CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IGM Financial Inc.

OPINION

We have audited the consolidated financial statements of IGM Financial Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT *(continued)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Haik (Haig) Vanlian.

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 8, 2019

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 *(in thousands of Canadian dollars, except per share amounts)*	2018	2017
Revenues		
Management fees	$ 2,239,182	$ 2,180,964
Administration fees	427,093	439,700
Distribution fees	370,906	385,069
Net investment income and other	61,928	52,603
Proportionate share of associates' earnings *(Note 8)*	149,962	95,674
	3,249,071	3,154,010
Expenses		
Commission	1,098,643	1,142,567
Non-commission *(Note 3)*	1,043,482	1,112,634
Interest *(Note 15)*	120,859	114,157
	2,262,984	2,369,358
Earnings before income taxes	986,087	784,652
Income taxes *(Note 14)*	209,919	173,887
Net earnings	776,168	610,765
Perpetual preferred share dividends	8,850	8,850
Net earnings available to common shareholders	$ 767,318	$ 601,915
Earnings per share *(in dollars) (Note 23)*		
– Basic	$ 3.19	$ 2.50
– Diluted	$ 3.18	$ 2.50

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 *(in thousands of Canadian dollars)*	2018	2017
Net earnings	$ 776,168	$ 610,765
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to Net earnings		
Fair value through other comprehensive income investments		
Other comprehensive income (loss), *net of tax of $(2,835)*	18,166	N/A
Employee benefits		
Net actuarial gains (losses), *net of tax of $6,117 and $7,992*	(16,523)	(21,616)
Investment in associates – employee benefits and other		
Other comprehensive income (loss), *net of tax of nil*	5,035	14,235
Items that may be reclassified subsequently to Net earnings		
Available for sale investments		
Net unrealized gains (losses), *net of tax of $(4,401)*	N/A	31,119
Reclassification of realized (gains) losses to net earnings, *net of tax of $249*	N/A	(685)
	N/A	30,434
Investment in associates and other		
Other comprehensive income (loss), *net of tax of $(412) and $(2,459)*	18,637	(11,741)
	25,315	11,312
Total comprehensive income	$ 801,483	$ 622,077

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)	DECEMBER 31 2018	DECEMBER 31 2017
Assets		
Cash and cash equivalents	$ 650,228	$ 966,843
Other investments *(Note 4)*	459,911	379,696
Client funds on deposit	546,787	489,626
Accounts and other receivables	319,609	305,062
Income taxes recoverable	9,316	33,928
Loans *(Note 5)*	7,738,031	7,849,873
Derivative financial instruments *(Note 21)*	16,364	35,692
Other assets *(Note 7)*	46,531	64,558
Investment in associates *(Note 8)*	1,651,304	1,551,013
Capital assets	138,647	150,468
Capitalized sales commissions *(Note 9)*	105,044	767,315
Deferred income taxes *(Note 14)*	75,607	60,661
Intangible assets *(Note 10)*	1,191,068	1,184,451
Goodwill *(Note 10)*	2,660,267	2,660,267
	$ 15,608,714	$ 16,499,453
Liabilities		
Accounts payable and accrued liabilities	$ 397,379	$ 406,821
Income taxes payable	51,894	8,018
Derivative financial instruments *(Note 21)*	28,990	28,444
Deposits and certificates *(Note 11)*	568,799	504,996
Other liabilities *(Note 12)*	444,173	491,280
Obligations to securitization entities *(Note 6)*	7,370,193	7,596,028
Deferred income taxes *(Note 14)*	295,719	463,862
Long-term debt *(Note 15)*	1,850,000	2,175,000
	11,007,147	11,674,449
Shareholders' Equity		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,611,263	1,602,726
Contributed surplus	45,536	42,633
Retained earnings	2,840,566	3,100,775
Accumulated other comprehensive income (loss)	(45,798)	(71,130)
	4,601,567	4,825,004
	$ 15,608,714	$ 16,499,453

These financial statements were approved and authorized for issuance by the Board of Directors on February 8, 2019.

Jeffrey R. Carney
Director

John McCallum
Director

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	SHARE CAPITAL: PERPETUAL PREFERRED SHARES *(Note 16)*	SHARE CAPITAL: COMMON SHARES *(Note 16)*	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) *(Note 19)*	TOTAL SHAREHOLDERS' EQUITY
2018						
Balance, beginning of year						
As previously reported	$ 150,000	$ 1,602,726	$ 42,633	$ 3,100,775	$ (71,130)	$ 4,825,004
Change in accounting policy *(Note 2)*						
IFRS 9	–	–	–	36,334	17	36,351
IFRS 15	–	–	–	(516,312)	–	(516,312)
As restated	150,000	1,602,726	42,633	2,620,797	(71,113)	4,345,043
Net earnings	–	–	–	776,168	–	776,168
Other comprehensive income (loss), net of tax	–	–	–	–	25,315	25,315
Total comprehensive income	–	–	–	776,168	25,315	801,483
Common shares						
Issued under stock option plan	–	8,537	–	–	–	8,537
Stock options						
Current period expense	–	–	3,687	–	–	3,687
Exercised	–	–	(784)	–	–	(784)
Perpetual preferred share dividends	–	–	–	(8,850)	–	(8,850)
Common share dividends	–	–	–	(541,883)	–	(541,883)
Other	–	–	–	(5,666)	–	(5,666)
Balance, end of year	$ 150,000	$ 1,611,263	$ 45,536	$ 2,840,566	$ (45,798)	$ 4,601,567
2017						
Balance, beginning of year	$ 150,000	$ 1,597,208	$ 39,552	$ 3,042,442	$ (82,442)	$ 4,746,760
Net earnings	–	–	–	610,765	–	610,765
Other comprehensive income (loss), net of tax	–	–	–	–	11,312	11,312
Total comprehensive income	–	–	–	610,765	11,312	622,077
Common shares						
Issued under stock option plan	–	5,518	–	–	–	5,518
Stock options						
Current period expense	–	–	3,529	–	–	3,529
Exercised	–	–	(448)		–	(448)
Perpetual preferred share dividends	–	–	–	(8,850)	–	(8,850)
Common share dividends	–	–	–	(541,367)	–	(541,367)
Other	–	–	–	(2,215)	–	(2,215)
Balance, end of year	$ 150,000	$ 1,602,726	$ 42,633	$ 3,100,775	$ (71,130)	$ 4,825,004

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	2018	2017
Operating activities		
Earnings before income taxes	$ 986,087	$ 784,652
Income taxes paid	(132,611)	(165,243)
Adjustments to determine net cash from operating activities		
Capitalized sales commission amortization	14,462	230,874
Capitalized sales commissions paid	(55,685)	(271,581)
Amortization of capital and intangible assets	56,065	55,767
Proportionate share of associates' earnings, net of dividends received	(77,190)	(32,587)
Pension and other post-employment benefits	(18,428)	(11,165)
Pension plan amendment	–	(50,381)
Write-down of intangible assets	–	92,352
Restructuring provisions and other	22,758	107,566
Changes in operating assets and liabilities and other	51,626	(25,085)
Cash from operating activites before restructuring provision payments	847,084	715,169
Restructuring provision cash payments	(61,931)	(43,070)
	785,153	672,099
Financing activities		
Net decrease in deposits and certificates	(1,248)	(2,758)
Increase in obligations to securitization entities	1,771,735	2,479,511
Repayments of obligations to securitization entities and other	(2,034,429)	(2,596,725)
Issue of debentures	200,000	850,000
Repayment of debentures	(525,000)	–
Issue of common shares	7,753	5,071
Perpetual preferred share dividends paid	(8,850)	(8,850)
Common share dividends paid	(541,759)	(541,282)
	(1,131,798)	184,967
Investing activities		
Purchase of other investments	(154,463)	(196,568)
Proceeds from the sale of other investments	93,498	62,196
Increase in loans	(1,748,387)	(2,630,232)
Repayment of loans and other	1,895,648	2,768,775
Net additions to capital assets	(7,117)	(16,549)
Net cash used in additions to intangible assets and acquisitions	(49,149)	(49,533)
Investment in China Asset Management Co., Ltd.	–	(439,344)
	30,030	(501,255)
(Decrease) increase in cash and cash equivalents	(316,615)	355,811
Cash and cash equivalents, beginning of year	966,843	611,032
Cash and cash equivalents, end of year	$ 650,228	$ 966,843
Cash	$ 81,799	$ 88,354
Cash equivalents	568,429	878,489
	$ 650,228	$ 966,843
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	$ 296,793	$ 281,159
Interest paid	$ 290,510	$ 235,319

(See accompanying notes to consolidated financial statements.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017 *(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 Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

USE OF JUDGMENT, ESTIMATES AND ASSUMPTIONS

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

BASIS OF CONSOLIDATION

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

The Company's investments in Great-West Lifeco Inc. (Lifeco) and China Asset Management Co., Ltd. (China AMC) are accounted for using the equity method. The investments were initially recorded at cost and the carrying amounts are increased or decreased to recognize the Company's share of the investments' comprehensive income and the dividends received since the date of acquisition.

CHANGES IN ACCOUNTING POLICIES

***IFRS 9 Financial Instruments* (IFRS 9)**

As of January 1, 2018, the Company has adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 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 incurred loss model for impairment of financial assets with an expected credit loss model.
- Hedge accounting: This phase replaces the rule-based hedge accounting requirements with guidance that more closely aligns the accounting with an entity's risk management activities.

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 9, as permitted by the transitional provisions within IFRS 9. The cumulative impact of applying IFRS 9 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with IAS 39.

CHANGES IN ACCOUNTING POLICIES *(continued)*

IFRS 9 Financial Instruments (IFRS 9) *(continued)*

The cumulative impact relating to classification and measurement under IFRS 9 has resulted in an after tax increase to opening retained earnings of $36.3 million ($49.7 million before tax) as at January 1, 2018.

Loans of $282.6 million previously classified as held for trading were reclassified to amortized cost as a result of the Company's business model and contractual cash flow characteristics assessment.

A total remeasurement of $49.7 million was recorded due to the reversal of discounts related to fair value losses recognized on the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of $19.9 million were reclassified from available for sale to fair value through profit or loss (FVTPL).

The Company elected to classify other investments of $262.8 million at fair value through other comprehensive income (FVTOCI). This reclassification had no impact to opening retained earnings, however under this election, unrealized gains and losses on these investments will never be recycled through profit or loss.

The Company has adopted the hedge accounting requirements of IFRS 9. As a result of the business model assessment, mortgages previously classified as held for trading and subsequently reclassified to loans and receivables are now classified at amortized cost when originated. The Company has therefore designated certain derivative instruments as hedging instruments to avoid an accounting mismatch between derivative instruments and associated loans. Application of IFRS 9 hedge accounting requirements did not have a material impact.

The application of the expected credit loss model did not have a material impact to the Company's loan loss provision.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

As of January 1, 2018, the Company has adopted 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.

IFRS 15 outlines various criteria for the eligibility of capitalizing contract costs. Determining whether the customer is the fund or the end investor impacts whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer.

To determine whether sales commissions associated with the distribution of investment funds should be capitalized, the Company assesses whether the customer is the investment fund or the individual investor. Where it is determined that the investment fund is the customer, contract costs are expensed as incurred. Where it is determined that the individual investor is the customer, contract costs are capitalized and amortized over a period not exceeding seven years.

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 15, as permitted by the transitional provisions within IFRS 15. The cumulative impact of applying IFRS 15 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with the Company's accounting policies in effect as at December 31, 2017.

The cumulative impact from the Company's application of IFRS 15 has resulted in an after tax decrease to opening retained earnings of $514.6 million ($703.5 million before tax) as at January 1, 2018.

Capitalized sales commissions of $703.5 million were derecognized as they related to commissions paid on sales where the customer was the investment fund. This resulted in a decrease to the Company's Deferred income taxes liability of $188.9 million.

On January 1, 2018, Great-West Lifeco Inc. (Lifeco) also adopted IFRS 15 (Note 8). The impact from Lifeco's application of IFRS 15 has resulted in a decrease in the Company's investment in associates of $1.7 million and a decrease in opening retained earnings of $1.7 million as at January 1, 2018.

CHANGES IN ACCOUNTING POLICIES *(continued)*

***IFRS 15 Revenue from Contracts with Customers* (IFRS 15)** *(continued)*

Impact of the changes in accounting policies on the Consolidated Balance Sheet:

	DECEMBER 31, 2017		ADJUSTMENT DUE TO CHANGES IN :		JANUARY 1, 2018	
	CLASSIFICATION	CARRYING VALUE	CLASSIFICATION	MEASUREMENT	CARRYING VALUE	CLASSIFICATION
Assets						
Loans[1]	Held for trading	286,682	(282,572)	–	4,110	FVTPL
	Loans & receivables	7,563,191	282,572	49,729	7,895,492	Amortized Cost
		7,849,873	–	49,729	7,899,602	
Other investments[1]	Available for sale	282,756	(19,931)	–	262,825	FVTOCI
	FVTPL	96,940	19,931	–	116,871	FVTPL
Investment in associates[2]		1,551,013	–	(1,728)	1,549,285	
Capitalized sales commissions[2]		767,315	–	(703,494)	63,821	
			–	(655,493)		
Liabilities & Shareholders' Equity						
Income tax payable[1]		8,018	–	6,880	14,898	
Deferred income taxes[1][2]		463,862	–	(182,412)	281,450	
Retained earnings[1][2]		3,100,775	(17)	(479,961)	2,620,797	
AOCI[1]		(71,130)	17	–	(71,113)	
			–	(655,493)		

(1) Transition to IFRS 9

(2) Transition to IFRS 15

REVENUE RECOGNITION

Management fees are based on the net asset value of investment fund or other assets under management and are accrued as the service is performed. Administration fees are also accrued as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. Consideration is collected within a short period from the date of revenue recognition of the associated services. Aggregate receivables related to these services as at December 31, 2018 were $66.0 million (2017 – $83.4 million).

FINANCIAL INSTRUMENTS

All financial assets are initially recognized at fair value in the Consolidated Balance Sheets and are subsequently classified as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on the Company's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics.

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. All other financial assets are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis.

FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

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

CASH AND CASH EQUIVALENTS

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

OTHER INVESTMENTS

Other investments, which are recorded on a trade date basis, are classified as either FVTOCI or FVTPL.

The Company has elected to classify certain equity investments that are not held for trading as FVTOCI. Unrealized gains and losses on these FVTOCI investments are recorded in Other comprehensive income and transferred directly to retained earnings when realized without being recorded through profit or loss. Dividends declared are recorded in Net investment income and other in the Consolidated Statements of Earnings.

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

LOANS

Loans are classified as either FVTPL or amortized cost, based on the Company's assessment of the business model within which the loan is managed.

Changes in fair value of loans measured at FVTPL are recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans measured at amortized cost are recorded net of an allowance for expected credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company applies a three-stage impairment approach to measure expected credit losses on loans: 1) On origination, an allowance for 12-month expected credit losses is established, 2) Lifetime expected credit losses are recognized where there is a significant deterioration of credit quality, and 3) A loan is considered credit impaired when there is no longer reasonable assurance of collection.

DERECOGNITION

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

SALES COMMISSIONS

Commissions are paid on investment product sales where the Company either receives a fee directly from the client or where it receives a fee directly from the investment fund.

SALES COMMISSIONS *(continued)*

Commissions paid on investment product sales where the Company receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years. The Company regularly reviews the carrying value of capitalized 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 capitalized selling commission asset in relation to its carrying value.

All other commissions paid on investment product sales are expensed as incurred.

CAPITAL ASSETS

Capital assets are recorded at cost of $370.4 million at December 31, 2018 (2017 – $368.3 million), less accumulated amortization of $231.8 million (2017 – $217.8 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

GOODWILL AND INTANGIBLE ASSETS

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

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

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

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Software assets are amortized over a period not exceeding 7 years and distribution and other management contracts are amortized over a period not exceeding 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

EMPLOYEE BENEFITS

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

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

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

EMPLOYEE BENEFITS *(continued)*

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

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

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

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

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

SHARE-BASED PAYMENTS

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

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

PROVISIONS

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

INCOME TAXES

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

EARNINGS PER SHARE

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Swaps entered into to hedge the costs of funds on certain securitization activities are designated as hedging instruments (Note 20). The effective portion of changes in fair value are initially recorded in Other comprehensive income and subsequently recorded in Net investment income and other in the Consolidated Statements of Earnings over the term of the associated Obligations to securitization entities. Remaining mortgage related swaps are not designated as hedging instruments and changes in fair value are recorded directly in Net investment income and other in the Consolidated Statements of Earnings.

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

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

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

COMPARATIVE FIGURES

The Company reclassified certain comparative figures in its Statements of Cash Flows to conform to the current year's presentation which resulted in prior year cash flows of $14.4 million being reclassified from operating activities to financing activities and negative cash flows of $29.0 million from operating activities to investing activities. The reclassifications are intended to provide additional details on the nature of the Company's cash flows and had no impact on the net earnings of the Company.

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 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. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition.

FUTURE ACCOUNTING CHANGES *(continued)*

IFRS 16 Leases *(continued)*

The Company expects to use the modified retrospective method upon transition with no restatement of comparative financial information. Under this approach, the Company will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. The Company will recognize a lease liability at the present value of the remaining lease payments discounted using the lease's incremental borrowing rate at January 1, 2019 and a right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Company's incremental borrowing rate at January 1, 2019. The Company will apply the following transitional practical expedients:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Account for leases for which the remaining lease term ends within 12 months of the date of initial application as a short-term lease.
- Rely on its assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* immediately before the date of initial application as an alternative to performing an impairment review.

The Company is finalizing its assessment of the quantitative impact of the adoption of IFRS 16 which will be disclosed in the first quarter of 2019. The preliminary estimate of the impact includes the recognition of approximately $103 million in right-of-use assets related to property leases, and a corresponding liability of $113 million. Amortization expense will increase due to the amortization of the right-of-use asset and interest expense will increase due to the imputed interest on the lease liability. Overall expenses are not expected to be materially different due to the offsetting decrease to operating lease expense. The standard is effective for annual reporting periods beginning on or after January 1, 2019.

NOTE 3 NON-COMMISSION EXPENSE

	2018	2017
Salaries and employee benefits	$ 481,116	$ 414,808
Restructuring and other	22,758	190,550
Occupancy	56,816	56,140
Amortization of capital and intangible assets	56,065	55,767
Other	426,727	395,369
	$ 1,043,482	$ 1,112,634

In 2018, the Company incurred restructuring and other charges of $22.7 million related to the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.

In 2017, the Company implemented a number of initiatives to assist in the Company's operational effectiveness resulting in Restructuring and other charges of $190.6 million. In addition, the Company revalued its pension obligations and had recognized a $50.4 million reduction to its salaries and employee benefits expense.

NOTE 4 OTHER INVESTMENTS

	2018		2017	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Corporate investments	N/A	N/A	$ 215,050	$ 262,825
Proprietary investment funds	N/A	N/A	19,601	19,931
	N/A	N/A	234,651	282,756
Fair value through other comprehensive income				
Corporate investments	$ 303,619	$ 372,396	N/A	N/A
Fair value through profit or loss				
Equity securities	16,976	12,915	17,115	17,062
Proprietary investment funds	78,504	74,600	79,575	79,878
	95,480	87,515	96,690	96,940
	$ 399,099	$ 459,911	$ 331,341	$ 379,696

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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 LP (Portag3).

Personal Capital is a digital wealth advisor that is incorporated in and operates in the United States. Wealthsimple is an online investment manager that provides financial investment guidance. Portag3 is an early-stage investment fund dedicated to backing innovating financial services companies. Wealthsimple and Portag3 are both controlled by the Company's parent, Power Financial Corporation.

In 2018, the Company invested $88.6 million in Corporate investments, with investments of $72.3 million related to Wealthsimple. This included the conversion of a $15.0 million loan to equity related to Wealthsimple (Note 7). In 2017, the Company invested $73.4 million, with investments of $25.0 million related to Personal Capital and $42.6 million related to Wealthsimple.

In January 2019, the Company invested an additional amount of $66.8 million (USD $50.0 million) in Personal Capital which increased its voting interest to more than 20%. The Company is currently assessing the impact of this additional investment on its accounting for Personal Capital.

FAIR VALUE THROUGH PROFIT OR LOSS

Proprietary Investment Funds

The Company manages and provides services and earns management and administration fees, in respect of investment funds that are not recognized in the Consolidated Balance Sheets. As at December 31, 2018, there were $143.3 billion in investment fund assets under management (2017 – $149.8 billion). The Company's investments in proprietary investment funds are classified on the Company's Consolidated Balance Sheets as fair value through profit or loss. These investments are generally made in the process of launching a new fund and are sold as third party investors subscribe. This balance represents the Company's maximum exposure to loss associated with these investments.

Certain investment funds are consolidated where the Company has made the assessment that it controls the investment fund. As at December 31, 2018, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments of $11.2 million (2017 – $14.2 million), equity securities of $33.8 million (2017 – $48.6 million) and fixed income securities of $3.0 million (2017 – $17.3 million). The underlying securities of these funds are classified as FVTPL and recognized at fair value.

NOTE 5 LOANS

	CONTRACTUAL MATURITY				
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS	2018 TOTAL	2017 TOTAL
Amortized cost					
Residential mortgages	$ 1,268,830	$ 6,455,770	$ 9,929	$ 7,734,529	$ 7,563,997
Less: Allowance for expected credit losses				801	806
				7,733,728	7,563,191
Fair value through profit or loss				4,303	286,682
				$ 7,738,031	$ 7,849,873

	2018	2017
The change in the allowance for expected credit losses is as follows:		
Balance, beginning of year	$ 806	$ 722
Write-offs, net of recoveries	(326)	(612)
Expected credit losses	321	696
Balance, end of year	$ 801	$ 806

Total credit impaired loans as at December 31, 2018 were $3,271 (2017 – $2,842).

Total interest income on loans was $213.9 million (2017 – $210.8 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $165.2 million (2017 – $138.0 million). Gains realized on the sale of residential mortgages totalled $1.5 million (2017 – $7.5 million). Fair value adjustments related to mortgage banking operations totalled negative $13.6 million (2017 – negative $31.3 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including portfolio insurance, issue costs, and other items.

NOTE 6 SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are recorded 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 positive fair value of $4.9 million at December 31, 2018 (2017 – positive $4.1 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 recorded 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 6 SECURITIZATIONS *(continued)*

2018	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	$ 4,246,668	$ 4,250,641	$ (3,973)
Bank sponsored ABCP	3,102,498	3,119,552	(17,054)
Total	$ 7,349,166	$ 7,370,193	$ (21,027)
Fair value	$ 7,405,170	$ 7,436,873	$ (31,703)

2017			
Carrying value			
NHA MBS and CMB Program	$ 4,461,926	$ 4,470,908	$ (8,982)
Bank sponsored ABCP	3,076,083	3,125,120	(49,037)
Total	$ 7,538,009	$ 7,596,028	$ (58,019)
Fair value	$ 7,649,591	$ 7,657,761	$ (8,170)

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 7 OTHER ASSETS

	2018	2017
Deferred and prepaid expenses	$ 45,461	$ 47,962
Other	1,070	16,596
	$ 46,531	$ 64,558

As at December 31, 2017, Other assets included a loan of $15.0 million that was provided to Wealthsimple. In 2018, the Company converted the $15.0 million loan to equity (Note 4).

Total other assets of $18.9 million as at December 31, 2018 (2017 – $19.8 million) are expected to be realized within one year.

NOTE 8 INVESTMENT IN ASSOCIATES

	2018			2017		
	LIFECO	CHINA AMC	TOTAL	LIFECO	CHINA AMC	TOTAL
Balance, beginning of year						
As previously reported	$ 903,133	$ 647,880	$ 1,551,013	$ 888,851	$ –	$ 888,851
Change in accounting policy *(Note 2)*	(1,728)	–	(1,728)	–	–	–
	901,405	647,880	1,549,285	888,851	–	888,851
Additional investment	–	–	–	–	638,349	638,349
Dividends received	(61,831)	(12,156)	(73,987)	(58,334)	(10,770)	(69,104)
Proportionate share of:						
Earnings	120,966	28,996	149,962	105,730	9,042	114,772
Associates' provision	–	–	–	(5,098)	–	(5,098)
Associates' one-time charges	–	–	–	(14,000)	–	(14,000)
Other comprehensive income (loss) and other adjustments	7,289	18,755	26,044	(14,016)	11,259	(2,757)
Balance, end of year	$ 967,829	$ 683,475	$ 1,651,304	$ 903,133	$ 647,880	$ 1,551,013

GREAT-WEST LIFECO INC. (LIFECO)

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

At December 31, 2018, the Company held 39,737,388 (2017 – 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (2017 – 4.0%). The Company uses the equity method to account for its investment in Lifeco as it exercises significant influence. Significant influence arises from several factors, including but not limited to, the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies. The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings.

During 2017, Lifeco established a restructuring provision, and recorded charges related to the impact of the United States tax reform and pending sale of an equity investment. The Company's after-tax proportionate share of the restructuring provision and the one-time charges were $5.1 million and $14.0 million, respectively.

The fair value of the Company's investment in Lifeco totalled $1,118.6 million at December 31, 2018 (December 31, 2017 – $1,393.2 million). The Company has elected to apply the exemption in IFRS 4 *Insurance Contracts* to retain Lifeco's relevant accounting policies related to Lifeco's deferral of the adoption of IFRS 9 *Financial Instruments*.

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2018.

Lifeco's financial information as at December 31, 2018 can be obtained in its publicly available information.

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

On August 31, 2017, the Company finalized its investment in China AMC which resulted in a 13.9% ownership interest at a total cost of $638.3 million.

China AMC is an asset management company established in Beijing, China and is controlled by CITIC Securities Company Limited.

As at December 31, 2018, the Company held a 13.9% ownership interest in China AMC (2017 – 13.9%). The Company uses the equity method to account for its investment in China AMC as it exercises significant influence. Significant influence arises from board representation, participating in the policy making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

NOTE 8 INVESTMENT IN ASSOCIATES *(continued)*

The following table sets forth certain summary financial information from China AMC:

AS AT DECEMBER 31 *(millions)*	2018 CANADIAN DOLLARS	2018 CHINESE RENMINBI	2017 CANADIAN DOLLARS	2017 CHINESE RENMINBI
Total assets	**2,051**	**10,342**	1,827	9,464
Total liabilities	**445**	**2,242**	405	2,097
FOR THE YEAR ENDED DECEMBER 31[1]				
Revenue	**733**	**3,733**	752	3,913
Net earnings available to common shareholders	**224**	**1,140**	263	1,367
Total comprehensive income	**235**	**1,171**	207	1,077

(1) In 2017, full year earnings are presented; however the Company's proportionate share of China AMC earnings was effective August 31, 2017.

NOTE 9 CAPITALIZED SALES COMMISSIONS

	2018	2017
Cost	**$ 125,264**	$ 1,429,042
Less: accumulated amortization	**(20,220)**	(661,727)
	$ 105,044	$ 767,315
Changes in capitalized sales commissions		
Balance, beginning of year		
As previously reported	**$ 767,315**	$ 726,608
Change in accounting policy *(Note 2)*	**(703,494)**	–
	63,821	726,608
Changes due to:		
Sales of investment funds	**55,685**	271,578
Amortization	**(14,462)**	(230,871)
	41,223	40,707
Balance, end of year	**$ 105,044**	$ 767,315

As a result of IFRS 15, capitalized sales commissions in 2018 did not include disposals related to redemption activity. In 2017, $24.2 million of disposals related to redemption activity were recorded in Commission expense in the Consolidated Statements of Earnings.

NOTE 10 GOODWILL AND INTANGIBLE ASSETS

The components of goodwill and intangible assets are as follows:

	FINITE LIFE		INDEFINITE LIFE			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
2018						
Cost	**$ 212,006**	**$ 125,630**	**$ 740,559**	**$ 285,177**	**$ 1,363,372**	**$ 2,660,267**
Less: accumulated amortization	**(95,309)**	**(76,995)**	**–**	**–**	**(172,304)**	**–**
	$ 116,697	**$ 48,635**	**$ 740,559**	**$ 285,177**	**$ 1,191,068**	**$ 2,660,267**
Changes in goodwill and intangible assets:						
Balance, beginning of year	**$ 119,019**	**$ 39,696**	**$ 740,559**	**$ 285,177**	**$ 1,184,451**	**$ 2,660,267**
Additions	**18,940**	**16,366**	**–**	**–**	**35,306**	**–**
Disposals	**(216)**	**(1,877)**	**–**	**–**	**(2,093)**	**–**
Writedowns	**–**	**–**	**–**	**–**	**–**	**–**
Amortization	**(21,046)**	**(5,550)**	**–**	**–**	**(26,596)**	**–**
Balance, end of year	**$ 116,697**	**$ 48,635**	**$ 740,559**	**$ 285,177**	**$ 1,191,068**	**$ 2,660,267**
2017						
Cost	$ 206,928	$ 112,916	$ 740,559	$ 285,177	$ 1,345,580	$ 2,660,267
Less: accumulated amortization	(87,909)	(73,220)	–	–	(161,129)	–
	$ 119,019	$ 39,696	$ 740,559	$ 285,177	$ 1,184,451	$ 2,660,267
Changes in goodwill and intangible assets:						
Balance, beginning of year	$ 199,239	$ 42,814	$ 740,559	$ 285,177	$ 1,267,789	$ 2,660,267
Additions	31,599	2,618	–	–	34,217	–
Disposals	(3,195)	(594)	–	–	(3,789)	–
Writedowns	(92,352)	–	–	–	(92,352)	–
Amortization	(16,272)	(5,142)	–	–	(21,414)	–
Balance, end of year	$ 119,019	$ 39,696	$ 740,559	$ 285,177	$ 1,184,451	$ 2,660,267

In 2017, the Company discontinued development of a new investment fund accounting system. As a result of this and other associated technology decisions, the Company recorded a writedown of $92.4 million of capitalized software development costs which was recorded in Non-commission expense in the Consolidated Statements of Earnings.

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

	2018		2017	
	GOODWILL	**INDEFINITE LIFE INTANGIBLE ASSETS**	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
IG Wealth Management	**$ 1,347,781**	**$ –**	$ 1,347,781	$ –
Mackenzie	**1,168,580**	**1,002,681**	1,168,580	1,002,681
Other	**143,906**	**23,055**	143,906	23,055
Total	**$ 2,660,267**	**$ 1,025,736**	$ 2,660,267	$ 1,025,736

NOTE 10 GOODWILL AND INTANGIBLE ASSETS *(continued)*

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

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

NOTE 11 DEPOSITS AND CERTIFICATES

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

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, client funds on deposit and loans amounting to $568.8 million (2017 – $505.0 million) related to deposits and certificates.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2018 TOTAL	2017 TOTAL
Deposits	$ 554,971	$ 6,892	$ 4,338	$ 404	$ 566,605	$ 502,488
Certificates	–	511	710	973	2,194	2,508
	$ 554,971	$ 7,403	$ 5,048	$ 1,377	$ 568,799	$ 504,996

NOTE 12 OTHER LIABILITIES

	2018	2017
Dividends payable	$ 137,710	$ 137,587
Interest payable	27,527	38,795
Accrued benefit liabilities *(Note 13)*	189,113	184,462
Provisions	50,768	92,918
Other	39,055	37,518
	$ 444,173	$ 491,280

The Company establishes restructuring provisions related to business acquisitions, divestitures and other items, as well as other provisions in the normal course of its operations. Changes in provisions during 2018 consisted of additional estimates of $25.5 million, provision reversals of $9.3 million and payments of $58.3 million.

Total other liabilities of $238.5 million as at December 31, 2018 (2017 – $279.1 million) are expected to be settled within one year.

NOTE 13 EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

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

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

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

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

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

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of $47.2 million compared to $82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in solvency deficit resulted primarily from higher assets due to contribution and investment returns, and is required to be funded over five years. The registered pension plan had a going concern surplus of $46.1 million compared to $24.4 million in previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During 2018, the Company made contributions of $40.4 million (2017 – $37.8 million). The Company utilized $10.5 million of the payments made during 2018 to reduce its solvency deficit and increase its going concern surplus. The Company expects to make contributions of approximately $25.6 million in 2019. 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 SERPs are non-registered, non-contributory defined benefit plans which provide supplementary benefits to certain retired executives.

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

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

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

DEFINED BENEFIT PLANS *(continued)*

Plan assets, benefit obligations and funded status:

	2018			2017		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	$ 417,687	$ –	$ –	$ 372,087	$ –	$ –
Employee contributions	2,464	–	–	3,005	–	–
Employer contributions	40,438	–	–	37,782	–	–
Benefits paid	(35,411)	–	–	(22,318)	–	–
Interest income	15,246	–	–	15,527	–	–
Remeasurements:						
– Return on plan assets	(32,996)	–	–	11,604	–	–
Balance, end of year	407,428	–	–	417,687	–	–
Accrued benefit obligation						
Balance, beginning of year	493,610	63,134	45,405	481,201	62,461	44,812
Benefits paid	(35,411)	(2,873)	(2,373)	(22,313)	(2,751)	(2,707)
Current service cost	20,293	1,400	918	23,264	1,453	921
Past service cost	–	–	–	–	(2,972)	(703)
Plan amendment	–	–	–	(50,381)	–	–
Curtailment (gain) loss	(776)	–	36	2,514	–	–
Employee contributions	2,464	–	–	3,005	–	–
Interest expense	17,403	2,153	1,521	19,186	2,335	1,612
Remeasurements:						
Actuarial losses (gains)						
– Demographic assumption	17,397	–	(5,708)	–	–	–
– Experience adjustments	(3,098)	(12)	(787)	(1,439)	271	223
– Financial assumptions	(15,167)	(1,718)	(1,270)	38,573	2,337	1,247
Balance, end of year	496,715	62,084	37,742	493,610	63,134	45,405
Accrued benefit liability	$ 89,287	$ 62,084	$ 37,742	$ 75,923	$ 63,134	$ 45,405

The Company, at its discretion, may from time to time increase certain benefits paid to retired members of the plan. Under its previous policy, the Company had granted benefit increases in most years and the obligation included an estimate for future increases. The Company does not expect to grant benefit increases in the foreseeable future. As a result of this change, in 2017, the Company revalued its pension obligation and has recognized a reduction to its obligation of $50.4 million as a decrease to non-commission expense.

Significant actuarial assumptions used to calculate the defined benefit obligation:

	2018			2017		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	3.90%	3.55%-3.80%	3.70%	3.60%	3.30%-3.55%	3.45%
Rate of compensation increase	4.30%	3.75%	N/A	3.90%	3.75%	N/A
Health care cost trend rate[1]	N/A	N/A	5.78%	N/A	N/A	5.77%
Mortality rates at age 65 for current pensioners	23.6 years	23.6 years	23.6 years	23.5 years	23.5 years	23.5 years

(1) *Trending to 4.00% in 2044 and remaining at that rate thereafter.*

DEFINED BENEFIT PLANS *(continued)*

The weighted average duration of the pension plans' defined benefit obligation at the end of the reporting period is 18.3 years (2017 – 17.6 years).

Benefit expense:

	2018			2017		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	$ 20,293	$ 1,400	$ 918	$ 23,269	$ 1,453	$ 921
Past service cost	–	–	–	–	(2,972)	(703)
Plan amendment	–	–	–	(50,381)	–	–
Curtailment (gain) loss	(776)	–	36	2,514	–	–
Net interest cost	2,157	2,153	1,521	3,659	2,335	1,612
	$ 21,674	$ 3,553	$ 2,475	$ (20,939)	$ 816	$ 1,830

Sensitivity analysis:

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

	2018		2017	
	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE
Defined benefit pension plan				
Discount rate (+ / − 0.25%)				
Increase	$ (21,322)	$ (1,719)	$ (20,503)	$ (1,771)
Decrease	22,784	1,743	21,883	1,809
Rate of compensation (+ / − 0.25%)				
Increase	7,245	720	6,538	893
Decrease	(7,198)	(707)	(6,440)	(880)
Mortality				
Increase 1 year	9,725	705	9,847	888
SERPs				
Discount rate (+ / − 0.25%)				
Increase	(1,640)	52	(1,767)	36
Decrease	1,713	(57)	1,850	(40)
Rate of compensation (+ / − 0.25%)				
Increase	75	22	77	27
Decrease	(74)	(24)	(76)	(26)
Mortality				
Increase 1 year	1,418	57	1,467	63
Other post-employment benefits				
Discount rate (+ / − 0.25%)				
Increase	(902)	36	(1,150)	33
Decrease	940	(39)	1,201	(34)
Health care cost trend rates (+ / − 1.00%)				
Increase	1,180	44	2,016	76
Decrease	(1,027)	(38)	(1,734)	(64)
Mortality				
Increase 1 year	987	45	1,459	65

NOTE 13 EMPLOYEE BENEFITS *(continued)*

DEFINED BENEFIT PLANS *(continued)*

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

Asset allocation of defined benefit pension plan by asset category:

	2018	2017
Equity securities	**56.4 %**	61.4 %
Fixed income securities	**32.5**	28.9
Alternative strategies	**9.9**	4.6
Cash and cash equivalents	**1.2**	5.1
	100.0 %	100.0 %

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

DEFINED CONTRIBUTION PENSION PLANS

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Non-commission expense was $4.8 million (2017 – $4.4 million).

GROUP RETIREMENT SAVINGS PLAN (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Non-commission expense as paid and totalled $6.7 million (2017 – $6.4 million).

NOTE 14 INCOME TAXES

Income tax expense:

	2018	2017
Income taxes recognized in net earnings		
Current taxes		
Tax on current year's earnings	**$ 223,924**	$ 152,502
Adjustments in respect of prior years	**(9,317)**	(3,892)
	214,607	148,610
Deferred taxes	**(4,688)**	25,277
	$ 209,919	$ 173,887

Effective income tax rate:

	2018	2017
Income taxes at Canadian federal and provincial statutory rates	**26.81 %**	26.84 %
Effect of:		
Proportionate share of associates' earnings *(Note 8)*	**(3.79)**	(3.81)
Proportionate share of associate's one-time charges *(Note 8)*	**–**	0.48
Proportionate share of associate's provision *(Note 8)*	**–**	0.17
Tax loss consolidation *(Note 25)*	**(1.40)**	(1.55)
Other items	**(0.33)**	0.03
Effective income tax rate	**21.29 %**	22.16 %

DEFERRED INCOME TAXES

Sources of deferred income taxes:

	2018	2017
Deferred income tax assets		
Accrued benefit liabilities	$ **51,025**	$ 49,771
Loss carryforwards	**33,165**	15,002
Other	**38,726**	43,170
	122,916	107,943
Deferred income tax liabilities		
Capitalized sales commissions *(Note 2)*	**28,254**	203,976
Intangible assets	**265,343**	264,487
Other	**49,431**	42,681
	343,028	511,144
	$ **220,112**	$ 403,201

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

	2018	2017
Deferred income tax assets	$ **75,607**	$ 60,661
Deferred income tax liabilities	**295,719**	463,862
	$ **220,112**	$ 403,201

As at December 31, 2018, the Company had non-capital losses of $4.6 million (2017 – $0.8 million) available to reduce future taxable income, the benefit of which had not been recognized. $3.8 million of the losses can be carried forward indefinitely and the remainder expire on December 31, 2037.

NOTE 15 LONG-TERM DEBT

MATURITY	RATE	SERIES	2018	2017
March 7, 2018	6.58%	2003	$ **–**	$ 150,000
April 8, 2019	7.35%	2009	**–**	375,000
January 26, 2027	3.44%	2017	**400,000**	400,000
December 13, 2027	6.65%	1997	**125,000**	125,000
May 9, 2031	7.45%	2001	**150,000**	150,000
December 31, 2032	7.00%	2002	**175,000**	175,000
March 7, 2033	7.11%	2003	**150,000**	150,000
December 10, 2040	6.00%	2010	**200,000**	200,000
January 25, 2047	4.56%	2017	**200,000**	200,000
December 9, 2047	4.115%	2017	**250,000**	250,000
July 13, 2048	4.174%	2018	**200,000**	–
			$ **1,850,000**	$ 2,175,000

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

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

Interest expense relating to long-term debt was $120.9 million (2017 – $114.2 million).

On March 7, 2018, the $150.0 million 6.58% debentures were due and were repaid.

NOTE 15 LONG-TERM DEBT *(continued)*

On July 11, 2018, the Company issued $200.0 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by the Company, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption of all of its $375 million aggregate principal amount of 7.35% debentures due April 8, 2019. A premium of $10.7 million was paid on the early redemption of the 7.35% debentures and is included in interest expense in the Consolidated Statement of Earnings.

On January 26, 2017, the Company issued $400 million of 10 year, 3.44% debentures and $200 million of 30 year, 4.56% debentures. On December 7, 2017, the Company issued $250 million of 30 year, 4.115% debentures. These offerings were made pursuant to prospectus supplements to the Company's short form base shelf prospectus dated November 29, 2016.

NOTE 16 SHARE CAPITAL

AUTHORIZED

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

ISSUED AND OUTSTANDING

	2018		2017	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	**6,000,000**	**$ 150,000**	6,000,000	$ 150,000
Common shares:				
Balance, beginning of year	**240,666,131**	**$ 1,602,726**	240,515,968	$ 1,597,208
Issued under Stock Option Plan *(Note 18)*	**219,186**	**8,537**	150,163	5,518
Balance, end of year	**240,885,317**	**$ 1,611,263**	240,666,131	$ 1,602,726

NORMAL COURSE ISSUER BID

On March 20, 2017, the Company commenced a normal course issuer bid, effective until March 19, 2018, which authorized it to purchase up to 12.0 million or 5% of its common shares outstanding as at February 28, 2017. There were no shares purchased in 2018 (2017 – nil).

NOTE 17 CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity. The reduction in Shareholders' equity in 2018 compared to 2017 was largely due to the adoption of IFRS 15 which resulted in an adjustment to opening retained earnings of $514.6 million in the first quarter of 2018. The Company regularly assesses its capital management practices in response to changing economic conditions.

NOTE 17 CAPITAL MANAGEMENT *(continued)*

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

The total outstanding long-term debt was $1,850.0 million at December 31, 2018, compared to $2,175.0 million at December 31, 2017. 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. The net decrease in long-term debt of $325.0 million resulted from:

- The maturity of the Company's $150.0 million 6.58% debentures which were due and repaid on March 7, 2018.
- The issuance on July 11, 2018 of $200.0 million 4.174% debentures maturing July 13, 2048. 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 were used by IGM Financial, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption of all of its $375.0 million aggregate principal amount of 7.35% debentures due April 8, 2019.

Perpetual preferred shares of $150 million at December 31, 2018 remain unchanged from December 31, 2017.

The Company commenced a normal course issuer bid on March 20, 2017, which was effective until March 19, 2018, 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. There were no common shares purchased by the Company in 2018 and 2017 (Note 16). Other activities in 2018 included the declaration of perpetual preferred share dividends of $8.9 million or $1.475 per share and common share dividends of $541.9 million or $2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

NOTE 18 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time vesting conditions set out at the grant date. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2018, 20,586,912 (2017 – 20,806,098) common shares were reserved for issuance under the Plan.

During 2018, the Company granted 1,336,990 options to employees (2017 – 1,418,930). The weighted-average fair value of options granted during the year ended December 31, 2018 has been estimated at $2.56 per option (2017 – $2.52) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was $39.10 (2017 – $41.67). The assumptions used in these valuation models include:

	2018	2017
Exercise price	**$ 39.28**	$ 41.70
Risk-free interest rate	**2.35%**	1.53%
Expected option life	**6 years**	6 years
Expected volatility	**17.00%**	17.00%
Expected dividend yield	**5.73%**	5.40%

STOCK OPTION PLAN *(continued)*

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Stock options were exercised regularly throughout 2018 and the average share price in 2018 was $37.62.

The Company recorded compensation expense related to its stock option program of $3.7 million (2017 – $3.5 million).

	2018		2017	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, beginning of year	**8,912,748**	**$ 42.59**	8,484,030	$ 43.16
Granted	**1,336,990**	**39.28**	1,418,930	41.70
Exercised	**(219,186)**	**35.37**	(150,163)	33.77
Forfeited	**(328,658)**	**43.53**	(840,049)	48.42
Balance, end of year	**9,701,894**	**$ 42.27**	8,912,748	$ 42.59
Exercisable, end of year	**4,742,050**	**$ 44.28**	4,063,668	$ 44.09

OPTIONS OUTSTANDING AT DECEMBER 31, 2018	EXPIRY DATE	EXERCISE PRICE $	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2019	**26.67 – 44.00**	**178,750**	**178,750**
	2020	**40.45 – 42.82**	**589,996**	**589,996**
	2021	**42.49 – 46.72**	**504,237**	**504,237**
	2022	**45.56 – 47.23**	**785,951**	**731,419**
	2023	**44.73 – 47.26**	**1,073,374**	**885,790**
	2024	**53.81**	**836,747**	**600,014**
	2025	**43.28 – 43.97**	**1,103,038**	**534,307**
	2026	**34.88 – 38.17**	**1,982,658**	**508,462**
	2027	**39.71 – 41.74**	**1,316,948**	**209,075**
	2028	**37.58 – 40.10**	**1,330,195**	**–**
			9,701,894	**4,742,050**

SHARE UNIT PLANS

The Company has share unit plans for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. These plans include Performance Share Unit (PSU), Deferred Share Unit (DSU) and Restricted Share Unit (RSU) plans. Under the terms of the plans, share units are awarded annually and are subject to time vesting conditions. In addition, the PSU and DSU plans are subject to performance vesting conditions. The value of each share unit is based on the share price of the Company's common shares. The PSUs and RSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional share units are issued in respect of dividends payable on common shares based on a value of the share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of $6.8 million in 2018 (2017 – $14.0 million) and a liability of $20.4 million at December 31, 2018 (2017 – $23.3 million).

NOTE 18 SHARE-BASED PAYMENTS *(continued)*

SHARE PURCHASE PLANS

Under the Company's share purchase plans, eligible employees and IG Wealth Management consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $12.4 million (2017 – $12.9 million).

DIRECTORS' DEFERRED SHARE UNIT PLAN

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual board retainer in the form of DSUs and may elect to receive the balance of their annual board retainer in cash or DSUs. Directors may elect to receive certain fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of DSU). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a DSU at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by cash payments, based on the value of the deferred share units at that time. At December 31, 2018, the fair value of the DSUs outstanding was $13.4 million (2017 – $16.1 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

NOTE 19 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

2018	EMPLOYEE BENEFITS	OTHER INVESTMENTS	INVESTMENT IN ASSOCIATES AND OTHER	TOTAL
Balance, beginning of year				
As previously reported	**$ (132,529)**	**$ 39,051**	**$ 22,348**	**$ (71,130)**
Change in accounting policy *(Note 2)*	**–**	**17**	**–**	**17**
	(132,529)	**39,068**	**22,348**	**(71,113)**
Other comprehensive income (loss)	**(16,523)**	**18,166**	**23,672**	**25,315**
Balance, end of year	**$ (149,052)**	**$ 57,234**	**$ 46,020**	**$ (45,798)**
2017				
Balance, beginning of year	$ (110,913)	$ 8,617	$ 19,854	$ (82,442)
Other comprehensive income (loss)	(21,616)	30,434	2,494	11,312
Balance, end of year	$ (132,529)	$ 39,051	$ 22,348	$ (71,130)

Amounts are recorded net of tax.

NOTE 20 RISK MANAGEMENT

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

LIQUIDITY AND FUNDING RISK RELATED TO FINANCIAL INSTRUMENTS

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

The Company's liquidity management practices include:

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

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

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

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

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

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

AS AT DECEMBER 31, 2018 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	$ –	$ 8.2	$ 20.6	$ 0.2	$ 29.0
Deposits and certificates	555.0	7.4	5.0	1.4	568.8
Obligations to securitization entities	–	1,207.6	6,135.3	27.3	7,370.2
Long-term debt	–	–	–	1,850.0	1,850.0
Pension funding(1)	–	25.6	–	–	25.6
Total contractual maturities	$ 555.0	$ 1,248.8	$ 6,160.9	$ 1,878.9	$ 9,843.6

(1) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2019 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled $825 million at December 31, 2018, unchanged from December 31, 2017. The lines of credit at December 31, 2018 consisted of committed lines of $650 million and uncommitted lines of $175 million, unchanged from December 31, 2017. 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, 2018 and December 31, 2017, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2017.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS

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

At December 31, 2018, cash and cash equivalents of $650.2 million (2017 – $966.8 million) consisted of cash balances of $81.8 million (2017 – $88.3 million) on deposit with Canadian chartered banks and cash equivalents of $568.4 million (2017 – $878.5 million). Cash equivalents are comprised of Government of Canada treasury bills totalling $103.5 million (2017 – $239.5 million), provincial government treasury bills and promissory notes of $76.2 million (2017 – $252.6 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of $364.3 million (2017 – $351.4 million), and highly rated corporate commercial paper of $24.4 million (2017 – $35.0 million). The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2018, residential mortgages, recorded on the Company's balance sheet, of $7.7 billion (2017 – $7.8 billion) consisted of $7.3 billion sold to securitization programs (2017 – $7.5 billion), $363.9 million held pending sale or securitization (2017 – $286.7 million) and $25.6 million related to the Company's intermediary operations (2017 – $26.0 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 IG Wealth Management 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 $4.2 billion (2017 – $4.5 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 $3.1 billion (2017 – $3.1 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $74.1 million (2017 – $69.7 million) and $35.6 million (2017 – $42.4 million), respectively, at December 31, 2018. 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 8.3% of mortgages held in ABCP Trusts insured at December 31, 2018 (2017 – 16.4%).

At December 31, 2018, residential mortgages recorded on balance sheet were 61.5% insured (2017 – 65.5%). As at December 31, 2018, impaired mortgages on these portfolios were $3.3 million, compared to $2.8 million at December 31, 2017. Uninsured non-performing mortgages over 90 days on these portfolios were $1.8 million at December 31, 2018, compared to $0.8 million at December 31, 2017.

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 allowance for expected credit losses.

The Company's allowance for expected credit losses was $0.8 million at December 31, 2018, unchanged from December 31, 2017, 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.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2017.

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

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to 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 $19.4 million (2017 – $33.8 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 nil at December 31, 2018 (2017 – $1.2 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, 2018. Management of credit risk related to derivatives has not changed materially since December 31, 2017.

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

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

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

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a positive fair value of $4.9 million (2017 – positive $4.1 million) and an outstanding notional amount of $0.9 billion at December 31, 2018 (2017 – $1.2 billion). 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 negative fair value of these swaps totalled $11.0 million (2017 – negative $4.5 million), on an outstanding notional amount of $1.7 billion at December 31, 2018 (2017 – $1.9 billion). The net fair value of these swaps of negative $6.1 million at December 31, 2018 (2017 – negative $0.4 million) is recorded on the balance sheet and has an outstanding notional amount of $2.6 billion (2017 – $3.1 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. Beginning in 2018, hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Net investment income and other over the term of the related Obligations to securitization entities. The fair value of these swaps was negative $1.8 million (2017 – positive $0.9 million) on an outstanding notional amount of $249.9 million at December 31, 2018 (2017 – $137.0 million).

As at December 31, 2018, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately $0.5 million (2017 – decrease of $0.9 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2017.

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

Equity Price Risk

The Company is exposed to equity price risk on its equity investments (Note 4) which are classified as either fair value through other comprehensive income or fair value through profit or loss.

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. Changes to the carrying value due to changes in foreign exchange rates on both of these investments are recognized in Other comprehensive income. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately $39.9 million ($44.0 million).

The Company's proportionate share of China AMC's earnings, recorded in Proportionate share of associates' earnings in the Consolidated Statement of Earnings, is also affected by changes in foreign exchange rates. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the proportionate share of China AMC's earnings by approximately $1.4 million ($1.5 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT

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

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are counterparties to the Company's securitization transactions. In all cases, the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific financial instruments at a fixed price at a future date. Forward contracts are contractual agreements to buy or sell a financial instrument on a future date at a specified price.

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

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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

	NOTIONAL AMOUNT					FAIR VALUE	
2018	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	ASSET	LIABILITY
Swaps							
Hedge accounting	$ –	$ 122,186	$ 42,650	$ 164,836	$ 1	$ 1	$ 1,158
No hedge accounting	907,525	1,736,413	36,737	2,680,675	16,034	16,034	23,252
Forward contracts							
Hedge accounting	10,310	26,985	–	37,295	329	329	4,580
	$ 917,835	$ 1,885,584	$ 79,387	$ 2,882,806	$ 16,364	$ 16,364	$ 28,990
2017							
Swaps							
No hedge accounting	$ 1,261,555	$ 1,956,242	$ 19,918	$ 3,237,715	$ 28,476	$ 28,476	$ 28,444
Forward contracts							
Hedge accounting	8,400	23,080	–	31,480	7,216	7,216	–
	$ 1,269,955	$ 1,979,322	$ 19,918	$ 3,269,195	$ 35,692	$ 35,692	$ 28,444

The credit risk related to the Company's derivative financial instruments after giving effect to any netting agreements was nil (2017 – $7.4 million).

The credit risk related to the Company's derivative financial instruments after giving effect to netting agreements and including rights to future net interest income, was nil (2017 – $1.2 million). Rights to future net interest income are related to the Company's securitization activities and are not reflected on the Consolidated Balance Sheets.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are 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.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

Fair value is determined using the following methods and assumptions:

Other investments 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 investments and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

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

Level 3 assets and liabilities include investments 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 22 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

2018	CARRYING VALUE	FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Other investments					
– FVTOCI	$ 372,396	$ –	$ –	$ 372,396	$ 372,396
– FVTPL	87,515	86,963	–	552	87,515
Loans					
– FVTPL	4,303	–	4,303	–	4,303
Derivative financial instruments	16,364	–	7,179	9,185	16,364
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	7,733,728	–	380,372	7,405,170	7,785,542
Financial liabilities recorded at fair value					
Derivative financial instruments	28,990	–	24,704	4,286	28,990
Other financial liabilities	8,237	8,235	2	–	8,237
Financial liabilities recorded at amortized cost					
Deposits and certificates	568,799	–	569,048	–	569,048
Obligations to securitization entities	7,370,193	–	–	7,436,873	7,436,873
Long-term debt	1,850,000	–	2,050,299	–	2,050,299

2017	CARRYING VALUE	FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Other investments					
– Available for sale	$ 282,756	$ 19,931	$ –	$ 262,825	$ 282,756
– Held for trading	96,940	95,390	889	661	96,940
Loans					
– Held for trading	286,682	–	286,682	–	286,682
Derivative financial instruments	35,692	–	22,879	12,813	35,692
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,563,191	–	25,917	7,649,591	7,675,508
Financial liabilities recorded at fair value					
Derivative financial instruments	28,444	–	19,726	8,718	28,444
Other financial liabilities	9,262	9,146	116	–	9,262
Financial liabilities recorded at amortized cost					
Deposits and certificates	504,996	–	505,486	–	505,486
Obligations to securitization entities	7,596,028	–	–	7,657,761	7,657,761
Long-term debt	2,175,000	–	2,470,182	–	2,470,182

There were no significant transfers between Level 1 and Level 2 in 2018 and 2017.

NOTE 22 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.

2018	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS[1]	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE DECEMBER 31
Other investments							
– FVTOCI	**$ 262,825**	**$ –**	**$ 21,002**	**$ 88,569**	**$ –**	**$ –**	**$ 372,396**
– FVTPL	**661**	**(8)**	**–**	**–**	**–**	**(101)**	**552**
Derivative financial instruments, net	**4,095**	**(12,689)**	**–**	**224**	**(13,269)**	**–**	**4,899**

2017							
Other investments							
– Available for sale	$ 151,949	$ 2,611	$ 34,856	$ 73,409	$ –	$ –	$ 262,825
– Held for trading	1,438	27	–	96	–	(900)	661
Derivative financial instruments, net	(23,055)	13,189	–	(1,810)	(15,771)	–	4,095

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

NOTE 23 EARNINGS PER COMMON SHARE

	2018	2017
Earnings		
Net earnings	**$ 776,168**	$ 610,765
Perpetual preferred share dividends	**8,850**	8,850
Net earnings available to common shareholders	**$ 767,318**	$ 601,915
Number of common shares *(in thousands)*		
Weighted average number of common shares outstanding	**240,815**	240,585
Add: Potential exercise of outstanding stock options[1]	**125**	336
Average number of common shares outstanding – Diluted basis	**240,940**	240,921
Earnings per common share *(in dollars)*		
Basic	**$ 3.19**	$ 2.50
Diluted	**$ 3.18**	$ 2.50

(1) Excludes 1,453 thousand shares in 2018 related to outstanding stock options that were anti-dilutive (2017 – 691 thousand).

NOTE 24 CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

CONTINGENT LIABILITIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. 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.

NOTE 24 CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES *(continued)*

COMMITMENTS

The Company is committed to the following annual future minimum lease payments under its operating leases: 2019 – $28.0 million; 2020 – $24.5 million; 2021 – $18.5 million; 2022 – $13.4 million; and 2023 and thereafter – $42.9 million.

GUARANTEES

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

NOTE 25 RELATED PARTY TRANSACTIONS

TRANSACTIONS AND BALANCES WITH RELATED ENTITIES

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

- During 2018 and 2017, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $62.6 million in distribution fees (2017 – $77.1 million). The Company received $17.5 million (2017 – $17.8 million) and paid $25.4 million (2017 – $24.2 million) to Great-West and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid $78.3 million (2017 – $76.0 million) to London Life related to the distribution of certain investment funds of the Company.
- During 2018, the Company sold residential mortgage loans to Great-West and London Life for $61.4 million (2017 – $136.5 million).

After obtaining advanced tax rulings in October 2017, the Company agreed to tax loss consolidation transactions with the Power Corporation of Canada group whereby shares of a subsidiary that has generated tax losses may be acquired in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. The Company will recognize the benefit of the tax losses realized throughout the year. On each of December 31, 2018 and December 29, 2017, the Company acquired shares of such a loss company and recorded the benefit of the tax losses acquired.

KEY MANAGEMENT COMPENSATION

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

	2018	2017
Compensation and employee benefits	$ 4,200	$ 4,098
Post-employment benefits	3,007	2,628
Share-based payments	1,638	1,456
	$ 8,845	$ 8,182

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

NOTE 26 SEGMENTED INFORMATION

The Company's reportable segments are:

- IG Wealth Management
- Mackenzie
- Corporate and Other

These segments reflect the Company's internal financial reporting and performance measurement. In the third quarter of 2018, the Company announced that it has rebranded Investors Group as IG Wealth Management. In 2017, the Company announced the combination of investment management functions of IG Wealth Management and Mackenzie resulting in the formation of a single global investment management organization. As a result, the Company has changed the methodology used to charge its segments the costs associated with the single investment management function to better align it with internal reporting.

IG Wealth Management 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, IG Wealth Management 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 and China AMC (Note 8), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

2018

	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL SEGMENT	ADJUSTMENTS[1]	TOTAL
Revenues						
Management fees	$ 1,458,127	$ 701,424	$ 79,631	$ 2,239,182	$ –	$ 2,239,182
Administration fees	310,382	98,353	18,358	427,093	–	427,093
Distribution fees	171,531	6,713	192,662	370,906	–	370,906
Net investment income and other	46,665	(1,942)	17,205	61,928	–	61,928
Proportionate share of associates' earnings	–	–	149,962	149,962	–	149,962
	1,986,705	804,548	457,818	3,249,071	–	3,249,071
Expenses						
Commission	623,421	291,089	184,133	1,098,643	–	1,098,643
Non-commission	597,242	335,105	88,377	1,020,724	22,758	1,043,482
	1,220,663	626,194	272,510	2,119,367	22,758	2,142,125
Earnings before undernoted	$ 766,042	$ 178,354	$ 185,308	1,129,704	(22,758)	1,106,946
Interest expense				(110,179)	(10,680)	(120,859)
Premium paid on early redemption of debentures *(Note 15)*				(10,680)	10,680	–
Restructuring and other charges *(Note 3)*				(22,758)	22,758	–
Earnings before income taxes				986,087	–	986,087
Income taxes				209,919	–	209,919
Net earnings				776,168	–	776,168
Perpetual preferred share dividends				8,850	–	8,850
Net earnings available to common shareholders				$ 767,318	$ –	$ 767,318
Identifiable assets	$ 8,822,277	$ 1,153,639	$ 2,972,531	$ 12,948,447		
Goodwill	1,347,781	1,168,580	143,906	2,660,267		
Total assets	$ 10,170,058	$ 2,322,219	$ 3,116,437	$ 15,608,714		

(1) Premium paid on early redemption of debentures and Restructuring and other charges are not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.

2017

	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL SEGMENT	ADJUSTMENTS[1]	TOTAL
Revenues						
Management fees	$ 1,415,026	$ 701,669	$ 64,269	$ 2,180,964	$ –	$ 2,180,964
Administration fees	322,012	99,147	18,541	439,700	–	439,700
Distribution fees	190,447	7,714	186,908	385,069	–	385,069
Net investment income and other	41,678	1,217	9,708	52,603	–	52,603
Proportionate share of associates' earnings	–	–	114,772	114,772	(19,098)	95,674
	1,969,163	809,747	394,198	3,173,108	(19,098)	3,154,010
Expenses						
Commission	654,376	300,007	183,500	1,137,883	4,684	1,142,567
Non-commission	576,281	329,336	66,848	972,465	140,169	1,112,634
	1,230,657	629,343	250,348	2,110,348	144,853	2,255,201
Earnings before undernoted	$ 738,506	$ 180,404	$ 143,850	1,062,760	(163,951)	898,809
Interest expense				(114,157)	–	(114,157)
Restructuring and other charges				(195,234)	195,234	–
Pension plan				50,381	(50,381)	–
Proportionate share of associate's one-time charges				(14,000)	14,000	–
Proportionate share of associate's provision				(5,098)	5,098	–
Earnings before income taxes				784,652	–	784,652
Income taxes				173,887	–	173,887
Net earnings				610,765	–	610,765
Perpetual preferred share dividends				8,850	–	8,850
Net earnings available to common shareholders				$ 601,915	$ –	$ 601,915
Identifiable assets	$ 9,445,095	$ 1,322,369	$ 3,071,722	$ 13,839,186		
Goodwill	1,347,781	1,168,580	143,906	2,660,267		
Total assets	$ 10,792,876	$ 2,490,949	$ 3,215,628	$ 16,499,453		

(1) *Restructuring and other charges, Pension Plan and Proportionate share of associate's one-time charges and provision are not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.*