the four quarters ending December 31, 2016 are detailed in Table 8.

ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in assets under management for the periods under review are reflected in Table 9.

CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – 2016 VS. 2015

Investors Group's mutual fund assets under management were \$81.2 billion at December 31, 2016, representing an increase of 8.5% from \$74.9 billion at December 31, 2015. Average daily mutual fund assets were \$79.7 billion in the fourth quarter of 2016, up 6.0% from \$75.3 billion in the fourth quarter of 2015.

TABLE 8: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

SURVEYS COMPLETED FOR THE FOUR QUARTERS ENDING DECEMBER 31, 2016

New client households surveyed 90 days after account opening

Satisfied with service	96 %
Offered a financial plan	92
Satisfied with discussion about goals and concerns	97
Willing to refer	94

Client households with 12+ months tenure

Satisfied with service	92 %
Have a financial plan	85
Satisfied with level of contact	93
Willing to refer	88

TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	2016 SEP. 30	2015 DEC. 31
Sales	\$ 2,089	\$ 1,626	\$ 1,821	28.5 %	14.7 %
Redemptions	1,828	1,820	1,821	0.4	0.4
Net sales (redemptions)	261	(194)	–	N/M	N/M
Investment returns	2,087	2,883	1,365	(27.6)	52.9
Net change in assets	2,348	2,689	1,365	(12.7)	72.0
Beginning assets	78,892	76,203	73,532	3.5	7.3
Ending assets	\$ 81,240	\$ 78,892	\$ 74,897	3.0 %	8.5 %
Average daily assets	\$ 79,742	\$ 78,139	\$ 75,250	2.1 %	6.0 %

TWELVE MONTHS ENDED (\$ millions)			% CHANGE	
	2016 DEC. 31	2015 DEC. 31	2016 DEC. 31	2015 DEC. 31
Sales	\$ 7,760	\$ 7,890	(1.6)	
Redemptions	7,394	7,136	3.6	
Net sales (redemptions)	366	754	(51.5)	
Investment returns	5,977	684	N/M	
Net change in assets	6,343	1,438	N/M	
Beginning assets	74,897	73,459	2.0	
Ending assets	\$ 81,240	\$ 74,897	8.5 %	
Average daily assets	\$ 76,820	\$ 75,711	1.5 %	

For the quarter ended December 31, 2016, sales of Investors Group mutual funds through its Consultant network were \$2.1 billion, an increase of 14.7% from the comparative period in 2015. Mutual fund redemptions totalled \$1.8 billion, and were comparable to 2015. Investors Group mutual fund net sales for the fourth quarter of 2016 were \$261 million compared with zero net sales in 2015. During the fourth quarter, investment returns resulted in an increase of \$2.1 billion in mutual fund assets compared to an increase of \$1.4 billion in the fourth quarter of 2015.

Sales of long-term funds were \$1.8 billion for the fourth quarter of 2016, an increase of 20.1% from the previous year. Net sales of long-term funds for the fourth quarter of 2016 were \$202 million compared to net redemptions of \$93 million in 2015.

Investors Group's annualized quarterly redemption rate for long-term funds was 8.3% in the fourth quarter of 2016 compared to 8.8% in the fourth quarter of 2015. Investors Group's twelve month trailing redemption rate for long-term funds was 8.8% at December 31, 2016 compared to 8.7% at December 31, 2015, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.0% at December 31, 2016.

For the twelve months ended December 31, 2016, sales of Investors Group mutual funds through its Consultant network were \$7.8 billion, a decrease of 1.6% from 2015. Mutual fund redemptions totalled \$7.4 billion, an increase of 3.6% from 2015. Net sales of Investors Group mutual funds were \$366 million compared with net sales of \$754 million in 2015. Sales of long-term funds for the twelve month period in 2016 were \$6.7 billion compared with \$6.8 billion in 2015, a decrease of 1.7%. Net sales of long-term funds were \$54 million compared to net sales of \$380 million in 2015. During 2016, investment returns resulted in an increase of \$6.0 billion in mutual fund assets compared to an increase of \$684 million in 2015.

CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – Q4 2016 VS. Q3 2016

Investors Group's mutual fund assets under management were \$81.2 billion at December 31, 2016, an increase of 3.0% from \$78.9 billion at September 30, 2016. Average daily mutual fund assets were \$79.7 billion in the fourth quarter of 2016 compared to \$78.1 billion in the third quarter of 2016, an increase of 2.1%.

For the quarter ended December 31, 2016, sales of Investors Group mutual funds through its Consultant network were \$2.1 billion, an increase of 28.5% from the third quarter of 2016. Mutual

fund redemptions, which totalled \$1.8 billion for the fourth quarter, were comparable to the previous quarter and the annualized quarterly redemption rate was 8.3% in the fourth quarter compared to 8.5% in the third quarter of 2016. Investors Group mutual fund net sales were \$261 million for the current quarter and compared to net redemptions of \$194 million in the previous quarter. Sales of long-term funds were \$1.8 billion for the current quarter compared to \$1.4 billion in the previous quarter. Net sales of long-term funds for the current quarter were \$202 million compared to net redemptions of \$261 million in the previous quarter.

PRODUCTS AND SERVICES

Investors Group is regarded as a leader in personal financial services in Canada. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients access to insurance, mortgages and other financial services.

PFPP – PERSONAL FINANCIAL PLANNER

Investors Group's Personal Financial Planner (PFPP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

SYMPHONY STRATEGIC INVESTMENT PLANNING™ PROGRAM

Symphony is Investors Group's approach to strategic investment planning. The Symphony program is designed to provide a scientifically constructed investment portfolio, consistent with the client's investment objectives and suited to their risk profile.

CHARITABLE GIVING PROGRAM

The Investors Group Charitable Giving Program is a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

MUTUAL FUNDS

Investors Group had \$81.2 billion in mutual fund assets under management at December 31, 2016 in 162 mutual funds covering a broad range of investment mandates. This compared with \$74.9 billion in 2015, an increase of 8.5%.

Clients can diversify their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

Investors Group funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global connections, depth of research and use of information technology provide us with the investment management capabilities to offer our clients investment management expertise suitable for the widest range of investment objectives. Investors Group also offers a range of partner funds through advisory relationships with other investment management firms. Investors Group oversees these external investment advisors to ensure that their activities are consistent with Investors Group's investment philosophy and with the investment objectives and strategies of the funds that they advise. These advisory relationships include the following investment managers: Mackenzie Financial Corporation, Putnam Investments Canada ULC, PanAgora Asset Management, Inc., Irish Life Investment Managers Limited, AGF Investments Inc., Allianz Global Investors U.S. LLC, Aristotle Capital Boston, LLC, Beutel, Goodman & Company Ltd., Fidelity Investments Canada ULC, Fiera Capital Corporation, Franklin Bissett Investment Management, LaSalle Investment Management Securities, LLC, and Franklin Templeton Investments Corp.

Fund Performance

At December 31, 2016, 53.3% of Investors Group mutual funds had a rating of three stars or better from the Morningstar[†] fund ranking service and 15.5% had a rating of four or five stars. This compared to the Morningstar[†] universe of 63.5% for three stars or better and 27.7% for four and five star funds at December 31, 2016. Morningstar Ratings[†] are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Changes to Mutual Fund Product Offering

Investors Group continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

Effective November 1, 2016, Investors Group reduced the annual management fees on four mandates: IG AGF Global Equity Fund and Class, IG AGF U.S. Growth Fund and Class, IG Mackenzie Emerging Markets Class and Investors Canadian Natural Resource Fund.

Effective January 1, 2017, Investors Group has discontinued the deferred sales charge (DSC) purchase option for its mutual funds and, at the same time, fees on no-load series have been reduced. During the fourth quarter, following the announcement of changes to the DSC in September, the proportion of sales into DSC declined to 9% from approximately 50% during the first three quarters.

MANAGED ASSET AND MULTI-MANAGER INVESTMENT PROGRAMS

Investors Group offers several managed asset and multi-manager investment programs which include Investors Group Corporate Class Inc.™, as well as a complete line of portfolio funds and the iProfile managed asset program.

Investors Group Corporate Class Inc.™ is a fund structure which includes 28 funds advised by I.G. Investment Management, 19 funds sub-advised by external investment advisors, nine Corporate Class portfolios and four funds that are part of the iProfile program. At the end of 2016, the Corporate Class funds totalled \$8.2 billion in assets compared with \$7.0 billion in 2015.

Within the managed assets and multi-manager investment programs is a growing selection of asset allocation opportunities which include:

- **Allegro Portfolios™ and Corporate Class Portfolios:**
The seven portfolios and six corporate class portfolios provide a single-step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. At December 31, 2016, the Allegro assets under management totalled \$7.1 billion compared with \$6.4 billion at December 31, 2015.
- **Alto Portfolios™:** The Alto Portfolios provide a single-step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The 11 portfolios include Investors Group funds and funds sub-advised by Mackenzie. Assets in the portfolios were \$5.1 billion as of December 31, 2016 compared with \$5.0 billion in the previous year.
- **Investors Group Portfolios:** These funds have assets of \$10.7 billion as at December 31, 2016, compared with \$10.6 billion in the previous year. The program is comprised of 10 funds which invest in 50 underlying Investors Group funds to provide a high level of diversification.
- **Maestro Portfolios™ and Corporate Class Portfolios:**
The three portfolios and three corporate class portfolios were available for sale beginning July 2015. At December 31, 2016, the Maestro Portfolio assets under management totalled \$3.6 billion compared with \$720 million at December 31, 2015.
- **iProfile™:** iProfile is a managed asset program which features several pools and Corporate Classes. The program is described more fully in the following section. At December 31, 2016, the iProfile program assets under management were \$2.3 billion, an increase of 49.8% from \$1.6 billion at December 31, 2015.

HIGH NET WORTH OFFERINGS

High net worth clients represent a growing segment of our client base. Investors Group has several offerings to address the

needs of high net worth clients and continues to look at ways to provide further offerings to this segment.

Pricing for Households with Investment

Assets in Excess of \$500,000

Investors Group has investment solutions with differentiated pricing for households with investments in Investors Group funds in excess of \$500,000.

- Series J had assets of \$24.6 billion at December 31, 2016, an increase of 7.7% from \$22.8 billion at December 31, 2015.
- Series U provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At December 31, 2016, Series U assets under management had increased to \$5.4 billion, compared to \$3.6 billion at December 31, 2015, an increase of 49.6%.

In September 2015, Investors Group provided distributions to clients who had not transferred to these lower priced solutions when they were eligible, up to the earlier of when they transferred or to April 30, 2015.

iProfile™

This is a unique portfolio management program, launched in 2001, that is available for households with assets held at Investors Group in excess of \$250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The iProfile program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds.

The program is advised by a select group of global money management firms: I.G. Investment Management, Toron Capital Markets Inc., JPMorgan Asset Management (Canada) Inc., Jarislowsky, Fraser Limited, Baring International Investment Limited, Laketon Investment Management, Putnam Investments Canada ULC, PanAgora Asset Management, Inc., Aristotle Capital Boston, LLC, and Lazard Asset Management LLC.

At December 31, 2016, the iProfile program assets under management were \$2.3 billion, an increase of 49.8% from \$1.6 billion at December 31, 2015.

Unbundled Fee Structures

A growing portion of Investors Group's client assets are in Series U and iProfile, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At December 31, 2016, \$7.7 billion, or 9.5% of Investors Group's mutual fund assets under management, were

in products with unbundled fee structures, up 49.7% from \$5.2 billion at December 31, 2015.

Separately Managed Accounts and Fee-based Brokerage Account

In November, Investors Group launched a new separately managed account program, Azure Managed Investments™, as well as a Fee-Based Account, which are both offered through Investors Group's brokerage services firm, Investors Group Securities Inc.

Azure Managed Investments are discretionary managed accounts that allow clients to delegate responsibility for day-to-day investment decisions to a portfolio manager. There are seven different investment mandates available that provide core equity exposure in Canadian, U.S., North American and International equity markets and are managed with supporting expertise from I.G. Investment Management and external investment managers.

Investors Group's Fee-Based Account is a non-discretionary, fee-based brokerage account offering clients the benefits of a holistic approach to managing their portfolio.

SEGREGATED FUNDS

Investors Group offers segregated funds which include the Investors Group Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At December 31, 2016, total segregated fund assets were \$1.8 billion compared to \$1.7 billion at December 31, 2015.

INSURANCE

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Canada Life Assurance Company
- The Great-West Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company

Sales of insurance products as measured by new annualized premiums were \$94 million for the year ended December 31, 2016, an increase of 32.9% from \$70 million in 2015.

The average number of policies sold by each insurance-licensed Consultant was 10.9 in 2016, compared to 9.4 in 2015. Distribution of insurance products is enhanced through Investors Group's Insurance Planning Specialists, located throughout Canada, who assist Consultants with the selection of insurance solutions.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. Investors Group Consultants can refer clients to one of our Securities Planning Specialists available through Investors Group Securities Inc.

We have continued to enhance our services to accommodate individual securities owned by our clients within their financial plan. This has involved further development of our systems and additional Securities Planning Specialists who work alongside our Consultants and are licensed to advise on individual securities. Consultants who have their registration with the Investment Industry Regulatory Organization of Canada (IIROC) continued to operate in our established business model which has a managed asset focus delivered within a financial planning context.

In the fourth quarter of 2016, the new IIROC platform and new products, which include separately managed accounts and fee-based accounts, were introduced which will enable more Consultants to transition their registration to Investors Group Securities Inc.

MORTGAGE OPERATIONS

Investors Group is a national mortgage lender that offers residential mortgages to Investors Group clients as part of a comprehensive financial plan. Investors Group Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants as permitted by the regulations to develop mortgage strategies that meet the individual needs and goals of each client.

Through its mortgage banking operations, mortgages originated by Investors Group Mortgage Planning Specialists are sold to the Investors Mortgage and Short Term Income Fund, Investors Canadian Corporate Bond Fund, securitization programs, and institutional investors. Certain subsidiaries of Investors Group are Canada Mortgage and Housing Corporation (CMHC)-approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and are approved sellers of NHA MBS into the Canada Mortgage Bond Program (CMB Program). Securitization

programs also include certain bank-sponsored asset-backed commercial paper (ABCP) programs. Residential mortgages are also held by Investors Group's intermediary operations.

Mortgage fundings for the twelve months ended December 31, 2016, were \$2.2 billion, compared to \$2.0 billion in 2015, an increase of 7.1%. At December 31, 2016, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$11.1 billion, compared to \$10.4 billion at December 31, 2015, an increase of 6.0%.

SOLUTIONS BANKING†

Investors Group's Solutions Banking† continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. In April 2015, a new All-in-One product was introduced. This product is a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account to meet the needs of our clients

while minimizing overall interest costs. Clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking† offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of Investors Group clients in the Solutions Banking† offering totalled \$3.1 billion at December 31, 2016.

Available credit associated with Solutions Banking† All-in-One accounts originated for the quarter ended December 31, 2016 was \$172 million, compared to \$214 million in 2015 and for the twelve month period was \$715 million compared to \$647 million. At December 31, 2016, the balance outstanding of Solutions Banking All-in-One products was \$1.8 billion, which represented approximately 46% of total available credit associated with these accounts.

ADDITIONAL PRODUCTS AND SERVICES

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

REVIEW OF SEGMENT OPERATING RESULTS

Investors Group's earnings before interest and taxes are presented in Table 10.

2016 VS. 2015

FEE INCOME

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and Solutions Banking products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend

largely on the level and composition of mutual fund assets under management. Management fees were \$337.8 million in the fourth quarter of 2016, an increase of \$18.9 million or 5.9% from \$318.9 million in 2015. For the twelve months ended December 31, 2016, management fees were \$1,296.0 million, an increase of \$18.1 million or 1.4% from \$1,277.9 million in 2015.

The net increase in management fees in the three months ended December 31, 2016 was primarily due to the increase in average daily mutual fund assets of 6.0%, as shown in Table 9. The average management fee rate in the fourth quarter of 2016 was 168.1 basis points of daily mutual fund assets compared to 168.6 basis points in 2015.

TABLE 10: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2016		2015		% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	SEP. 30	2016 SEP. 30	2015 DEC. 31
Revenues						
Management fees	\$ 337.8	\$ 331.7	\$ 318.9		1.8 %	5.9 %
Administration fees	80.6	79.2	76.4		1.8	5.5
Distribution fees	71.1	54.7	52.8		30.0	34.7
	489.5	465.6	448.1		5.1	9.2
Net investment income and other	20.1	19.1	17.6		5.2	14.2
	509.6	484.7	465.7		5.1	9.4
Expenses						
Commission	96.0	83.6	80.2		14.8	19.7
Asset retention bonus and premium	73.9	71.8	68.8		2.9	7.4
Non-commission	139.1	130.9	127.2		6.3	9.4
	309.0	286.3	276.2		7.9	11.9
Earnings before interest and taxes	\$ 200.6	\$ 198.4	\$ 189.5		1.1 %	5.9 %
TWELVE MONTHS ENDED (\$ millions)						
			2016 DEC. 31	2015 DEC. 31	% CHANGE	
Revenues						
Management fees			\$ 1,296.0	\$ 1,277.9	1.4 %	
Administration fees			309.9	302.8	2.3	
Distribution fees			227.1	195.5	16.2	
			1,833.0	1,776.2	3.2	
Net investment income and other			71.6	70.1	2.1	
			1,904.6	1,846.3	3.2	
Expenses						
Commission			340.7	311.0	9.5	
Asset retention bonus and premium			284.2	275.3	3.2	
Non-commission			543.5	499.3	8.9	
			1,168.4	1,085.6	7.6	
Earnings before interest and taxes			\$ 736.2	\$ 760.7	(3.2) %	

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	% CHANGE	
				2016 SEP. 30	2015 DEC. 31
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	\$ 49.4	\$ 49.3	\$ 47.1	0.2 %	4.9 %
Interest expense	32.8	32.8	30.6	–	7.2
Net interest income	16.6	16.5	16.5	0.6	0.6
Gains on sales ⁽¹⁾	3.2	4.6	3.8	(30.4)	(15.8)
Fair value adjustments	2.1	(0.1)	(2.3)	N/M	N/M
Other ⁽²⁾	(2.5)	(2.9)	(1.4)	13.8	(78.6)
	\$ 19.4	\$ 18.1	\$ 16.6	7.2 %	16.9 %
Average mortgages serviced					
Securitized	\$ 7,419	\$ 7,375	\$ 6,813	0.6 %	8.9 %
Other	3,595	3,521	3,554	2.1	1.2
	\$ 11,014	\$ 10,896	\$ 10,367	1.1 %	6.2 %
Mortgage sales to:⁽³⁾					
Securitized	\$ 717	\$ 560	\$ 653	28.0 %	9.8 %
Other ⁽¹⁾	253	284	275	(10.9)	(8.0)
	\$ 970	\$ 844	\$ 928	14.9 %	4.5 %

The net increase in management fees in the twelve months ended December 31, 2016 was primarily due to the increase in average daily mutual fund assets of 1.5%, as shown in Table 9. The average management fee rate was 168.4 basis points of daily mutual fund assets for the twelve month period ended December 31, 2016 compared to 169.1 basis points in 2015. The decline in basis points resulted primarily from transfers of eligible clients into lower fee investment solutions.

Management fees were also impacted by an increase of \$0.9 million and \$5.3 million in fee income in the three and twelve month periods, respectively, due to one more calendar day in 2016 compared to 2015.

Management fee income and average management fee rates for both periods also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds. For the three and twelve month periods in 2016, these waivers totalled \$1.0 million and \$4.4 million, respectively, compared to \$1.3 million and \$4.1 million in the prior year.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$80.6 million in the current quarter compared to \$76.4 million a year ago, an increase of 5.5%. Administration fees were \$309.9 million for the

twelve month period ended December 31, 2016 compared to \$302.8 million in 2015, an increase of 2.3%. The increase in both periods resulted primarily from changes in average mutual fund assets under management.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking[†].

Distribution fee income of \$71.1 million for the fourth quarter of 2016 increased by \$18.3 million from \$52.8 million in 2015 primarily due to the strength of insurance sales in the quarter offset, in part, by lower redemption fees. For the twelve month period, distribution fee income of \$227.1 million increased by \$31.6 million from \$195.5 million in 2015 due to increases in distribution fee income from insurance products and redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP (continued)

TWELVE MONTHS ENDED (\$ millions)	2016 DEC. 31	2015 DEC. 31	% CHANGE
Total mortgage banking income			
Net interest income on securitized loans			
Interest income	\$ 193.2	\$ 188.1	2.7 %
Interest expense	128.7	132.1	(2.6)
Net interest income	64.5	56.0	15.2
Gains on sales ⁽¹⁾	16.1	20.7	(22.2)
Fair value adjustments	(2.3)	(1.3)	(76.9)
Other ⁽²⁾	(8.9)	(5.2)	(71.2)
	\$ 69.4	\$ 70.2	(1.1) %
Average mortgages serviced			
Securitizations	\$ 7,199	\$ 6,617	8.8 %
Other	3,566	3,544	0.6
	\$ 10,765	\$ 10,161	5.9 %
Mortgage sales to:⁽³⁾			
Securitizations	\$ 2,882	\$ 2,438	18.2 %
Other ⁽¹⁾	1,071	1,198	(10.6)
	\$ 3,953	\$ 3,636	8.7 %

(1) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(2) Represents mortgage issuance and insurance costs, interest earned on warehoused mortgages, and servicing and other.

(3) Represents principal amounts sold.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

Net investment income and other was \$20.1 million in the fourth quarter of 2016, an increase of \$2.5 million from \$17.6 million in 2015. For the year ended December 31, 2016, net investment income and other totalled \$71.6 million, an increase of \$1.5 million from \$70.1 million in 2015.

Net investment income related to Investors Group's mortgage banking operations totalled \$19.4 million for the fourth quarter of 2016 compared to \$16.6 million in 2015, an increase of \$2.8 million. For the year ended December 31, 2016, net investment income related to Investors Group's mortgage banking operations totalled \$69.4 million compared to \$70.2 million in 2015, a decrease of \$0.8 million. A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by \$0.1 million and \$8.5 million for the three and twelve month

periods ended December 31, 2016 to \$16.6 million and \$64.5 million, respectively, compared to 2015. The increase in the twelve month period resulted from higher volumes and margins on securitized loans.

- Gains realized on the sale of residential mortgages – decreased by \$0.6 million and \$4.6 million for the three and twelve month periods ended December 31, 2016 to \$3.2 million and \$16.1 million, respectively, compared to 2015. The decrease in gains resulted from lower sales activity and lower margins.
- Fair value adjustments – increased by \$4.4 million and decreased by \$1.0 million for the three and twelve month periods ended December 31, 2016 to \$2.1 million and (\$2.3) million, respectively, compared to 2015. The increase during the three month period was primarily due to favourable fair value adjustments on certain securitization related financial instruments. The decrease during the twelve month period was primarily due to favorable fair value adjustments in 2015 on certain securitization related financial instruments.

EXPENSES

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was \$96.0 million for the fourth quarter of 2016, an increase of \$15.8 million from \$80.2 million in 2015. For the twelve month period, commission expense increased by \$29.7 million to \$340.7 million compared with \$311.0 million in 2015. The increase in both periods resulted primarily from compensation related to the distribution of other financial services and products. In the twelve month period, the increase was also due in part to higher mutual fund commission amortization and higher write-offs of the unamortized balance of deferred selling commissions associated with redemptions.

Asset retention bonus and premium expense is comprised of the following:

- Asset retention bonus, which is based on the value of assets under management, increased by \$4.9 million and \$7.4 million for the three and twelve month periods ended December 31, 2016 to \$62.3 million and \$237.7 million, respectively, compared to 2015. The increase in both periods was primarily due to the increase in assets under management.
- Asset retention premium, which is a deferred component of compensation designed to promote Consultant retention, is based on assets under management at each year end. Asset retention premium expense increased by \$0.2 million and \$1.5 million for the three and twelve month periods ended December 31, 2016 to \$11.6 million and \$46.5 million, respectively, compared to 2015. The increase in both periods was related to the increase in year-end assets under management.

Non-commission expenses incurred by Investors Group primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual funds under management. Non-commission expenses were \$139.1 million for the fourth quarter of 2016 compared to \$127.2 million in 2015, an increase of \$11.9 million or 9.4%. For the twelve month period, non-commission expenses were \$543.5 million compared to \$499.3 million in 2015, an increase of \$44.2 million or 8.9%. The increase in both periods resulted largely from Consultant network support and other business development efforts.

Q4 2016 VS. Q3 2016

FEE INCOME

Management fee income increased by \$6.1 million or 1.8% to \$337.8 million in the fourth quarter of 2016 compared with the third quarter of 2016. The net increase in management fees in the fourth quarter was primarily due to the increase in average daily mutual fund assets of 2.1% for the quarter, as shown in Table 9. The average management fee rate in the fourth quarter of 2016 was 168.1 basis points of daily mutual fund assets compared to 168.4 basis points in the prior quarter.

Money market fund waivers totalled \$1.0 million in the fourth quarter of 2016 compared to \$1.1 million in the third quarter of 2016.

Administration fees increased to \$80.6 million in the fourth quarter of 2016 from \$79.2 million in the third quarter of 2016. The increase was due to the change in average mutual fund assets under management.

Distribution fee income of \$71.1 million in the fourth quarter of 2016 increased by \$16.4 million from \$54.7 million in the third quarter primarily due to an increase in distribution fee income from insurance product sales.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$20.1 million in the fourth quarter of 2016 compared to \$19.1 million in the previous quarter, an increase of \$1.0 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$19.4 million in the fourth quarter of 2016, an increase of \$1.3 million from \$18.1 million in the previous quarter as shown in Table 11.

EXPENSES

Commission expense in the current quarter was \$96.0 million compared with \$83.6 million in the previous quarter. The increase primarily related to higher compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$2.1 million to \$73.9 million in the fourth quarter of 2016 primarily due to the increase in assets under management.

Non-commission expenses were \$139.1 million in the current quarter, an increase of \$8.2 million or 6.3% from \$130.9 million in the third quarter of 2016. This increase related primarily to the seasonal nature of certain expenses normally incurred in the fourth quarter.

MACKENZIE INVESTMENTS

REVIEW OF THE BUSINESS

Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through 50 years in the investment management business.

Mackenzie earns revenue primarily from:

- Management fees earned from its mutual funds, sub-advised accounts and institutional clients.
- Fees earned from its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts.

MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of clients, shareholders, dealers, advisors and employees are closely aligned.

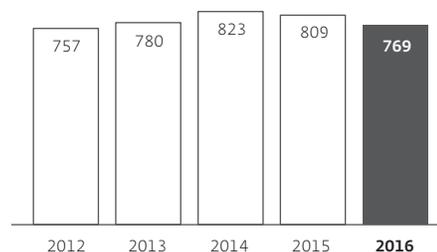
Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space, and build meaningful strategic relationships, both in support of our goal to be the company of choice for institutional investors, financial advisors and individual investors. We aim to achieve this mandate by gathering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Offering innovative and high quality investment solutions
- Accelerating distribution
- Advancing brand leadership
- Driving operational excellence and discipline
- Building on a winning culture

Fee Income – Mackenzie

For the financial year (\$ millions)



Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to Investors Group, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject

TABLE 12: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	2016 SEP. 30	2015 DEC. 31
Sales	\$ 1,953	\$ 1,651	\$ 1,652	18.3 %	18.2 %
Redemptions	1,977	1,721	2,079	14.9	(4.9)
Net sales (redemptions)⁽¹⁾	(24)	(70)	(427)	65.7	94.4
Investment returns	1,086	2,112	1,452	(48.6)	(25.2)
Net change in assets	1,062	2,042	1,025	(48.0)	3.6
Beginning assets	50,252	48,210	47,420	4.2	6.0
Ending assets	\$ 51,314	\$ 50,252	\$ 48,445	2.1 %	5.9 %
Daily average mutual fund assets	\$ 50,508	\$ 49,621	\$ 48,493	1.8 %	4.2 %

TWELVE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 DEC. 31	2015 DEC. 31			
Sales	\$ 6,939	\$ 6,965			(0.4) %
Redemptions	7,606	8,223			(7.5)
Net sales (redemptions)⁽²⁾	(667)	(1,258)			47.0
Investment returns	3,536	921			283.9
Net change in assets	2,869	(337)			N/M
Beginning assets	48,445	48,782			(0.7)
Ending assets	\$ 51,314	\$ 48,445			5.9 %
Daily average mutual fund assets	\$ 48,684	\$ 49,683			(2.0) %

(1) During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$58 million, redemptions of \$297 million and net redemptions of \$239 million.

(2) During the twelve months ended December 31, 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$199 million, redemptions of \$894 million and net redemptions of \$695 million.

to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

ASSETS UNDER MANAGEMENT

The changes in mutual fund assets under management are summarized in Table 12 and the changes in total assets under management are summarized in Table 13. At December 31, 2016, Mackenzie's mutual fund and total assets under management were \$51.3 billion and \$64.0 billion, respectively.

The change in Mackenzie's assets under management is determined by the increase or decrease in the market value of the securities held in the portfolios of investments and by the level of sales as compared to the level of redemptions.

CHANGE IN ASSETS UNDER MANAGEMENT – 2016 VS. 2015

Mackenzie's mutual fund assets under management were \$51.3 billion at December 31, 2016, an increase of 5.9% from \$48.4 billion at December 31, 2015. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2016 were \$12.7 billion, a decrease of 3.7% from \$13.2 billion last year. Mackenzie's total assets under management at December 31, 2016 were \$64.0 billion, an increase of 3.9% from \$61.7 billion at December 31, 2015.

During the fourth quarter of 2016 and the second quarter of 2015, MD Financial Management Inc. (MD) reassigned sub-advisory responsibilities on fixed income mandates totalling \$1.5 billion and \$10.3 billion respectively. The impact on Mackenzie's pre-tax earnings from these mandate changes is not meaningful. These amounts were included in Mackenzie's redemptions and average total assets under management during 2016 and 2015 in Table 13. Following the change, Mackenzie continues to advise MD on a number of balanced and equity mandates.

TABLE 13: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	2016 SEP. 30	2015 DEC. 31
Sales	\$ 2,871	\$ 2,437	\$ 2,593	17.8 %	10.7 %
Redemptions	4,368	2,382	2,959	83.4	47.6
Net sales (redemptions) ⁽¹⁾⁽²⁾	(1,497)	55	(366)	N/M	N/M
Investment returns	1,259	2,551	1,728	(50.6)	(27.1)
Net change in assets	(238)	2,606	1,362	N/M	N/M
Beginning assets	64,273	61,667	60,291	4.2	6.6
Ending assets	\$ 64,035	\$ 64,273	\$ 61,653	(0.4) %	3.9 %
Consists of:					
Mutual funds	\$ 51,314	\$ 50,252	\$ 48,445	2.1 %	5.9 %
Sub-advisory, institutional and other accounts	12,721	14,021	13,208	(9.3)	(3.7)
	\$ 64,035	\$ 64,273	\$ 61,653	(0.4) %	3.9 %
Average total assets ⁽⁴⁾	\$ 63,846	\$ 63,460	\$ 61,682	0.6 %	3.5 %
TWELVE MONTHS ENDED					
(\$ millions)					
					% CHANGE
Sales			\$ 11,004	\$ 11,938	(7.8) %
Redemptions			13,124	22,533	(41.8)
Net sales (redemptions) ⁽¹⁾⁽³⁾			(2,120)	(10,595)	80.0
Investment returns			4,502	1,372	228.1
Net change in assets			2,382	(9,223)	N/M
Beginning assets			61,653	70,876	(13.0)
Ending assets			\$ 64,035	\$ 61,653	3.9 %
Average total assets ⁽⁴⁾			\$ 61,942	\$ 67,535	(8.3) %

(1) Mackenzie gross sales and net sales include Exchange Traded Funds (ETFs) net creations of \$43 million in the fourth quarter of 2016 and \$113 million in the twelve months ended December 31, 2016.

(2) During the fourth quarter of 2016, MD Financial Management (MD) reassigned sub-advisory responsibilities on a \$1.5 billion fixed income mandate advised by Mackenzie. During the fourth quarter of 2015, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$58 million, redemptions of \$297 million and net redemptions of \$239 million.

(3) Included in the twelve months ended December 31, 2016 is the \$1.5 billion reassignment of fixed income mandates from MD.

Included in the twelve months ended December 31, 2015 are the following transactions:

– MD reassigned sub-advisory responsibilities on four fixed income mandates (totalling \$10.3 billion) advised by Mackenzie.

– Certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$199 million, redemptions of \$894 million and net redemptions of \$695 million.

(4) Based on daily average mutual fund assets and month-end average sub-advisory, institutional and other assets.

In the three months ended December 31, 2016, Mackenzie's mutual fund gross sales were \$2.0 billion, an increase of 18.2% from \$1.7 billion in the comparative period last year. Mutual fund redemptions in the current period were \$2.0 billion, a decrease of 4.9% from last year. Mutual fund net redemptions for the three months ended December 31, 2016 were \$24 million, as compared to net redemptions of \$427 million last year. During the current quarter, investment returns resulted in assets increasing by \$1.1 billion as compared to an increase of \$1.5 billion last year.

During the fourth quarter of 2015, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$58 million, redemptions of \$297 million and net redemptions of \$239 million. Excluding these transactions, mutual fund gross sales increased 22.5% in the three months ended December 31, 2016 compared to last year and net redemptions were \$24 million in the current quarter compared to net redemptions of \$188 million last year.

In the three months ended December 31, 2016, Mackenzie's gross sales for total assets under management were \$2.9 billion, an increase of 10.7% from the comparative period last year. Redemptions in the current period were \$4.4 billion, compared to \$3.0 billion last year. Net redemptions for the three months ended December 31, 2016 were \$1.5 billion, as compared to net redemptions of \$366 million last year. Included in the 2016 results are net creations of \$43 million from Exchange Traded Funds (ETFs), which were launched during 2016. During the current quarter, investment returns resulted in assets increasing by \$1.3 billion as compared to an increase of \$1.7 billion last year.

Excluding the MD transaction during the fourth quarter of 2016 and the mutual fund allocation changes made by third party programs during the fourth quarter of 2015 discussed previously, net redemptions were \$7 million in the current quarter compared to net redemptions of \$127 million last year.

In the twelve months ended December 31, 2016, Mackenzie's mutual fund gross sales were \$6.9 billion, a decrease of 0.4% from \$7.0 billion in the comparative period last year. Mutual fund redemptions in the current period were \$7.6 billion, a decrease of 7.5% from the previous year. Mutual fund net redemptions for the twelve months ended December 31, 2016 were \$667 million, as compared to net redemptions of \$1.3 billion last year. During the twelve months ended December 31, 2015, certain third party programs which included Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$199 million, redemptions of \$894 million and net redemptions of \$695 million. Excluding these transactions, gross sales increased 2.6% and redemptions increased 3.8% in the twelve months ended December 31, 2016 compared to last year and net redemptions were \$667 million in the current year compared to net redemptions of \$563 million last year. During the period, investment returns resulted in assets increasing by \$3.5 billion as compared to an increase of \$921 million last year.

Redemptions of long-term mutual funds in the three and twelve month periods ended December 31, 2016, were \$1.9 billion and \$7.3 billion, respectively, as compared to \$2.0 billion and \$7.9 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 15.2% in the fourth quarter of 2016, compared to 16.7% in the fourth quarter of 2015. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 15.0% at December 31, 2016, as compared to 16.2% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 15.0% at December 31, 2016 and 14.3% at December 31, 2015. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.5% at December 31, 2016. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

In the twelve months ended December 31, 2016, Mackenzie's gross sales for total assets under management were \$11.0 billion, a decrease of 7.8% from \$11.9 billion in the comparative period last year. Redemptions in the current period were \$13.1 billion compared to \$22.5 billion last year. Net redemptions for the twelve months ended December 31, 2016, were \$2.1 billion, as compared to net redemptions of \$10.6 billion last year. Included in the 2016 results are net creations of \$113 million from ETFs, which were launched during 2016. Excluding the MD transactions during the fourth quarter of 2016 and the second quarter of 2015, and the mutual fund allocation changes made by third party programs during 2015 discussed previously, net redemptions were \$630 million in the twelve months ended December 31, 2016, as compared to net sales of \$400 million last year. During the period, investment returns resulted in assets increasing by \$4.5 billion as compared to an increase of \$1.4 billion last year.

CHANGE IN ASSETS UNDER MANAGEMENT – Q4 2016 VS. Q3 2016

Mackenzie's mutual fund assets under management were \$51.3 billion at December 31, 2016, an increase of 2.1% from \$50.3 billion at September 30, 2016. Mackenzie's sub-advisory, institutional and other accounts decreased by 9.3% from \$14.0 billion to \$12.7 billion at December 31, 2016. The decline in sub-advisory, institutional and other accounts is primarily attributed to the \$1.5 billion transaction from MD as previously discussed. Mackenzie's total assets under management at December 31, 2016, were \$64.0 billion, a decrease of 0.4% from \$64.3 billion at September 30, 2016, as summarized in Table 13.

For the quarter ended December 31, 2016, Mackenzie mutual fund gross sales were \$2.0 billion, an increase of 18.3% from the third quarter of 2016. Mutual fund redemptions, which totalled \$2.0 billion for the fourth quarter, increased by 14.9% from the previous quarter. Net redemptions of Mackenzie mutual funds for the current quarter were \$24 million compared with net redemptions of \$70 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$1.9 billion, compared to \$1.6 billion in the third quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 15.2% compared to 13.2% for the third quarter. Net redemptions of long-term funds for the current quarter were \$78 million compared to net redemptions of \$80 million in the previous quarter.

INVESTMENT MANAGEMENT

Mackenzie delivers its investment offerings through a boutique structure, with ten separate in-house investment teams which each have a distinct focus and investment approach. This boutique approach promotes diversification of styles and ideas and provides Mackenzie with a breadth of capabilities. Oversight is conducted through a common process intended to promote superior risk-adjusted returns over time. This process is focused upon i) identifying and encouraging each team's performance edge, ii) promoting best practices in portfolio construction, and iii) emphasizing risk management.

In addition to its own investment teams, Mackenzie supplements its investment capabilities through the use of third party sub-advisors in selected areas. These sub-advisors include Putnam Investments Inc., JP Morgan Asset Management Inc., Waddell & Reed Financial, Inc., Irish Life Investment Managers Limited, and TOBAM.

During 2016, Mackenzie strengthened its investment management capabilities in two areas:

- In January, Mackenzie introduced a new Canadian Growth boutique, headed by a Lipper-award winning team previously from Bluewater Investment Management Inc. This change reflects the internalization of investment professionals from Bluewater, which has served Mackenzie through its exclusive sub-advisory relationship for twenty years.
- In March, the Mackenzie Cundill boutique was strengthened through leadership changes with the hire of two investment professionals to lead the team. These changes build on Cundill's legacy of value investing principles.

Mackenzie's assets under management are diversified by investment objective as set out in Table 14. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2016, 57.2% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 35.8% for the three year time frame and 37.3% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar[†] fund ranking service. At December 31, 2016, 73.0% of Mackenzie mutual fund assets measured by Morningstar[†] had a rating of three stars or better and 40.8% had a rating of four or five stars. This compared to the Morningstar[†] universe of 76.8% for three stars or better and 39.5% for four and five star funds at December 31, 2016. These ratings exclude the Quadrus Group of Funds[†].

PRODUCTS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Through a number of product launches in 2016, Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients.

EXCHANGE TRADED FUNDS

During 2016 and early 2017, Mackenzie launched ten Exchange Traded Funds (ETFs) that are traded on the Toronto Stock Exchange. The addition of these ETFs complements Mackenzie's broad and innovative fund line-up and reflects its investor-focus vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios.

TABLE 14: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

(\$ millions)	2016		2015	
Equity				
Domestic	\$ 18,439	28.8 %	\$ 16,203	26.3 %
Foreign	21,725	33.9	20,702	33.5
	40,164	62.7	36,905	59.8
Balanced				
Domestic	10,678	16.7	10,267	16.7
Foreign	5,635	8.8	4,685	7.6
	16,313	25.5	14,952	24.3
Fixed Income				
Domestic	6,348	9.9	8,308	13.5
Foreign	44	0.1	84	0.1
	6,392	10.0	8,392	13.6
Money Market				
Domestic	1,166	1.8	1,404	2.3
Total	\$ 64,035	100.0 %	\$ 61,653	100.0 %
Consists of:				
Mutual funds	\$ 51,314	80.1 %	\$ 48,445	78.6 %
Sub-advisory, institutional and other accounts	12,721	19.9	13,208	21.4
	\$ 64,035	100.0 %	\$ 61,653	100.0 %

- On April 19, 2016, Mackenzie launched four unique fixed income actively managed ETFs. This suite of ETFs is managed by Mackenzie's Fixed Income Team and is comprised as follows:
 - ▶ Mackenzie Core Plus Global Fixed Income ETF (TSX:MGB)
 - ▶ Mackenzie Unconstrained Bond ETF (TSX:MUB)
 - ▶ Mackenzie Floating Rate Income ETF (TSX:MFT)
 - ▶ Mackenzie Core Plus Canadian Fixed Income ETF (TSX:MKB)
- On June 21, 2016, Mackenzie launched two smart beta ETFs designed to offer investors a more diversified portfolio to reduce portfolio biases. Mackenzie has partnered with TOBAM, a global award-winning asset manager and index provider to some of the world's largest pension funds, to utilize their investment process in this suite of ETFs. TOBAM's methodology seeks to protect portfolios from structural biases and unmanaged risks often found in market capitalization weighted indices. These ETFs are designed to track the performance of select rules-based indices from the TOBAM Maximum Diversification Index Series. Each ETF aims

to create a more diversified portfolio relative to a market capitalization weighted benchmark:

- ▶ Mackenzie Maximum Diversification Canada Index ETF (TSX:MKC)
 - ▶ Mackenzie Maximum Diversification US Index ETF (TSX:MUS)
- On September 7, 2016 and January 23, 2017, Mackenzie expanded its suite of Maximum Diversification Index ETFs with the launch of four new ETFs through its relationship with TOBAM. These ETFs provide investors with innovative options to invest with broad geographic diversification, including the US, Europe, Asia and emerging markets:
 - ▶ Mackenzie Maximum Diversification All World Developed Index ETF (TSX:MWD)
 - ▶ Mackenzie Maximum Diversification All World Developed ex North America Index ETF (TSX:MXU)
 - ▶ Mackenzie Maximum Diversification Developed Europe Index ETF (TSX:MEU)
 - ▶ Mackenzie Maximum Diversification Emerging Markets Index ETF (TSX:MEE)

MUTUAL FUNDS

During 2016 and early 2017, Mackenzie launched twelve mutual funds and merged ten funds as follows:

- On June 27, 2016, Mackenzie launched two mutual funds that address investors' needs of low volatility solutions and global diversification.
- Between June 2016 and January 2017, Mackenzie launched six mutual funds sub-advised by TOBAM. These mutual funds are built with a core investment into the Mackenzie Maximum Diversification Index ETFs and may actively invest in other ETFs, or in securities directly, from time to time for active risk management purposes:
 - ▶ Mackenzie High Diversification Canadian Equity Class
 - ▶ Mackenzie High Diversification US Equity Fund
 - ▶ Mackenzie High Diversification Global Equity Fund
 - ▶ Mackenzie High Diversification International Equity Fund
 - ▶ Mackenzie High Diversification European Equity Fund
 - ▶ Mackenzie High Diversification Emerging Markets Equity Fund
- On October 17, 2016, Mackenzie launched four new Corporate Class mutual funds to further strengthen its Corporate Class offerings.
- On November 25, 2016, Mackenzie merged ten funds that were sub-scale or have overlapping investment objectives with other funds. These changes were designed to simplify choice, to help advisors navigate the product shelf, and to strengthen its mutual fund product lineup.

REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie's earnings before interest and taxes are presented in Table 15.

2016 VS. 2015

REVENUES

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised

and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At December 31, 2016, these series had \$4.8 billion in assets, an increase of 35.1% from the prior year.

Management fees were \$172.3 million for the three months ended December 31, 2016, an increase of \$2.5 million or 1.5% from \$169.8 million last year. The net increase in management

TABLE 15: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	% CHANGE	
				2016 SEP. 30	2015 DEC. 31
Revenues					
Management fees	\$ 172.3	\$ 170.4	\$ 169.8	1.1 %	1.5 %
Administration fees	23.8	24.0	23.8	(0.8)	–
Distribution fees	2.1	2.2	2.4	(4.5)	(12.5)
	198.2	196.6	196.0	0.8	1.1
Net investment income and other	0.7	1.8	1.1	(61.1)	(36.4)
	198.9	198.4	197.1	0.3	0.9
Expenses					
Commission	12.4	12.9	13.8	(3.9)	(10.1)
Trailing commission	61.4	60.7	60.1	1.2	2.2
Non-commission	76.3	78.8	72.3	(3.2)	5.5
	150.1	152.4	146.2	(1.5)	2.7
Earnings before interest and taxes	\$ 48.8	\$ 46.0	\$ 50.9	6.1 %	(4.1) %
TWELVE MONTHS ENDED (\$ millions)					
			2016 DEC. 31	2015 DEC. 31	% CHANGE
Revenues					
Management fees			\$ 666.7	\$ 700.2	(4.8) %
Administration fees			93.0	98.5	(5.6)
Distribution fees			9.3	10.6	(12.3)
			769.0	809.3	(5.0)
Net investment income and other			4.0	6.0	(33.3)
			773.0	815.3	(5.2)
Expenses					
Commission			53.1	58.1	(8.6)
Trailing commission			238.2	246.4	(3.3)
Non-commission			310.3	294.5	5.4
			601.6	599.0	0.4
Earnings before interest and taxes			\$ 171.4	\$ 216.3	(20.8) %

fees in the current quarter was due to an increase in average assets under management of 3.5%, offset by a 2.2% decline in average management fee rate. Mackenzie's average management fee rate in the fourth quarter of 2016 was 107.1 basis points compared to 109.5 basis points in 2015. The decrease in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products.

Management fees were \$666.7 million for the twelve months ended December 31, 2016, a decrease of \$33.5 million or 4.8% from \$700.2 million last year. The net decrease in management fees was due to the decline in average assets under management of 8.3% offset by an increase in average management fee rate. Mackenzie's average management fee rate in the twelve months ended December 31, 2016 was 107.4 basis points compared to 103.9 basis points in 2015. The increase in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in retail-priced products, following the loss of certain sub-advisory mandates from MD Financial Management Inc. In addition, there was one more calendar day in 2016 than 2015, which resulted in an increase in management fees in the current year.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were \$23.8 million for the three months ended December 31, 2016, consistent with 2015. Administration fees were \$93.0 million for the twelve months ended December 31, 2016, a decrease of \$5.5 million or 5.6% from \$98.5 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended December 31, 2016 was \$2.1 million, compared to \$2.4 million last year. Distribution fee income in the twelve months ended December 31, 2016 was \$9.3 million, a decrease of \$1.3 million from \$10.6 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.7 million for the three months ended December 31, 2016 compared to \$1.1 million last year and \$4.0 million for the twelve months ended December 31, 2016, a decrease of \$2.0 million from \$6.0 million last year.

EXPENSES

Mackenzie's expenses were \$150.1 million for the three months ended December 31, 2016, an increase of \$3.9 million or 2.7% from \$146.2 million in 2015. Expenses for the twelve months ended December 31, 2016 were \$601.6 million, an increase of \$2.6 million or 0.4% from \$599.0 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was \$12.4 million in the three months ended December 31, 2016, as compared to \$13.8 million last year. Commission expense in the twelve months ended December 31, 2016 was \$53.1 million compared to \$58.1 million in 2015. These declines are consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$61.4 million in the three months ended December 31, 2016, an increase of \$1.3 million or 2.2% from \$60.1 million last year. The increase in trailing commission in the current quarter was due to a 4.2% increase in daily average mutual fund assets offset by a 2.0% decline in effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 48.6 basis points in the current quarter compared to 49.6 basis points last year due to a change in composition of mutual fund assets towards series of mutual funds that do not pay trailing commissions.

Trailing commissions in the twelve months ended December 31, 2016 were \$238.2 million, a decrease of \$8.2 million or 3.3% from \$246.4 million last year. The decline in trailing commissions in the twelve months ended December 31, 2016 resulted both from the period over period decline in average mutual fund assets, as well as a change in the composition of mutual fund assets towards series of mutual funds that do not pay trailing commissions. Trailing commissions as a percentage of average mutual fund assets under management was 48.9 basis points in the twelve months ended December 31, 2016 as compared to 49.6 basis points in 2015.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$76.3 million in the three months ended December 31, 2016, an increase of \$4.0 million or 5.5% from \$72.3 million in 2015. Non-commission expenses in the twelve months ended December 31, 2016 were \$310.3 million, an increase of \$15.8 million or 5.4% from \$294.5 million in 2015.

Q4 2016 VS. Q3 2016

REVENUES

Mackenzie's revenues were \$198.9 million for the current quarter, an increase of \$0.5 million or 0.3% from \$198.4 million in the third quarter of 2016.

Management fees were \$172.3 million for the current quarter, an increase of \$1.9 million or 1.1% from \$170.4 million in the third quarter of 2016. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$63.8 billion in the current quarter compared to \$63.5 billion in the prior quarter, an increase of 0.6%.
- Mackenzie's average management fee rate was 107.1 basis points in the current quarter as compared to 106.5 basis points in the third quarter of 2016 due to a change in the composition of assets under management.

Administration fees were \$23.8 million in the current quarter, a decrease of \$0.2 million or 0.8% from \$24.0 million in the prior quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.7 million for the current quarter compared to \$1.8 million in the third quarter of 2016.

EXPENSES

Mackenzie's expenses were \$150.1 million for the current quarter, a decrease of \$2.3 million or 1.5% from \$152.4 million in the third quarter of 2016.

Commission expense related to the amortization of selling commissions was \$12.4 million in the quarter ended December 31, 2016, a decrease of 3.9% from the third quarter of 2016.

Trailing commissions were \$61.4 million in the current quarter, an increase of \$0.7 million or 1.2% from \$60.7 million in the third quarter of 2016. The change in trailing commissions reflects the 1.8% period over period increase in average mutual fund assets under management, offset by a decline in effective trailing commission rate. The effective trailing commission rate for the fourth quarter was 48.6 basis points, compared to 48.9 basis points in the third quarter.

Non-commission expenses were \$76.3 million in the current quarter, compared to \$78.8 million in the third quarter of 2016.

CORPORATE AND OTHER

REVIEW OF SEGMENT OPERATING RESULTS

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc. (Lifeco), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

During 2016, the Company made investments in Personal Capital Corporation, WealthSimple Financial Corporation and Portag3 Ventures and recently announced the investment in China Asset Management Co., Ltd., which is expected to close in the first half of 2017 subject to customary closing conditions, including Chinese regulatory approvals. The earnings impact of these investments will be reported in the Corporate and Other segment in future quarters.

Corporate and other earnings before interest and taxes are presented in Table 16.

2016 VS. 2015

The proportionate share of affiliate's earnings decreased by \$2.6 million in the three month period and \$6.8 million in the

twelve month period and reflects equity earnings from Lifeco, which is discussed in the Consolidated Financial Position section of this MD&A. Net investment income and other decreased to \$1.4 million in the fourth quarter of 2016 compared to \$1.9 million in 2015 and decreased to \$8.0 million in the year ended December 31, 2016 compared to \$8.1 million in 2015.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.1 million lower in the fourth quarter of 2016 compared to the same period in 2015 and \$0.3 million lower in the year ended December 31, 2016 compared with 2015.

Q4 2016 VS. Q3 2016

The proportionate share of Lifeco's earnings increased by \$0.5 million to \$26.5 million in the fourth quarter of 2016 compared to the third quarter of 2016. Net investment income and other decreased to \$1.4 million in the fourth quarter of 2016 compared to \$2.2 million in the third quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.1 million lower in the fourth quarter of 2016 compared with the previous quarter.

TABLE 16: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)	2016 DEC. 31	2016 SEP. 30	2015 DEC. 31	% CHANGE	
				2016 SEP. 30	2015 DEC. 31
Revenues					
Fee income	\$ 64.7	\$ 65.1	\$ 61.7	(0.6) %	4.9 %
Net investment income and other	1.4	2.2	1.9	(36.4)	(26.3)
Proportionate share of affiliate's earnings	26.5	26.0	29.1	1.9	(8.9)
	92.6	93.3	92.7	(0.8)	(0.1)
Expenses					
Commission	44.5	44.1	41.4	0.9	7.5
Non-commission	15.7	15.2	15.0	3.3	4.7
	60.2	59.3	56.4	1.5	6.7
Earnings before interest and taxes	\$ 32.4	\$ 34.0	\$ 36.3	(4.7) %	(10.7) %
TWELVE MONTHS ENDED					
(\$ millions)			2016 DEC. 31	2015 DEC. 31	% CHANGE
Revenues					
Fee income			\$ 254.9	\$ 250.6	1.7 %
Net investment income and other			8.0	8.1	(1.2)
Proportionate share of affiliate's earnings			104.2	111.0	(6.1)
			367.1	369.7	(0.7)
Expenses					
Commission			173.8	171.3	1.5
Non-commission			61.8	58.6	5.5
			235.6	229.9	2.5
Earnings before interest and taxes			\$ 131.5	\$ 139.8	(5.9) %

IGM FINANCIAL INC.

CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$15.6 billion at December 31, 2016, compared to \$14.8 billion at December 31, 2015.

SECURITIES

The composition of the Company's securities holdings is detailed in Table 17.

AVAILABLE FOR SALE SECURITIES

Securities classified as available for sale include corporate investments and investments in proprietary investment funds. 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, at which time they are reclassified to the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Personal Capital Corporation (Personal Capital), WealthSimple Financial Corporation (WealthSimple) and Portag3 Ventures (Portag3).

In May 2016, the Company invested \$64.5 million (USD \$50 million) in Personal Capital, a market-leading digital wealth advisor that is incorporated in and operates in the U.S. In December 2016, the Company invested an additional \$32.8 million (USD \$25 million) in Personal Capital.

In the fourth quarter of 2016, the Company invested a total of \$35 million in WealthSimple and Portag3. WealthSimple is an online investment manager that provides financial investment guidance. The investment was entered into through a limited

partnership controlled by the Company's parent, Power Financial Corporation. Portag3 is an early-stage investment fund dedicated to backing innovating financial services companies and is controlled by the Company's parent, Power Financial Corporation.

FAIR VALUE THROUGH PROFIT OR LOSS SECURITIES

Securities classified as fair value through profit or loss include equity securities and proprietary investment funds. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund as discussed in Note 2 of the Consolidated Financial Statements. The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

OTHER INVESTMENTS

China Asset Management Co., Ltd.

On December 29, 2016 and January 5, 2017, the Company entered into agreements to acquire 10% and 3.9% interests, respectively, in China Asset Management Co., Ltd. (China AMC), a fund management company in China. The aggregate consideration for the investment is approximately \$647 million (RMB¥3.3 billion). As at December 31, 2016, Other assets included a deposit of \$193.5 million (RMB¥1.0 billion) related to the investment. The transactions are expected to close in the first half of 2017, subject to customary closing conditions, including Chinese regulatory approvals.

TABLE 17: SECURITIES

(\$ millions)	DECEMBER 31, 2016		DECEMBER 31, 2015	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Corporate investments	\$ 141.6	\$ 152.0	\$ 5.7	\$ 9.2
Proprietary investment funds	6.1	6.4	6.0	6.1
	147.7	158.4	11.7	15.3
Fair value through profit or loss				
Equity securities	15.5	17.7	12.2	10.5
Proprietary investment funds	49.4	49.1	33.7	34.2
	64.9	66.8	45.9	44.7
	\$ 212.6	\$ 225.2	\$ 57.6	\$ 60.0

TABLE 18: LOANS

(\$ millions)	DECEMBER 31, 2016	DECEMBER 31, 2015
Loans and receivables	\$ 7,644.5	\$ 7,008.9
Less: Collective allowance	0.7	0.7
	7,643.8	7,008.2
Held for trading	339.5	384.2
	\$ 7,983.3	\$ 7,392.4

LOANS

The composition of the Company's loans is detailed in Table 18.

Loans consisted of residential mortgages and represented 51.1% of total assets at December 31, 2016, compared to 49.8% at December 31, 2015.

Loans classified as loans and receivables are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors.

An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.7 billion at December 31, 2016, compared to \$7.1 billion at December 31, 2015.

Loans classified as held for trading are residential mortgages held temporarily by the Company pending sale or securitization.

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. Investors Group services \$13.5 billion of residential mortgages, including \$2.4 billion originated by subsidiaries of Lifeco.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and

through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps 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, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the fourth quarter of 2016, the Company securitized loans through its mortgage banking operations with cash proceeds of \$698.3 million compared to \$640.8 million in 2015. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 6 of the Consolidated Financial Statements.

TABLE 19: INVESTMENT IN AFFILIATE

TWELVE MONTHS ENDED (\$ millions)	2016 DEC. 31	2015 DEC. 31
Carrying value, beginning of year	\$ 904.3	\$ 794.4
Proportionate share of earnings	104.2	111.0
Dividends received	(55.0)	(51.8)
Proportionate share of other comprehensive income (loss) and other adjustments	(64.6)	50.7
Carrying value, end of year	\$ 888.9	\$ 904.3
Fair value, end of year	\$ 1,397.6	\$ 1,371.3

INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's 4% equity interest in Great-West Lifeco Inc. (Lifeco). IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the year ended December 31, 2016 compared with 2015 are shown in Table 19.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash and cash equivalents totalled \$611.0 million at December 31, 2016 compared with \$983.0 million at December 31, 2015.

Cash and cash equivalents related to the Company's deposit operations were \$2.7 million at December 31, 2016, compared to \$2.8 million at December 31, 2015, as shown in Table 20.

Working capital totalled \$557.8 million at December 31, 2016 compared with \$980.3 million at December 31, 2015. Working capital excludes the Company's deposit operations.

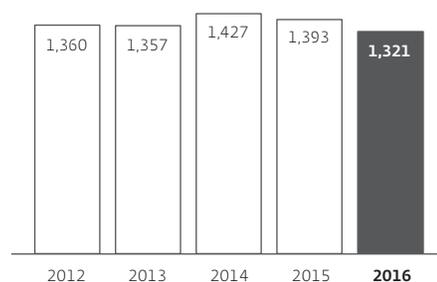
Working capital is utilized to:

- Finance ongoing operations, including the funding of selling commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) totalled \$1,320.8 million for the year ended December 31, 2016 compared to \$1,392.6 million in 2015. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$235.8 million in 2016 compared to \$232.9 million in 2015. As well as being

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

For the financial year (\$ millions)



Adjusted EBITDA

2012 excluded the proportionate share of the charge related to the changes in an affiliate's litigation provisions.

2013 excluded a charge related to restructuring and other charges and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2014 excluded a charge related to client distributions and other costs, and restructuring and other charges.

2015 excluded a charge related to restructuring and other charges.

an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

Refer to the Financial Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

TABLE 20: DEPOSIT OPERATIONS – FINANCIAL POSITION

AS AT DECEMBER 31 (\$ millions)	2016	2015
Assets		
Cash and cash equivalents	\$ 2.7	\$ 2.8
Client funds on deposit	455.5	291.7
Accounts and other receivables	0.5	0.6
Loans	25.1	25.4
Total assets	\$ 483.8	\$ 320.5
Liabilities and shareholders' equity		
Deposit liabilities	\$ 471.2	\$ 310.1
Other liabilities	2.6	0.5
Shareholders' equity	10.0	9.9
Total liabilities and shareholders' equity	\$ 483.8	\$ 320.5

CASH FLOWS

Table 21 - Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2016. Cash and cash equivalents decreased by \$372.0 million in 2016 compared to a decrease of \$232.3 million in 2015.

Operating activities, before payment of commissions, generated \$971.5 million during the year ended December 31, 2016, as compared to \$960.3 million in 2015. Cash commissions paid were \$234.9 million in 2016 compared to \$249.9 million in 2015. Cash flows from operating activities, net of commissions paid, were \$736.6 million in 2016 as compared to \$710.4 million in 2015.

Financing activities during the year ended December 31, 2016 compared to 2015 related to:

- A net decrease of \$0.5 million in deposits and certificates in 2016 compared to a net decrease of \$1.2 million in 2015.
- A net increase of \$631.1 million in 2016 arising from obligations to securitization entities compared to a net increase of \$336.0 million in 2015.
- Proceeds received on the issuance of common shares of \$3.4 million in 2016 compared with \$14.2 million in 2015.
- The purchase of 4,346,600 common shares in 2016 under IGM Financial's normal course issuer bid at a cost of \$155.7 million compared with the purchase of 7,018,500 common shares at a cost of \$288.4 million in 2015.
- The payment of perpetual preferred share dividends which totalled \$8.8 million in 2016, unchanged from 2015.
- The payment of regular common share dividends which totalled \$544.4 million in 2016 compared to \$560.1 million in 2015.

Investing activities during the year ended December 31, 2016 compared to 2015 primarily related to:

- The purchases of securities totalling \$231.3 million and sales of securities with proceeds of \$80.3 million in 2016 compared to \$127.9 million and \$167.4 million, respectively, in 2015. The purchase of securities includes \$135.2 million representing the investments in Personal Capital, WealthSimple and Portag3.
- A net increase in loans of \$582.9 million in 2016 compared to a net increase of \$360.9 million in 2015 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$64.5 million in 2016 compared to \$76.1 million in 2015.
- Deposit of \$193.0 million in the fourth quarter of 2016 related to the Company's investment in China AMC.

CAPITAL RESOURCES

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 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 which totalled \$6.1 billion at December 31, 2016, unchanged from December 31, 2015. 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

TABLE 21: CASH FLOWS

TWELVE MONTHS ENDED (\$ millions)	2016 DEC. 31	2015 DEC. 31	% CHANGE
Operating activities			
Before payment of commissions	\$ 971.5	\$ 960.3	1.2 %
Commissions paid	(234.9)	(249.9)	6.0
Net of commissions paid	736.6	710.4	3.7
Financing activities	(74.9)	(508.4)	85.3
Investing activities	(1,033.7)	(434.3)	(138.0)
Decrease in cash and cash equivalents	(372.0)	(232.3)	(60.1)
Cash and cash equivalents, beginning of year	983.0	1,215.3	(19.1)
Cash and cash equivalents, end of year	\$ 611.0	\$ 983.0	(37.8)%

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.

The total outstanding long-term debt was \$1,325.0 million at December 31, 2016, unchanged from December 31, 2015. 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.

On January 26, 2017, IGM Financial issued \$400 million of 10 year, 3.44% debentures priced to provide a yield to maturity of 3.448% and \$200 million of 30 year, 4.56% debentures priced to provide a yield to maturity of 4.560%. The offering was made pursuant to a prospectus supplement to IGM Financial's short form base shelf prospectus dated November 29, 2016. The net proceeds will be used by IGM Financial to finance a substantial portion of the announced acquisitions of an equity interest in China AMC (refer to Note 7 to the Consolidated Financial Statements) and for general corporate purposes.

Perpetual preferred shares of \$150 million at December 31, 2016 remain unchanged from December 31, 2015.

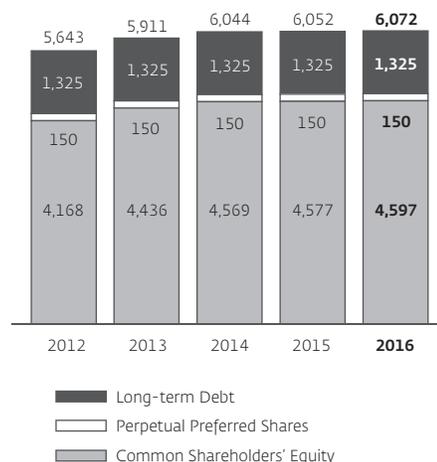
The Company purchased 4,346,600 common shares during the year ended December 31, 2016 at a cost of \$155.7 million under its normal course issuer bid (refer to Note 16 to the Consolidated Financial Statements). The Company commenced a normal course issuer bid on March 20, 2016 to purchase up to 5% of 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 2016 included the declaration of perpetual preferred share dividends of \$8.8 million or \$1.475 per share and common share dividends of \$542.0 million or \$2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

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 IGM Financial'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.

In the fourth quarter of 2016, Standard & Poor's (S&P) increased the rating of the Company's senior unsecured debentures to "A+" from "A" with a stable outlook. Following the Company's announcement that it had entered into an agreement to acquire

Capital

As at December 31 (\$ millions)



a 10% interest in China AMC, S&P changed the Company's rating from stable to "CreditWatch negative". Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A+ rating assigned to IGM Financial's senior unsecured debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale,

debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

According to DBRS, the "Stable" rating trend helps give investors an understanding of DBRS's opinion regarding the outlook for the rating.

FINANCIAL INSTRUMENTS

Table 22 presents the carrying amounts and fair values of financial assets and financial liabilities. The table 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.

Fair value is determined using the following methods and assumptions:

- Securities and other financial assets and 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 held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables 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.

See Note 22 of the Consolidated Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the twelve months ended December 31, 2016.

TABLE 22: FINANCIAL INSTRUMENTS

(\$ millions)	DECEMBER 31, 2016		DECEMBER 31, 2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Securities				
– Available for sale	\$ 158.4	\$ 158.4	\$ 15.4	\$ 15.4
– Held for trading	66.8	66.8	44.7	44.7
Loans				
– Held for trading	339.5	339.5	384.2	384.2
Derivative financial instruments	42.8	42.8	58.4	58.4
Financial assets recorded at amortized cost				
Loans				
– Loans and receivables	7,643.8	7,867.7	7,008.2	7,265.9
Financial liabilities recorded at fair value				
Derivative financial instruments	38.2	38.2	57.8	57.8
Other financial liabilities	9.8	9.8	4.1	4.1
Financial liabilities recorded at amortized cost				
Deposits and certificates	471.2	472.2	310.1	311.8
Obligations to securitization entities	7,721.0	7,873.1	7,092.4	7,272.4
Long-term debt	1,325.0	1,610.9	1,325.0	1,661.2

RISK MANAGEMENT

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

RISK GOVERNANCE

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Executive Committee of the Board. Additional oversight is provided by the Enterprise Risk Management (ERM) Department, corporate and distribution compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Executive Committee is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.
- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by: i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.
- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Compensation Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the President and Chief Executive Officer, the Chief Financial Officer, and the General Counsel and Chief Compliance Officer. The committee is responsible for management providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Information Services Risk Oversight committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and sales compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

RISK APPETITE AND RISK PRINCIPLES

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

RISK MANAGEMENT PROCESS

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.

- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Executive Committee of the Board.

RISK MANAGEMENT CULTURE

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

1) FINANCIAL RISK

LIQUIDITY AND FUNDING RISK

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 management by the Financial Risk Management Committee, a committee of finance business leaders, and by the Investment Committee of the Board of Directors.

A key funding requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions on the sale of mutual 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 CMB Program.

The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2016 and 2015, the Company:

- Continued to expand our funding channels by issuing NHA MBS to multiple purchasers.
- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Filed a short form base shelf prospectus to give the Company the flexibility to access debt and equity markets.
- Increased the Company's committed lines of credit by \$300 million during the fourth quarter of 2016.
- In January 2017, the Company issued \$400 million of 10 year, 3.44% debentures and \$200 million of 30 year, 4.56% debentures. The net proceeds will be used by IGM Financial to finance a substantial portion of its previously announced acquisition of a 13.9% equity interest in China AMC and for general corporate purposes.

The Company's contractual obligations are reflected in Table 23.

The maturity schedule for long-term debt of \$1,325 million, with no debt repayment due until 2018, is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

TABLE 23: CONTRACTUAL OBLIGATIONS

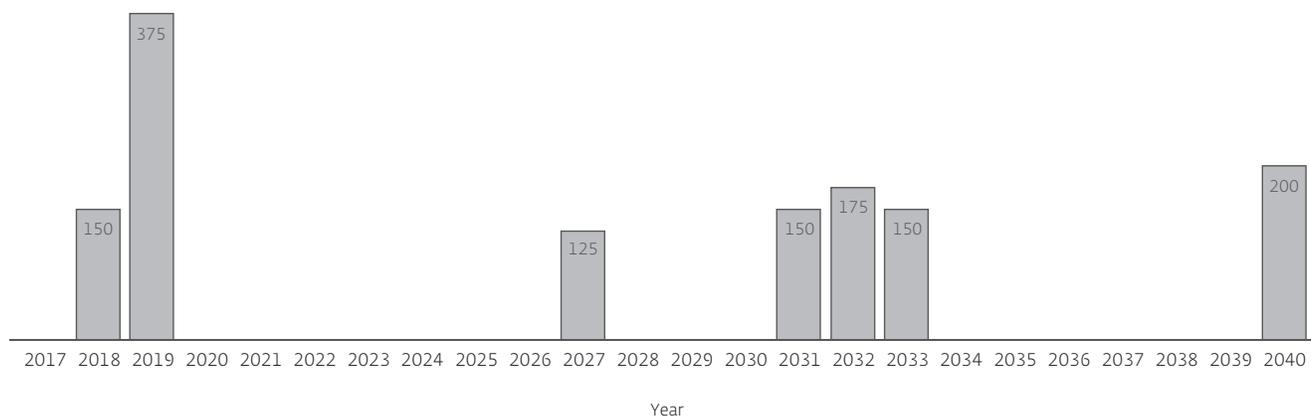
AS AT DECEMBER 31, 2016 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 17.7	\$ 20.1	\$ 0.4	\$ 38.2
Deposits and certificates	453.4	8.2	7.4	2.2	471.2
Obligations to securitization entities	-	1,340.0	6,310.5	70.5	7,721.0
Long-term debt	-	-	525.0	800.0	1,325.0
Operating leases ⁽¹⁾	-	30.0	84.5	42.0	156.5
Pension funding ⁽²⁾	-	37.5	-	-	37.5
Total contractual obligations	\$ 453.4	\$ 1,433.4	\$ 6,947.5	\$ 915.1	\$ 9,749.4

(1) Includes future minimum lease payments related to office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2017 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.

Long-Term Debt Maturity Schedule

(\$ millions)



In addition to IGM Financial'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 \$825 million at December 31, 2016, compared to \$525 million at December 31, 2015. The lines of credit as at December 31, 2016 consisted of committed lines of \$650 million (December 31, 2015 – \$350 million) and uncommitted lines of \$175 million (December 31, 2015 – \$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, 2016 and December 31, 2015, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

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 the 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 2016, the Company made contributions of \$19.7 million (2015 – \$19.6 million). The Company expects to make contributions of approximately \$37.5 million in 2017. 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.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2015.

CREDIT RISK

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.

Cash and Cash Equivalents

At December 31, 2016, cash and cash equivalents of \$611.0 million (2015 – \$983.0 million) consisted of cash balances of \$84.5 million (2015 – \$105.4 million) on deposit with Canadian chartered banks and cash equivalents of \$526.5 million (2015 – \$877.6 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$44.1 million (2015 – \$132.2 million), provincial government treasury bills and promissory notes of \$197.1 million (2015 –

\$446.6 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$246.8 million (2015 - \$298.8 million), and highly rated corporate commercial paper of \$38.5 million (2015 - nil).

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.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2015.

Mortgage Portfolio

As at December 31, 2016, residential mortgages, recorded on the Company's balance sheet, of \$8.0 billion (2015 - \$7.4 billion) consisted of \$7.6 billion sold to securitization programs (2015 - \$7.0 billion), \$339.5 million held pending sale or securitization (2015 - \$384.2 million) and \$29.2 million related to the Company's intermediary operations (2015 - \$27.7 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 \$4.9 billion (December 31, 2015 - \$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 \$2.7 billion (December 31, 2015 - \$2.4 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$54.7 million (December 31, 2015 - \$47.7 million) and \$45.0 million (December 31, 2015 - \$38.9 million), respectively, at December 31, 2016.

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 29.1% of mortgages held in ABCP Trusts insured at December 31, 2016 (December 31, 2015 - 36.6%).

At December 31, 2016, residential mortgages recorded on balance sheet were 73.9% insured (December 31, 2015 - 76.8%). As at December 31, 2016, impaired mortgages on these portfolios were \$2.6 million, compared to \$2.9 million at December 31, 2015. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.9 million at December 31, 2016, compared to \$1.4 million at December 31, 2015.

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.

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, 2016, unchanged from December 31, 2015, 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 mortgage portfolios have not changed materially since December 31, 2015.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, to hedge market risk related to certain stock-based compensation arrangements, and to hedge foreign exchange risk on payments due on the close of the China AMC transaction. These derivatives are discussed more fully under the Market Risk section of this MD&A.

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 fulfil 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 \$42.8 million (2015 - \$58.4 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 \$3.0 million at December 31, 2016 (2015 - \$1.0 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, 2016. Management of credit risk related to derivatives has not changed materially since December 31, 2015.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 6 and 21 to the Annual Financial Statements.

MARKET RISK

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.

Interest Rate Risk

The Company is exposed to interest rate risk on its mortgage 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 \$23.1 million (December 31, 2015 - negative \$47.4 million) and an outstanding notional amount of \$1.0 billion at December 31, 2016 (December 31, 2015 - \$740 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 \$30.0 million (December 31, 2015 - \$54.5 million), on an outstanding notional amount of \$2.1 billion at December 31, 2016 (December 31, 2015 - \$1.8 billion). The net fair value of these swaps of \$6.9 million at December 31, 2016 (December 31, 2015 - \$7.1 million) are recorded on

balance sheet and have an outstanding notional amount of \$3.1 billion (December 31, 2015 - \$2.6 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 fair value of these swaps was \$0.4 million (December 31, 2015 - negative \$0.1 million) on an outstanding notional amount of \$123 million at December 31, 2016 (December 31, 2015 - \$88 million).

As at December 31, 2016, the impact to annual net earnings of a 100 basis point increase in interest rates would have been an increase of approximately \$0.2 million (December 31, 2015 - a decrease of \$0.7 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2015.

Equity Price Risk

The Company is exposed to equity price risk on its equity securities which are classified as either available for sale or fair value through profit or loss. The fair value of the equity securities was \$225.2 million at December 31, 2016 (December 31, 2015 - \$60.0 million), as shown in Table 17.

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

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. The Company has hedged its exposure to the final payments due on the close of the China AMC transaction through the use of forward currency contracts.

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At December 31, 2016, IGM Financial's total assets under management were \$141.8 billion compared to \$133.6 billion at December 31, 2015.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include

TABLE 24: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT DECEMBER 31, 2016	MUTUAL FUNDS	TOTAL
Cash	0.9 %	1.2 %
Short-term fixed income and mortgages	7.3	7.3
Other fixed income	22.6	22.6
Domestic equity	29.9	29.9
Foreign equity	36.1	35.9
Real Property	3.2	3.1
	100.0 %	100.0 %
CAD	63.2 %	63.4 %
USD	25.0	24.9
Other	11.8	11.7
	100.0 %	100.0 %

market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

2) OPERATIONAL RISK

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security and system failures,

errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's compliance departments, ERM Department and Internal Audit Department.

Operational risks driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to cyber security and the increasing sophistication of cyber attacks in the marketplace. Such an attack could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. The Company continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cyber security threats.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

MODEL RISK

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

LEGAL AND REGULATORY COMPLIANCE

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to securities markets, the provision of financial products and services, including fund management, distribution, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are significant and are being continually changed. The Company and its subsidiaries are subject to reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of

regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Vice-President, Regulatory Affairs. It also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct incorporates many policies relating to the conduct of directors, officers and employees, and covers a variety of relevant topics, such as anti-money laundering and privacy. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company has a number of different compliance departments responsible for providing oversight of investment management and distribution-related compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

CONTINGENCIES

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.

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well being of the Company and its shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its seven committees. The Company previously had two Co-Presidents and Chief Executive Officers responsible for the management of the Company. Effective May 6, 2016, a sole President and Chief Executive Officer of

IGM Financial was named. The Company's activities are carried out principally by three operating companies - Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. - each of which are managed by a President and Chief Executive Officer.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

ACQUISITION RISK

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

Regulatory development risk is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

CLIENT RELATIONSHIP MODEL AND POINT OF SALE

Effective May 30, 2016, the Fund Facts disclosure document for mutual funds is now required to be delivered by dealers to clients before accepting an instruction for the purchase of a mutual fund. This concludes the CSA's staged approach to implementation of the point of sale (POS) project for mutual funds.

Effective for annual periods commencing no later than July 15, 2016, Phase 2 of the Client Relationship Model (CRM2) adopted by the Canadian Securities Administrators (CSA) in March, 2013, requires dealers, among other things, to provide their clients with enhanced information on the performance of their investments and the costs associated with them, including the compensation paid to the dealer (the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada have adopted rules that are to the same effect). These new requirements will provide important information to our clients and will build on already required existing disclosure related to distribution and fund management costs.

BEST INTEREST STANDARD, TARGETED REFORMS AND MUTUAL FUND FEES

On April 28, 2016, the CSA published Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients (the BIS Consultation Paper), with the comment period closing on September 30, 2016. The Consultation Paper proposes a set of targeted reforms which all CSA jurisdictions are consulting on relating to the client-registrant relationship, including the regulation of conflicts of interest, the know-your-client and know-your-product requirements, the suitability obligation, the use by registrants of business titles and proficiency. All of the CSA jurisdictions except the British Columbia Securities Commission are also consulting on a regulatory best interest standard, accompanied by guidance, that would form both an over-arching standard and the governing principle against which all other client-related obligations would be interpreted. The Company's subsidiaries submitted comment letters on the BIS Consultation Paper. In November and December, 2016 the Company participated in a series of roundtables hosted by certain jurisdictions to further explore the proposals in the BIS Consultation Paper. The Company will continue its active dialogue and engagement with regulators on this subject.

On January 10, 2017, the CSA published CSA Staff Notice 81-408 Consultation on the Option of Discontinuing Embedded Commissions (the Fees Consultation Paper) which seeks input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. The Fees Consultation Paper was originally expected to be issued in the fall of 2016 and follows

the publication of the CSA's initial consultation paper on mutual fund fee structures in December 2012. The comment period expires on June 9, 2017.

The Company will continue its active dialogue and engagement with regulators on both of these subjects.

COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM

In 2013, the Government of Canada, as part of its Economic Action Plan, indicated an intention to establish a common securities regulator for Canada's capital markets working cooperatively with the provinces and territories. In September 2014, the Government of Canada and participating provincial jurisdictions published two proposed pieces of legislation to implement the cooperative capital markets regulatory system, namely the Provincial Capital Markets Act (CMA) and the Capital Markets Stability Act (CMSA).

On August 25, 2015, a revised consultation draft of the CMA along with accompanying commentary was published, along with certain proposed initial draft regulations (Regulations). The CMA and Regulations would together constitute the single set of provincial/territorial laws replacing provincial and territorial securities legislation under the proposed cooperative capital markets regulatory system in the six jurisdictions (Ontario, British Columbia, Saskatchewan, New Brunswick, Prince Edward Island and Yukon) which have currently agreed to participate. On May 5, 2016, a revised consultation draft of the CMSA was published for comment. This proposed capital markets legislation addresses national data collection, systemic risk related to capital markets and criminal enforcement.

Of note, opposition from Quebec, Alberta and Manitoba remains strong and the Quebec government has now challenged the validity of the cooperative capital markets regulatory system directing a reference to the Quebec Court of Appeal. The remaining provinces and territories have also not chosen to join the cooperative system to date. Also noteworthy, on July 22, 2016, the Government of Canada and participating provincial jurisdictions announced the Capital Markets Regulatory Authority's initial board of directors and set new times for implementation of the CMA and CMSA, from the previously publicized date of June 30, 2016, to now June 30, 2018, at

which time the Capital Markets Regulatory Authority (CMRA) will become operational. The Company is continuing to monitor this initiative and any impact it may have on its activities and those of its subsidiaries, particularly in the area of the regulation of mutual funds.

5) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

General Business Conditions Risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including political and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 25 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

PRODUCT / SERVICE OFFERING

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of

TABLE 25: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2016 DEC. 31	2015 DEC. 31
IGM Financial Inc.		
Investors Group	8.8 %	8.7 %
Mackenzie	15.0 %	16.2 %
Counsel	15.7 %	13.6 %

factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for a further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering, and pricing, to ensure competitiveness in the marketplace.

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

BUSINESS / CLIENT RELATIONSHIPS

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include Investors Group clients and consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

Investors Group Consultant network – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on strengthening its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the Investors Group Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors

generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

PEOPLE RISK

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

6) ENVIRONMENTAL RISK

Environmental risk is the risk of loss resulting from environmental issues involving our business activities and our operations.

Environmental risk covers a broad spectrum of issues, such as climate change, biodiversity and ecosystem health, pollution, waste and the unsustainable use of water and other resources. Key environmental risks to IGM Financial include:

- Direct risks associated with the ownership and operation of our businesses, which includes management and operation of company-owned or managed assets and business operations;
- Indirect risks as a result of the products and services we offer and our procurement practices;
- Identification and management of emerging environmental regulatory issues; and
- Failure to understand and appropriately leverage environment related trends to meet client demands for products and services.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate

Responsibility Statement as approved by the Board of Directors and also within the Company's Environmental Policy which commit us to responsibly manage our environmental footprint.

Failure to adequately manage environmental risks could adversely impact our results or our reputation.

IGM Financial manages environmental risks across the Company, with business unit management having responsibility for identifying, assessing, controlling and monitoring environmental risks pertaining to their operations. IGM Financial's Executive Management Corporate Responsibility Committee oversees its commitment to environmental responsibility and risk management.

Investors Group and Mackenzie are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment processes. In addition, Investors Group, Mackenzie and Investment Planning Counsel have implemented investing policies which provide information on how these ESG issues are implemented at each company.

IGM Financial reports on its environmental management and performance in its Corporate Responsibility Report. In addition, the Company participates in the Carbon Disclosure Project (CDP) survey, which promotes corporate disclosures on greenhouse gas emissions and climate change management.

OUTLOOK

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$3.8 trillion in discretionary financial assets with financial institutions at December 31, 2015 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 66% (\$2.5 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.3 trillion held outside of a financial advisory relationship, approximately 62% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 42% of Canadian discretionary financial assets or \$1.6 trillion resided in investment funds at December 31, 2015, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$137 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM Financial, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 43.0% of total industry long-term mutual fund assets at December 31, 2016.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 69.4% of industry long-term mutual fund assets and 70.7% of total mutual fund assets under management at December 31, 2016. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

BROAD AND DIVERSIFIED DISTRIBUTION

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie

also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

BROAD PRODUCT CAPABILITIES

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

ENDURING RELATIONSHIPS

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

BENEFITS OF BEING PART OF THE POWER FINANCIAL GROUP OF COMPANIES

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

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 amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, deferred selling commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below:

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

Investments in proprietary mutual funds and corporate investments classified as available for sale result in unrealized gains and losses on securities which are recorded in Other comprehensive income until realized or until there is objective evidence of impairment, at which time they are reclassified to the Consolidated Statements of Earnings. Management regularly reviews securities classified as available for sale to assess whether there is objective evidence of impairment. The Company considers such factors as the nature of the investment and the length of time and the extent to which the fair value has been below cost. A significant change in this assessment may result in unrealized losses being recognized in net earnings. During 2016, the Company assessed the measurement of the available for sale securities and determined there was no impairment in the value of these securities.

- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 10 of the Consolidated Financial Statements. The Company tests the fair 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 and 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). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2016 financial information and determined there was no impairment in the value of those assets.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information

related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 14 to the Consolidated Financial Statements.

- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. 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. At December 31, 2016, there were no indications of impairment to deferred selling commissions.
- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is “probable” that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.
- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company’s defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31. Due to the long-term nature of these plans, the calculation of the accrued benefit liability depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

During 2016, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Corporate bond yields decreased in 2016 thereby impacting the discount rate used to measure the Company’s accrued benefit liability. The discount rate utilized to value the defined benefit pension plan accrued benefit liability at December 31, 2016 was 4.05% compared to 4.25% at December 31, 2015. Pension plan assets increased to \$372.1 million at December 31, 2016 from \$336.3 million at December 31, 2015. The increase in plan assets was due to market performance of \$31.0 million comprised of interest income of \$14.4 million calculated based on the discount rate, which was recorded as a reduction to the pension expense, and actuarial gains of \$16.6 million, which were recorded in Other comprehensive income. The assets in the Company’s registered defined benefit pension plan also increased due to the Company contributing \$19.7 million (2015 - \$19.6 million) to the pension plan. The decrease in the discount rate utilized to value the defined benefit pension plan obligation resulted in actuarial losses of \$17.5 million which were recorded in Other comprehensive income. Demographic assumptions and experience adjustments were revised which resulted in net actuarial gains of \$0.2 million. The total defined benefit pension plan obligation was \$481.2 million at December 31, 2016 compared to \$439.2 million at December 31, 2015. As a result of these changes, the defined benefit pension plan had an accrued benefit liability of \$109.1 million at December 31, 2016 compared to \$102.9 million at the end of 2015. The unfunded SERPs and other post-retirement benefits plans had an accrued benefit liability of \$62.5 million and \$44.8 million, respectively, at December 31, 2016 compared to \$56.5 million and \$48.8 million in 2015.

A decrease of 0.25% in the discount rate utilized in 2017 would result in a change of \$21.2 million in the accrued pension obligation, \$19.5 million in other comprehensive income, and \$1.7 million in pension expense. Additional information regarding the Company’s accounting and sensitivities related to pensions and other post-retirement benefits is included in Notes 2 and 13 of the Consolidated Financial Statements.

CHANGES IN ACCOUNTING POLICIES

DEFERRED TAXES ON INDEFINITE LIFE INTANGIBLE ASSETS

In November 2016, the IFRS Interpretation Committee (the Committee) met to discuss whether to add a request, *IAS 12 Income Taxes - Expected manner of recovery of intangible assets with indefinite useful lives*, to its agenda. The Committee was asked to clarify how a company determines the expected manner of recovery of an intangible asset with an indefinite useful life for

deferred tax measurement purposes. The Committee decided not to add the item to its agenda as it indicated that current guidance was sufficient to allow a company to determine how to measure deferred taxes on these intangible assets. In its commentary, the Committee indicated that guidance related to how to determine tax rates for non-depreciable assets should not be applied to determining tax rates for indefinite life intangible assets. The Committee indicated the fact that a company does not amortize an indefinite life intangible asset does not necessarily mean that the carrying value will be recovered only through sale and not use. As a result, the Company has retroactively applied a change in accounting policy to reflect the Committee's discussion on this matter. On conversion to IFRS, the Company utilized the exemption for business combinations that provides for very limited ability to restate prior business combinations. Accordingly, the Company has reduced retained earnings for changes to business combinations that occurred prior to the conversion to IFRS and increased goodwill for changes to business combinations that occurred subsequent to the conversion to IFRS. The impact of these changes at January 1, 2015 were increases to Goodwill of \$0.4 million and deferred income taxes liability of \$122.1 million, and a reduction to retained earnings of \$121.7 million.

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, *Financial Instruments: Recognition and Measurement*, 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.

The transition to IFRS 9 is managed by a committee comprised of senior levels of management. Periodic reporting on the progress against plan is provided to the committee and other affected stakeholders within the Company. To date, the Company's efforts have been focused on updating accounting policies to address key aspects of the Standard including classification and measurement of financial instruments, reviewing the impact to its impairment models and assessing the use of hedge accounting under IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 may result in some assets currently classified as held for trading under IAS 39 being reclassified to fair value through other comprehensive income or amortized cost under IFRS 9. At this stage, it is not possible to reliably quantify the potential financial effect to the Company from the adoption of IFRS 9.

The Company will update accounting policy manuals, internal control documents and implement changes to business and financial reporting processes and systems to support the implementation of the Standard by its effective date of January 1, 2018.

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.

OTHER

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2016, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal

Control - Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. The Company transitioned to the COSO 2013 Framework during 2014. Based on their evaluations as of December 31, 2016, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the fourth quarter of 2016, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OTHER INFORMATION

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with 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. These transactions are in the normal course of operations and have been recorded at fair value as described below:

- During 2016 and 2015, the Company provided to and received from Great-West certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received \$101.8 million in distribution fees (2015 - \$70.9 million). The Company received \$16.9 million (2015 - \$17.5 million) and paid \$21.7 million (2015 - \$21.2 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid \$70.5 million (2015 - \$72.0 million) to London Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2016, the Company sold residential mortgage loans to Great-West and London Life for \$183.7 million compared to \$205.6 million in 2015.

In 2014 and 2015, the Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings.

The Company acquired an aggregate of \$2.00 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation and, as sole consideration for the preferred shares, the Company issued \$2.00 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.

For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2016 totalled 240,515,968. Outstanding stock options as at December 31, 2016 totalled 8,484,030, of which 3,858,518 were exercisable. As at February 7, 2017, outstanding common shares totalled 240,521,828 and outstanding stock options totalled 8,478,170, of which 3,852,658 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at December 31, 2016, unchanged at February 7, 2017.

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Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.