

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars, except shares and per share amounts)</i>	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2016	2015	2016	2015
Revenues				
Management fees	\$ 518,308	\$ 508,531	\$ 1,499,530	\$ 1,534,921
Administration fees	107,931	104,595	312,609	312,826
Distribution fees	101,048	92,695	292,358	282,514
Net investment income and other	23,114	19,545	61,400	63,787
Proportionate share of affiliate's earnings	26,049	26,362	77,733	81,772
	776,450	751,728	2,243,630	2,275,820
Expenses				
Commission	273,202	263,158	801,845	797,712
Non-commission	224,880	208,471	684,487	637,946
Interest	23,165	23,200	68,991	68,914
	521,247	494,829	1,555,323	1,504,572
Earnings before income taxes	255,203	256,899	688,307	771,248
Income taxes	55,389	55,660	144,214	166,776
Net earnings	199,814	201,239	544,093	604,472
Perpetual preferred share dividends	2,213	2,213	6,638	6,638
Net earnings available to common shareholders	\$ 197,601	\$ 199,026	\$ 537,455	\$ 597,834
Average number of common shares <i>(in thousands)</i> (Note 12)				
– Basic	240,498	246,953	241,564	249,025
– Diluted	240,589	247,059	241,657	249,169
Earnings per share <i>(in dollars)</i> (Note 12)				
– Basic	\$ 0.82	\$ 0.81	\$ 2.22	\$ 2.40
– Diluted	\$ 0.82	\$ 0.81	\$ 2.22	\$ 2.40

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (in thousands of Canadian dollars)	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2016	2015	2016	2015
Net earnings	\$ 199,814	\$ 201,239	\$ 544,093	\$ 604,472
Other comprehensive income (loss), net of tax				
Items that will not be reclassified to Net earnings				
Employee benefits				
Net actuarial gains (losses), net of tax of \$4,230, \$971, \$20,343 and \$(3,803)	(11,439)	(2,625)	(55,012)	10,283
Investment in affiliate – employee benefits and other				
Other comprehensive income (loss), net of tax of nil	(6,146)	9,306	(8,627)	(3,140)
Items that may be reclassified subsequently to Net earnings				
Available for sale securities				
Net unrealized gains (losses), net of tax of \$(240), \$(147), \$(361) and \$(1,436)	660	405	991	3,903
Reclassification of realized (gains) losses to net earnings, net of tax of \$155, \$200, \$209 and \$532	(424)	(548)	(571)	(1,460)
Investment in affiliate and other				
Other comprehensive income (loss), net of tax of \$(283), \$349, \$(244) and \$710	(15,973)	1,001	(43,481)	36,529
	(33,322)	7,539	(106,700)	46,115
Comprehensive income	\$ 166,492	\$ 208,778	\$ 437,393	\$ 650,587

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

CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	SEPTEMBER 30 2016	DECEMBER 31 2015
Assets		
Cash and cash equivalents	\$ 657,486	\$ 983,016
Securities	99,882	50,762
Accounts and other receivables	560,904	564,660
Income taxes recoverable	10,362	10,243
Loans <i>(Note 3)</i>	7,895,079	7,392,448
Derivative financial instruments	53,956	58,364
Other assets <i>(Note 5)</i>	131,738	54,926
Investment in affiliate	885,942	904,257
Capital assets	158,902	140,356
Deferred selling commissions	721,632	727,527
Deferred income taxes	83,692	64,946
Intangible assets	1,257,141	1,219,720
Goodwill	2,659,856	2,659,856
	\$ 15,176,572	\$ 14,831,081
Liabilities		
Accounts payable and accrued liabilities	\$ 391,766	\$ 386,727
Income taxes payable	37,545	53,267
Derivative financial instruments	53,942	57,836
Deposits and certificates	295,070	310,074
Other liabilities	529,301	449,018
Obligations to securitization entities <i>(Note 4)</i>	7,513,632	7,092,414
Deferred income taxes	311,881	308,349
Long-term debt	1,325,000	1,325,000
	10,458,137	9,982,685
Shareholders' Equity		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,596,655	1,623,948
Contributed surplus	38,637	35,569
Retained earnings	3,071,837	3,070,873
Accumulated other comprehensive income (loss)	(138,694)	(31,994)
	4,718,435	4,848,396
	\$ 15,176,572	\$ 14,831,081

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 3, 2016.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30

(unaudited) (in thousands of Canadian dollars)	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 9)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 6)	COMMON SHARES (Note 6)	CONTRIBUTED SURPLUS			
2016						
Balance, beginning of period	\$ 150,000	\$ 1,623,948	\$ 35,569	\$ 3,070,873	\$ (31,994)	\$ 4,848,396
Net earnings	-	-	-	544,093	-	544,093
Other comprehensive income (loss), net of tax	-	-	-	-	(106,700)	(106,700)
Comprehensive income	-	-	-	544,093	(106,700)	437,393
Common shares						
Issued under stock option plan	-	1,546	-	-	-	1,546
Purchased for cancellation	-	(28,839)	-	-	-	(28,839)
Stock options						
Current period expense	-	-	3,152	-	-	3,152
Exercised	-	-	(84)	-	-	(84)
Perpetual preferred share dividends	-	-	-	(6,638)	-	(6,638)
Common share dividends	-	-	-	(406,697)	-	(406,697)
Common share cancellation excess and other (Note 6)	-	-	-	(129,794)	-	(129,794)
Balance, end of period	\$ 150,000	\$ 1,596,655	\$ 38,637	\$ 3,071,837	\$ (138,694)	\$ 4,718,435
2015						
Balance, beginning of period	\$ 150,000	\$ 1,655,581	\$ 33,504	\$ 3,112,512	\$ (110,718)	\$ 4,840,879
Net earnings	-	-	-	604,472	-	604,472
Other comprehensive income (loss), net of tax	-	-	-	-	46,115	46,115
Comprehensive income	-	-	-	604,472	46,115	650,587
Common shares						
Issued under stock option plan	-	14,688	-	-	-	14,688
Purchased for cancellation	-	(38,088)	-	-	-	(38,088)
Stock options						
Current period expense	-	-	3,387	-	-	3,387
Exercised	-	-	(2,375)	-	-	(2,375)
Perpetual preferred share dividends	-	-	-	(6,638)	-	(6,638)
Common share dividends	-	-	-	(418,698)	-	(418,698)
Common share cancellation excess and other (Note 6)	-	-	-	(215,473)	-	(215,473)
Balance, end of period	\$ 150,000	\$ 1,632,181	\$ 34,516	\$ 3,076,175	\$ (64,603)	\$ 4,828,269

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (in thousands of Canadian dollars)	NINE MONTHS ENDED SEPTEMBER 30	
	2016	2015
Operating activities		
Earnings before income taxes	\$ 688,307	\$ 771,248
Income taxes paid	(159,600)	(141,043)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	177,441	174,261
Amortization of capital and intangible assets	32,303	29,109
Changes in operating assets and liabilities and other	(44,463)	(179,896)
	693,988	653,679
Deferred selling commissions paid	(171,546)	(197,331)
	522,442	456,348
Financing activities		
Net (decrease) increase in deposits and certificates	(15,004)	45,820
Net increase in obligations to securitization entities	416,283	183,125
Issue of common shares	2,278	13,482
Common shares purchased for cancellation	(155,673)	(242,175)
Perpetual preferred share dividends paid	(6,638)	(6,638)
Common share dividends paid	(409,170)	(421,636)
	(167,924)	(428,022)
Investing activities		
Purchase of securities	(79,502)	(97,867)
Proceeds from the sale of securities	44,033	110,638
Net increase in loans	(493,556)	(252,280)
Purchase of other assets	(67,394)	-
Net additions to capital assets	(34,516)	(16,120)
Net cash used in additions to intangible assets and acquisitions	(49,113)	(54,961)
	(680,048)	(310,590)
Decrease in cash and cash equivalents	(325,530)	(282,264)
Cash and cash equivalents, beginning of period	983,016	1,215,980
Cash and cash equivalents, end of period	\$ 657,486	\$ 933,716
Cash	\$ 73,628	\$ 70,414
Cash equivalents	583,858	863,302
	\$ 657,486	\$ 933,716
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	\$ 190,383	\$ 188,378
Interest paid	\$ 149,075	\$ 155,893

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 CORPORATE INFORMATION

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2015. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2015 IGM Financial Inc. Annual Report.

FUTURE ACCOUNTING CHANGES

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

IFRS 9 FINANCIAL INSTRUMENTS

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

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.

- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

IFRS 16 LEASES

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

NOTE 3 LOANS

	CONTRACTUAL MATURITY			SEPTEMBER 30 2016 TOTAL	DECEMBER 31 2015 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
Loans and receivables					
Residential mortgages	\$ 1,185,480	\$ 6,241,106	\$ 2,946	\$ 7,429,532	\$ 7,008,936
Less: Collective allowance				648	705
				<u>7,428,884</u>	<u>7,008,231</u>
Held for trading				466,195	384,217
				<u>\$ 7,895,079</u>	<u>\$ 7,392,448</u>

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

Balance, beginning of period	\$ 705	\$ 762
Write-offs, net of recoveries	(462)	(132)
Provision for credit losses	405	75
Balance, end of period	\$ 648	\$ 705

Total impaired loans as at September 30, 2016 were \$1,652 (December 31, 2015 – \$2,902).

Total interest income on loans classified as loans and receivables was \$144.6 million (2015 – \$141.8 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$95.9 million (2015 – \$101.5 million). Gains realized on the sale of residential mortgages totalled

\$12.9 million (2015 – \$16.9 million). Fair value adjustments related to mortgage banking operations totalled negative \$4.4 million (2015 – \$1.0 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

NOTE 4 SECURITIZATIONS

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

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of

repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$48.0 million at September 30, 2016 (December 31, 2015 – negative \$47.4 million).

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

NOTE 4 SECURITIZATIONS *(continued)*

SEPTEMBER 30, 2016	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	\$ 4,758,418	\$ 4,815,696	\$ (57,278)
Bank sponsored ABCP	2,640,920	2,697,936	(57,016)
Total	\$ 7,399,338	\$ 7,513,632	\$ (114,294)
Fair value	\$ 7,653,107	\$ 7,669,882	\$ (16,775)
<hr/>			
DECEMBER 31, 2015			
Carrying value			
NHA MBS and CMB Program	\$ 4,611,583	\$ 4,669,974	\$ (58,391)
Bank sponsored ABCP	2,369,681	2,422,440	(52,759)
Total	\$ 6,981,264	\$ 7,092,414	\$ (111,150)
Fair value	\$ 7,238,046	\$ 7,272,394	\$ (34,348)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled

until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 5 OTHER ASSETS

	SEPTEMBER 30 2016	DECEMBER 31 2015
Deferred and prepaid expenses	\$ 44,480	\$ 43,224
Investment in Personal Capital	65,580	-
Other	21,678	11,702
	\$ 131,738	\$ 54,926

Total other assets of \$22.4 million as at September 30, 2016 (December 31, 2015 – \$20.9 million) are expected to be realized within one year.

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

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

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

NOTE 6 SHARE CAPITAL

AUTHORIZED

Unlimited number of:

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

ISSUED AND OUTSTANDING

	SEPTEMBER 30, 2016		SEPTEMBER 30, 2015	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of period	244,788,138	\$ 1,623,948	251,469,346	\$ 1,655,581
Issued under Stock Option Plan	54,850	1,546	329,520	14,688
Purchased for cancellation	(4,346,600)	(28,839)	(5,744,300)	(38,088)
Balance, end of period	240,496,388	\$ 1,596,655	246,054,566	\$ 1,632,181

NORMAL COURSE ISSUER BID

In the third quarter of 2016, 127,000 shares (2015 – 1,423,800 shares) were purchased at a cost of \$4.6 million (2015 – \$52.3 million). In the nine months ended September 30, 2016, 4,346,600 shares (2015 – 5,744,300) were purchased at a cost of \$155.7 million (2015 – \$242.2 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid on March 20, 2016 which is effective until March 19, 2017. Pursuant to this bid, the Company may purchase up to 12.1 million or 5% of its common shares outstanding as at March 10, 2016. On March 20, 2015, the Company commenced

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

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

NOTE 7 CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2016 Report to Shareholders

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

NOTE 8 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

	SEPTEMBER 30 2016	DECEMBER 31 2015
Common share options		
– Outstanding	8,600,015	7,441,165
– Exercisable	3,957,678	3,526,658

In the third quarter of 2016, the Company granted 651,070 options to employees (2015 – nil). In the nine months ended September 30, 2016, the Company granted 2,226,665 options to employees (2015 – 1,295,770). The weighted-average fair value of options granted during the nine months

ended September 30, 2016 has been estimated at \$1.68 per option (2015 – \$3.49) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$35.57. The assumptions used in these valuation models include:

	NINE MONTHS ENDED SEPTEMBER 30	
	2016	2015
Exercise price	\$ 35.50	\$ 43.97
Risk-free interest rate	0.95%	1.04%
Expected option life	6 years	6 years
Expected volatility	18.00%	20.00%
Expected dividend yield	6.34%	5.12%

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable

no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met.

NOTE 9 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
SEPTEMBER 30, 2016				
Balance, beginning of period	\$ (111,874)	\$ 2,658	\$ 77,222	\$ (31,994)
Other comprehensive income (loss)	(55,012)	420	(52,108)	(106,700)
Balance, end of period	\$ (166,886)	\$ 3,078	\$ 25,114	\$ (138,694)
SEPTEMBER 30, 2015				
Balance, beginning of period	\$ (123,510)	\$ 194	\$ 12,598	\$ (110,718)
Other comprehensive income (loss)	10,283	2,443	33,389	46,115
Balance, end of period	\$ (113,227)	\$ 2,637	\$ 45,987	\$ (64,603)

Amounts are recorded net of tax.

NOTE 10 RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2016 Report to Shareholders and in Note 20

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

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent

arms length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

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

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

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

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

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

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

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

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

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

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

Level 3 assets and liabilities include securities with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value

is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

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

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	CARRYING VALUE	FAIR VALUE			TOTAL
		LEVEL 1	LEVEL 2	LEVEL 3	
SEPTEMBER 30, 2016					
Financial assets recorded at fair value					
Securities					
– Available for sale	\$ 9,607	\$ 9,607	\$ –	\$ –	\$ 9,607
– Held for trading	90,275	87,096	1,743	1,436	90,275
Loans					
– Held for trading	466,195	–	466,195	–	466,195
Derivative financial instruments	53,956	–	53,956	–	53,956
Other financial assets	74,853	–	–	74,853	74,853
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,428,884	–	30,527	7,653,107	7,683,634
Financial liabilities recorded at fair value					
Derivative financial instruments	53,942	–	5,951	47,991	53,942
Other financial liabilities	8,137	8,137	–	–	8,137
Financial liabilities recorded at amortized cost					
Deposits and certificates	295,070	–	296,466	–	296,466
Obligations to securitization entities	7,513,632	–	–	7,669,882	7,669,882
Long-term debt	1,325,000	–	1,673,819	–	1,673,819
DECEMBER 31, 2015					
Financial assets recorded at fair value					
Securities					
– Available for sale	\$ 6,092	\$ 6,092	\$ –	\$ –	\$ 6,092
– Held for trading	44,670	42,215	1,167	1,288	44,670
Loans					
– Held for trading	384,217	–	384,217	–	384,217
Derivative financial instruments	58,364	–	58,364	–	58,364
Other financial assets	9,273	–	–	9,273	9,273
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,008,231	–	27,856	7,238,046	7,265,902
Financial liabilities recorded at fair value					
Derivative financial instruments	57,836	–	10,422	47,414	57,836
Other financial liabilities	4,145	4,145	–	–	4,145
Financial liabilities recorded at amortized cost					
Deposits and certificates	310,074	–	311,770	–	311,770
Obligations to securitization entities	7,092,414	–	–	7,272,394	7,272,394
Long-term debt	1,325,000	–	1,661,150	–	1,661,150

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

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME ⁽²⁾	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE SEPTEMBER 30
SEPTEMBER 30, 2016							
Assets							
Securities							
– Held for trading	\$ 1,288	\$ 43	\$ –	\$ 105	\$ –	\$ –	\$ 1,436
Other financial assets	9,273	–	(1,814)	67,394	–	–	74,853
Liabilities							
Derivative financial instruments, net	47,414	(10,011)	–	3,353	12,787	–	47,991
SEPTEMBER 30, 2015							
Assets							
Securities							
– Held for trading	\$ 1,603	\$ 44	\$ –	\$ 69	\$ –	\$ (405)	\$ 1,311
Other financial assets ⁽³⁾	–	–	3,562	–	–	5,711	9,273
Liabilities							
Derivative financial instruments, net	26,327	(32,843)	–	(741)	7,952	–	50,477

(1) Included in Net investment income in the Consolidated Statements of Earnings.

(2) Included in Available for sale securities – Net unrealized gains (losses) in the Consolidated Statements of Comprehensive Income.

(3) Other financial assets previously recorded at cost were re-measured at fair value using recent market transactions.

NOTE 12 EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2016	2015	2016	2015
Earnings				
Net earnings	\$ 199,814	\$ 201,239	\$ 544,093	\$ 604,472
Perpetual preferred share dividends	2,213	2,213	6,638	6,638
Net earnings available to common shareholders	\$ 197,601	\$ 199,026	\$ 537,455	\$ 597,834
Number of common shares (in thousands)				
Average number of common shares outstanding	240,498	246,953	241,564	249,025
Add: Potential exercise of outstanding stock options ⁽¹⁾	91	106	93	144
Average number of common shares outstanding – diluted basis	240,589	247,059	241,657	249,169
Earnings per common share (in dollars)				
Basic	\$ 0.82	\$ 0.81	\$ 2.22	\$ 2.40
Diluted	\$ 0.82	\$ 0.81	\$ 2.22	\$ 2.40

(1) Excludes 1,908 thousand shares for the three months ended September 30, 2016 (2015 – 1,893 thousand) related to outstanding stock options that were anti-dilutive. Excludes 1,894 thousand shares for the nine months ended September 30, 2016 (2015 – 967 thousand) related to outstanding stock options that were anti-dilutive.

NOTE 13 SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

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

Investors Group earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment

funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, Investors Group earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

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

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

2016

THREE MONTHS ENDED SEPTEMBER 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 331,688	\$ 170,357	\$ 16,263	\$ 518,308
Administration fees	79,164	24,001	4,766	107,931
Distribution fees	54,681	2,223	44,144	101,048
Net investment income and other	19,192	1,794	28,177	49,163
	484,725	198,375	93,350	776,450
Expenses				
Commission	155,469	73,595	44,138	273,202
Non-commission	130,903	78,826	15,151	224,880
	286,372	152,421	59,289	498,082
Earnings before undernoted	\$ 198,353	\$ 45,954	\$ 34,061	278,368
Interest expense				23,165
Earnings before income taxes				255,203
Income taxes				55,389
Net earnings				199,814
Perpetual preferred share dividends				2,213
Net earnings available to common shareholders				\$ 197,601

NOTE 13 SEGMENTED INFORMATION (continued)

2015

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

NOTE 13 SEGMENTED INFORMATION (continued)

2016

NINE MONTHS ENDED SEPTEMBER 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 958,193	\$ 494,392	\$ 46,945	\$ 1,499,530
Administration fees	229,309	69,231	14,069	312,609
Distribution fees	155,983	7,171	129,204	292,358
Net investment income and other	51,545	3,337	84,251	139,133
	1,395,030	574,131	274,469	2,243,630
Expenses				
Commission	455,017	217,504	129,324	801,845
Non-commission	404,454	234,014	46,019	684,487
	859,471	451,518	175,343	1,486,332
Earnings before undernoted	\$ 535,559	\$ 122,613	\$ 99,126	757,298
Interest expense				68,991
Earnings before income taxes				688,307
Income taxes				144,214
Net earnings				544,093
Perpetual preferred share dividends				6,638
Net earnings available to common shareholders				\$ 537,455
Identifiable assets				
Identifiable assets	\$ 9,389,687	\$ 1,326,714	\$ 1,800,315	\$12,516,716
Goodwill	1,347,781	1,168,580	143,495	2,659,856
Total assets	\$10,737,468	\$ 2,495,294	\$ 1,943,810	\$15,176,572

NOTE 13 SEGMENTED INFORMATION (continued)

2015

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