

TO THE SHAREHOLDERS

Power Financial Corporation's net earnings attributable to common shareholders for the quarter ended March 31, 2017 were \$484 million or \$0.68 per share, compared with \$259 million or \$0.36 per share in 2016.

Adjusted net earnings attributable to common shareholders (a non-IFRS financial measure)¹ were \$501 million or \$0.70 per share, compared with \$476 million or \$0.67 per share in 2016.

Other items, not included in adjusted net earnings, were a net charge of \$17 million, representing the Corporation's share of restructuring charges recorded by Great-West Lifeco Inc. (Lifeco) related to its health and retail business in Ireland and the completion of integration activities of Empower Retirement.

RESULTS OF GREAT-WEST LIFECO, IGM FINANCIAL AND PARGESA HOLDING

FOR THE QUARTER ENDED MARCH 31, 2017

GREAT-WEST LIFECO INC.

Lifeco reported net earnings attributable to common shareholders of \$591 million or \$0.598 per share, compared with \$620 million or \$0.625 per share in 2016. Adjusted net earnings attributable to common shareholders were \$619 million or \$0.627 per share, compared with \$620 million or \$0.625 per share in 2016. Other items in the current quarter, not included in adjusted net earnings, were restructuring charges of \$28 million, as discussed above.

At March 31, 2017, Power Financial and IGM Financial Inc. (IGM) held 67.6% and 4.0%, respectively, of Lifeco's common shares. Lifeco's contribution to Power Financial's adjusted net earnings was \$419 million for the quarter, the same as in the corresponding period in 2016.

IGM FINANCIAL INC.

IGM reported net earnings available to common shareholders of \$177 million or \$0.74 per share, compared with \$167 million or \$0.69 per share in 2016.

At March 31, 2017, Power Financial and The Great-West Life Assurance Company, a subsidiary of Lifeco, held 61.5% and 3.8%, respectively, of IGM's common shares. IGM contributed \$104 million to Power Financial's adjusted net earnings for the quarter, compared with \$100 million in 2016.

¹ Non-IFRS financial measures do not have standard meanings and may not be comparable to similar measures used by other entities. See the "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section within the enclosed management's discussion and analysis of Power Financial Corporation for further disclosure concerning non-IFRS financial measures.

PARGESA HOLDING SA

Pargesa Holding SA (Pargesa) reported net earnings of SF125 million, compared with a net loss of SF371 million in 2016. Adjusted net earnings were SF118 million, compared with SF77 million in 2016. Other items, not included in adjusted net earnings, were a contribution of SF7 million.

At March 31, 2017, Power Financial held an indirect equity interest of 27.8% in Pargesa. Pargesa's contribution to Power Financial's adjusted net earnings was \$43 million for the quarter, compared with \$29 million in 2016.

On behalf of the Board of Directors,

Signed,
Paul Desmarais, Jr, O.C., O.Q.
Executive Co-Chairman
of the Board

Signed,
André Desmarais, O.C., O.Q.
Executive Co-Chairman
of the Board

Signed,
R. Jeffrey Orr
President and
Chief Executive Officer

May 11, 2017

POWER FINANCIAL CORPORATION

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This document contains management's discussion and analysis of the financial condition and financial performance of Power Financial Corporation (the Corporation) for the three months ended March 31, 2017 and the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months ended March 31, 2017. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to shareholders of the Corporation in accordance with applicable securities laws.

| | |
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| POWER FINANCIAL CORPORATION | PART A |
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| PARGESA HOLDING SA | PART D |

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POWER FINANCIAL CORPORATION

PART A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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POWER FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

MAY 11, 2017

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

The following sets forth management's discussion and analysis (MD&A) of the unaudited interim condensed consolidated financial condition and financial performance of Power Financial Corporation (Power Financial or the Corporation) (TSX: PWF), a public corporation, for the three-month period ended March 31, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Financial and notes thereto for the three-month period ended March 31, 2017 (the Interim Consolidated Financial Statements), the MD&A for the year ended December 31, 2016 (the 2016 Annual MD&A), and the audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the 2016 Consolidated Financial Statements). Additional information relating to Power Financial, including its Annual Information Form, may be found on the Corporation's website at www.powerfinancial.com and on SEDAR at www.sedar.com.

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

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

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

The following abbreviations are used throughout this report: adidas AG (adidas); Euronext Brussels (EBR); Euronext Paris (EPA); Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); Groupe Bruxelles Lambert (GBL); IGM Financial Inc. (IGM or IGM Financial); International Financial Reporting Standards (IFRS); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); LafargeHolcim Ltd (LafargeHolcim); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie or Mackenzie Investments); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Portag3 Ventures Limited Partnership (Portag3); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam); SGS SA (SGS); Swiss Stock Exchange (SIX); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); Total SA (Total); Umicore, NV/SA (Umicore); Wealthsimple Financial Corp. (Wealthsimple); XETRA Stock Exchange (XETR).

ORGANIZATION OF THE INTERIM MD&A

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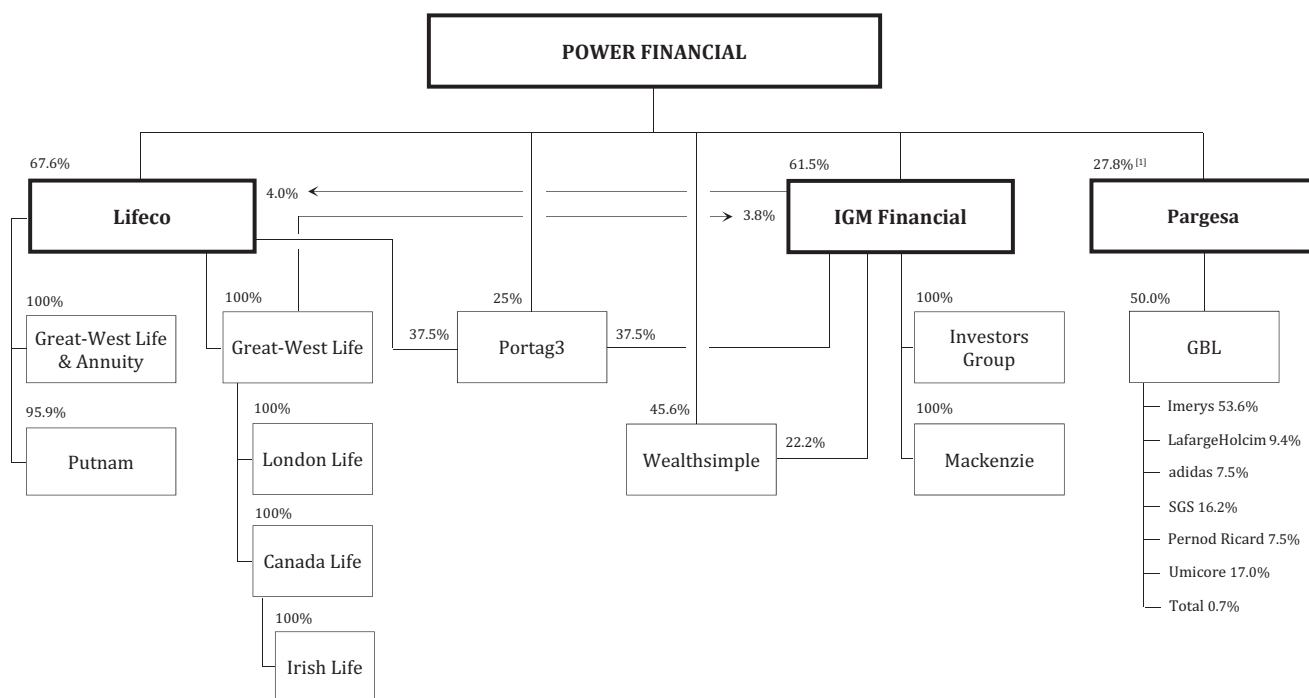
OVERVIEW

Power Financial, a subsidiary of Power Corporation, is a diversified management and holding company with substantial operations in the financial services sector in Canada, the United States and Europe, through its controlling interests in Lifeco and IGM. Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa, a holding company which, through its subsidiary GBL, focuses on a limited number of significant holdings, as well as incubator and financial pillar investments. Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG).

The Corporation's MD&A consists of four parts:

- Part A — Power Financial, presented on a consolidated and non-consolidated basis;
- Part B — Lifeco's interim MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part C — IGM's interim MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part D — Pargesa's financial results, derived from publicly disclosed information, as issued by Pargesa in its end-of-quarter press release. Further information on Pargesa's results is available on its website (www.pargesa.ch).

The following chart shows the economic interest held by the Corporation in its operating subsidiaries and certain other investments at March 31, 2017.



[1] Held through Parjointco, a jointly controlled corporation (50%).

LIFECO

Lifeco is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses.

At March 31, 2017, Power Financial and IGM held 67.6% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits ownership in life insurance companies to 65%.

Lifeco recently realigned its Canadian operations into two new business units: one focused on individual customers and the other on group customers. In conjunction with this, on April 25, 2017, Lifeco announced it will record a restructuring charge of \$215 million pre-tax allocated between participating and non-participating accounts in the second quarter of 2017. The impact of the charge on Lifeco's common shareholders' net earnings will be \$172 million pre-tax and \$127 million after-tax or \$0.13 per share (\$89 million attributable to Power Financial's common shareholders). The charge includes employee severance payments, real estate optimization costs and information systems impairments. As a result of its Canadian transformation initiatives, Lifeco expects to realize total annual run-rate savings of \$200 million pre-tax by the end of March 2019, allocated between participating and non-participating accounts. Of that amount, \$160 million pre-tax (\$117 million after-tax) is expected to benefit Lifeco's common shareholders' net earnings.

See Part B of this MD&A for additional information on Lifeco.

IGM FINANCIAL

IGM is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market.

At March 31, 2017, Power Financial and Great-West Life, a subsidiary of Lifeco, held 61.5% and 3.8%, respectively, of IGM's common shares

On December 29, 2016 and January 5, 2017, Mackenzie Investments, a subsidiary of IGM, entered into agreements to acquire, in two separate transactions, a 13.9% interest in China Asset Management Co., Ltd. (China AMC), a fund management company in China, for an aggregate consideration of approximately \$647 million (RMB¥3.3 billion). In accordance with the terms of these agreements, Mackenzie Investments made a deposit of \$193 million (RMB¥1.0 billion). On January 5, 2017, Power Financial's parent company, Power Corporation, also entered into an agreement to acquire an additional 3.9% interest in China AMC for \$179 million (RMB¥936 million). Upon closing, Power Corporation and Mackenzie Investments will hold a combined 27.8% interest in China AMC. The transactions are subject to customary closing conditions, including Chinese regulatory approvals.

See Part C of this MD&A for additional information on IGM.

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At March 31, 2017, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa is a holding company, which, at March 31, 2017, held a 50% interest in GBL, which represents 51.9% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

At March 31, 2017, GBL's portfolio was mainly comprised of investments in: Imerys – mineral-based specialty solutions for industry (EPA: NK); LafargeHolcim – cement, aggregates and concrete (SIX: HOLN and EPA: LHN); adidas – design and distribution of sportswear (XETR: ADS); SGS – testing, inspection and certification (SIX: SGSN); Pernod Ricard – wines and spirits (EPA: RI); Umicore – materials technology and recycling (EBR: UMI); and Total – oil, gas and chemical industries (EPA: FP).

These holdings represent 90% of GBL's portfolio based on market value. In addition, GBL invests in:

- “Incubator” investments, comprises of a limited selection of shareholdings ranging in size from €250 million to €1 billion that have the potential to become strategic investments over time. GBL aims to become a core shareholder and, for mid-sized companies, to possibly hold a majority stake; and
- The “financial pillar”, comprising major stakes in private equity funds, debt funds and theme-based funds.

At March 31, 2017, Pargesa's net asset value was SF9,665 million, compared with SF8,884 million at December 31, 2016.

See Part D of this MD&A for additional information on Pargesa.

PORTAG3

Power Financial, in partnership with its subsidiaries Lifeco and IGM, holds an investment in Portag3, which is an investment fund dedicated primarily to backing early-stage technology-driven financial services companies.

At March 31, 2017, the fair value of the Corporation's direct investment in Portag3 was \$10 million, unchanged from December 31, 2016.

WEALTHSIMPLE

Power Financial and IGM held, at March 31, 2017, equity interests in Wealthsimple of 45.6% and 22.2%, respectively. Wealthsimple is a technology-driven investment manager with assets under administration of approximately \$1 billion at March 31, 2017.

In the first quarter of 2017, Power Financial and IGM invested \$20 million and \$15 million, respectively, in Wealthsimple. In April 2017, IGM invested an additional \$27.6 million in Wealthsimple.

BASIS OF PRESENTATION

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34) and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its operating subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco and IGM (Power Financial's controlled operating subsidiaries) after the elimination of intercompany balances and transactions.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group. Parjointco's only investment is its interest in Pargesa. Power Financial's investment in Parjointco is accounted for using the equity method, in which:

- The investment is initially recognized at cost and adjusted thereafter for changes in Power Financial's share of Pargesa's net assets (shareholders' equity);
- Power Financial's share of net earnings or loss in Pargesa's net earnings or loss; and
- Power Financial's share of other comprehensive income in Pargesa's other comprehensive income.

The following table summarizes the accounting presentation for the Corporation's holdings:

| Control | Accounting Method | Earnings and Other Comprehensive Income | Impairment Testing | Impairment Reversal |
|--|--------------------------|--|---|--|
| Controlling interest in the entity | Consolidation | Consolidated with non-controlling interests | Goodwill and indefinite life intangible assets are tested annually for impairment | Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value |
| Significant influence or joint control | Equity method | Corporation's share of earnings and other comprehensive income | Entire investment is tested for impairment | Reversed if there is evidence the investment has recovered its value |
| Non-controlled portfolio investments | Available for sale (AFS) | Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any | Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment | A subsequent recovery of value does not result in a reversal |

At March 31, 2017, the Corporation's holdings were as follows:

| Holdings | % economic interest | Nature of investment | Accounting method |
|-----------------------------|---------------------|----------------------|-------------------|
| Lifeco ^[1] | 67.6 | Controlling interest | Consolidation |
| IGM ^[2] | 61.5 | Controlling interest | Consolidation |
| Pargesa ^[3] | 27.8 | Joint control | Equity method |
| Wealthsimple ^[4] | 45.6 | Joint control | Equity method |

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.8% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] IGM also holds a 22.2% interest in Wealthsimple.

At March 31, 2017, Pargesa's holdings were as follows:

| Holdings | % economic interest | Nature of investment | Accounting method |
|---------------|---------------------|----------------------|--------------------|
| GBL | 50.0 | Controlling interest | Consolidation |
| Imerys | 53.6 | Controlling interest | Consolidation |
| LafargeHolcim | 9.4 | Portfolio investment | Available for sale |
| adidas | 7.5 | Portfolio investment | Available for sale |
| SGS | 16.2 | Portfolio investment | Available for sale |
| Pernod Ricard | 7.5 | Portfolio investment | Available for sale |
| Umicore | 17.0 | Portfolio investment | Available for sale |
| Total | 0.7 | Portfolio investment | Available for sale |

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2016 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 5);
- Investments in jointly controlled corporations and associates (Note 7);
- Goodwill and intangible assets (Note 10); and
- Non-controlling interests (Note 19).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

Net earnings attributable to common shareholders are comprised of:

- **adjusted net earnings** attributable to common shareholders; and
- **other items**, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items include the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation. Other items are listed and described below in a separate section of this MD&A.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. Adjusted net earnings, as defined by the Corporation, assist the reader in comparing the current period's results to those of previous periods as items that are not considered to be part of ongoing activities are excluded from this non-IFRS measure.

Adjusted net earnings attributable to common shareholders and adjusted net earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see the "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Non-Consolidated Statements of Earnings" section below.

In this MD&A, a non-consolidated basis of presentation is also used by the Corporation to present and analyze its results, financial position and cash flows. In this basis of presentation, Power Financial's interests in Lifeco and IGM are accounted for using the equity method. Presentation on a non-consolidated basis is a non-IFRS presentation. However, it is useful to the reader as it presents the holding company's (parent) results separately from the results of its operating subsidiaries. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included elsewhere in this MD&A.

RESULTS OF POWER FINANCIAL CORPORATION**CONSOLIDATED NET EARNINGS**

Power Financial's consolidated statements of earnings are presented below. The Corporation's reportable segments are Lifeco, IGM and Pargesa. This table reconciles the contributions from Lifeco, IGM and Pargesa to the net earnings attributable to common shareholders of Power Financial.

| | Lifeco | IGM | Pargesa | Corporate ^[1] | Power Financial Consolidated net earnings | | |
|---|--------|-----|---------|--------------------------|--|----------------------|-------------------|
| | | | | | March 31, 2017 | December 31, 2016 | March 31, 2016 |
| Three months ended | | | | | | | |
| Revenues | | | | | | | |
| Premium income, net | 9,365 | - | - | - | 9,365 | 8,905 | 7,015 |
| Net investment income | 2,186 | 48 | - | (36) | 2,198 | (2,425) | 4,073 |
| Fee income | 1,305 | 742 | - | (41) | 2,006 | 2,096 | 1,882 |
| Total revenues | 12,856 | 790 | - | (77) | 13,569 | 8,576 | 12,970 |
| Expenses | | | | | | | |
| Total paid or credited to policyholders | 9,862 | - | - | - | 9,862 | 4,373 | 9,678 |
| Commissions | 753 | 290 | - | (26) | 1,017 | 1,156 | 792 |
| Operating and administrative expenses | 1,438 | 247 | - | 4 | 1,689 | 1,678 | 1,581 |
| Financing charges | 76 | 27 | - | 4 | 107 | 103 | 105 |
| Total expenses | 12,129 | 564 | - | (18) | 12,675 | 7,310 | 12,156 |
| Earnings before investments in jointly controlled corporations and associates, and income taxes | 727 | 226 | - | (59) | 894 | 1,266 | 814 |
| Share of earnings (losses) of investments in jointly controlled corporations and associates | 18 | - | 46 | (15) | 49 | 78 | (180) |
| Earnings before income taxes | 745 | 226 | 46 | (74) | 943 | 1,344 | 634 |
| Income taxes | 96 | 47 | - | - | 143 | 216 | 70 |
| Net earnings | 649 | 179 | 46 | (74) | 800 | 1,128 | 564 |
| Attributable to | | | | | | | |
| Non-controlling interests | 250 | 75 | - | (40) | 285 | 481 | 274 |
| Perpetual preferred shareholders | - | - | - | 31 | 31 | 31 | 31 |
| Common shareholders | 399 | 104 | 46 | (65) | 484 | 616 | 259 |
| | 649 | 179 | 46 | (74) | 800 | 1,128 | 564 |

[1] "Corporate" is comprised of corporate operations and investment activities of Power Financial and elimination entries and reclassifications.

The Corporation evaluates its performance based on the segments' contributions to earnings. A discussion of the results of Lifeco, IGM and Pargesa is provided in the "Contribution to adjusted net earnings – Lifeco, IGM and Pargesa" section below.

EARNINGS SUMMARY – CONDENSED SUPPLEMENTARY NON-CONSOLIDATED STATEMENTS OF EARNINGS

The following table is a reconciliation of non-IFRS financial measures: adjusted net earnings, other items, adjusted net earnings per share and other items per share with financial measures presented in accordance with IFRS: net earnings and net earnings per share. In this section, the contributions from Lifeco and IGM to the net earnings attributable to common shareholders of Power Financial are accounted for using the equity method.

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--|-------------------|----------------------|-------------------|
| Adjusted net earnings ^[1] | | | |
| Lifeco | 419 | 473 | 419 |
| IGM | 104 | 122 | 100 |
| Pargesa | 43 | 15 | 29 |
| | 566 | 610 | 548 |
| Corporate operations | (34) | (34) | (41) |
| Dividends on perpetual preferred shares | (31) | (31) | (31) |
| Adjusted net earnings ^[2] | 501 | 545 | 476 |
| Other items ^[3] | | | |
| Lifeco ^[4] | (20) | (14) | - |
| IGM | - | 21 | - |
| Pargesa | 3 | 64 | (217) |
| | (17) | 71 | (217) |
| Net earnings ^[2] | 484 | 616 | 259 |
| Earnings per share – basic ^[2] | | | |
| Adjusted net earnings | 0.70 | 0.76 | 0.67 |
| Other items | (0.02) | 0.10 | (0.31) |
| Net earnings | 0.68 | 0.86 | 0.36 |

[1] For a reconciliation of each component's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to adjusted net earnings" section below.

[2] Attributable to common shareholders.

[3] See "Other items" section below.

[4] Comparative figures have been adjusted to reflect other items reported by Lifeco for the fourth quarter of 2016.

NET EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Net earnings attributable to common shareholders for the three-month period ended March 31, 2017, were \$484 million or \$0.68 per share, compared with \$259 million or \$0.36 per share in the corresponding period in 2016, an increase of 88.9% on a per share basis, and \$616 million or \$0.86 per share in the fourth quarter of 2016.

A discussion of the results of the Corporation is provided in the sections "Contribution to adjusted net earnings", "Corporate operations", and "Other items" below.

ADJUSTED NET EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Adjusted net earnings attributable to common shareholders for the three-month period ended March 31, 2017 were \$501 million or \$0.70 per share, compared with \$476 million or \$0.67 per share in the corresponding period in 2016, an increase of 4.5% on a per share basis, and \$545 million or \$0.76 per share in the fourth quarter of 2016.

CONTRIBUTION TO ADJUSTED NET EARNINGS – LIFECO, IGM AND PARGESA

Power Financial's share of adjusted net earnings from Lifeco, IGM and Pargesa for the three-month period ended March 31, 2017 was \$566 million, compared with \$548 million in the corresponding period in 2016, and \$610 million in the fourth quarter of 2016.

Lifeco

Lifeco's contribution to Power Financial's adjusted net earnings for the three-month period ended March 31, 2017 was \$419 million, same as in the corresponding period in 2016, and \$473 million in the fourth quarter of 2016.

- Lifeco's adjusted net earnings attributable to Lifeco common shareholders were \$619 million or \$0.627 per share for the three-month period ended March 31, 2017, compared with \$620 million or \$0.625 per share in the corresponding period in 2016, and \$696 million or \$0.707 per share in the fourth quarter of 2016.
- Summary of Lifeco's adjusted and net earnings by segment:

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--------------------------------------|-------------------|----------------------|-------------------|
| Canada | | | |
| Individual Customer ^[1] | 146 | 179 | 155 |
| Group Customer ^[1] | 104 | 154 | 105 |
| Canada Corporate | 5 | (7) | 16 |
| | 255 | 326 | 276 |
| United States | | | |
| Financial Services | 85 | 80 | 90 |
| Asset Management | (16) | (3) | (25) |
| U.S. Corporate | (2) | (2) | (2) |
| | 67 | 75 | 63 |
| Europe | | | |
| Insurance and Annuities | 225 | 225 | 226 |
| Reinsurance | 81 | 86 | 63 |
| Europe Corporate | - | (4) | (2) |
| | 306 | 307 | 287 |
| Lifeco Corporate | (9) | (12) | (6) |
| Adjusted net earnings ^[2] | 619 | 696 | 620 |
| Other items | (28) | (20) | - |
| Net earnings ^[2] | 591 | 676 | 620 |

[1] Comparative figures have been reclassified to reflect presentation adjustments, reflecting the realignment of the Canada segment operations into two business units.

[2] Attributable to Lifeco common shareholders.

Lifeco's contribution to Power Financial:

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|------------------------------------|-------------------|----------------------|-------------------|
| Average direct ownership (%) | 67.8 | 67.9 | 67.4 |
| Contribution to Power Financial's: | | | |
| Adjusted net earnings | 419 | 473 | 419 |
| Other items | (20) | (14) | - |
| | 399 | 459 | 419 |

CANADA

Adjusted net earnings for the three-month period ended March 31, 2017 were \$255 million, compared with \$276 million for the corresponding period in 2016. The decrease was primarily due to unfavourable individual insurance policyholder behaviour experience and lower contributions from insurance contract liability basis changes. These decreases were partially offset by favourable morbidity experience and higher net fee income.

UNITED STATES

Adjusted net earnings for the three-month period ended March 31, 2017 were US\$50 million (C\$67 million), an increase of US\$3 million (C\$4 million) when compared with the same quarter last year, primarily due to higher net fee income, higher contributions from investment experience and lower expenses in the Asset Management segment related to the expense reductions undertaken in the fourth quarter of 2016. Adjusted net earnings for the first quarter of 2016 include the positive impact of a management election to claim tax credits of US\$28 million.

EUROPE

Adjusted net earnings for the three-month period ended March 31, 2017 were \$306 million, compared with \$287 million for the corresponding period in 2016. Strong business performance and a gain on the sale of Lifeco's holdings of Allianz Ireland were partially offset by the impact of negative currency movement.

See Part B of this MD&A for more information on Lifeco's results.

IGM Financial

IGM's contribution to Power Financial's adjusted net earnings was \$104 million for the three-month period ended March 31, 2017, compared with \$100 million for the corresponding period in 2016, and \$122 million in the fourth quarter of 2016.

- IGM's adjusted net earnings available to IGM common shareholders were \$177 million or \$0.74 per share for the three-month period ended March 31, 2017, compared with \$167 million or \$0.69 per share in the corresponding period in 2016, an increase of 7.2% on a per share basis due to an increase in contributions from Investors Group and Mackenzie, and \$199 million or \$0.83 per share in the fourth quarter of 2016.
- Adjusted net earnings before interest and taxes of IGM's segments and adjusted net earnings (non-IFRS measures described in Part C of this MD&A), and net earnings available to IGM common shareholders were as follows:

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--|-------------------|----------------------|-------------------|
| Investors Group | 179 | 200 | 163 |
| Mackenzie | 41 | 48 | 36 |
| Corporate and other | 33 | 33 | 34 |
| Adjusted net earnings (before interest, income taxes, preferred share dividends and other) | 253 | 281 | 233 |
| Interest expense, income taxes, preferred share dividends and other | (76) | (82) | (66) |
| Adjusted net earnings ^[1] | 177 | 199 | 167 |
| Other items | - | 34 | - |
| Net earnings ^[1] | 177 | 233 | 167 |

[1] Available to IGM common shareholders.

IGM's contribution to Power Financial:

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|------------------------------------|-------------------|----------------------|-------------------|
| Average direct ownership (%) | 61.5 | 61.5 | 60.8 |
| Contribution to Power Financial's: | | | |
| Adjusted net earnings | 104 | 122 | 100 |
| Other items | - | 21 | - |
| | 104 | 143 | 100 |

INVESTORS GROUP

Adjusted net earnings increased in the three-month period ended March 31, 2017, compared to the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from a 12.5% increase in average assets under management and an increase in fee revenue from insurance products;
- Partially offset by an increase in commission expenses and an increase in non-commission expenses resulting largely from Consultant network support and other business development efforts.

MACKENZIE

Adjusted net earnings increased in the three-month period ended March 31, 2017, compared to the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from a 9% increase in average assets under management, offset by a 1% decline in the average management fee rate;
- Partially offset by an increase in commission expenses and an increase in non-commission expenses.

Total assets under management were as follows:

| (In billions of dollars) | March 31, 2017 | December 31, 2016 | March 31, 2016 | December 31, 2015 |
|------------------------------------|-------------------|----------------------|-------------------|----------------------|
| Investors Group | 84.4 | 81.7 | 75.7 | 75.4 |
| Mackenzie | 66.3 | 64.0 | 60.7 | 61.7 |
| Corporate and other ^[1] | (3.6) | (3.4) | (3.0) | (3.0) |
| Total | 147.1 | 142.3 | 133.4 | 134.1 |

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

Total average daily investment fund assets under management were as follows:

| (In billions of dollars) | 2017 Q1 | Q4 | Q3 | Q2 | 2016 Q1 |
|------------------------------------|--------------|-------|-------|-------|------------|
| Investors Group | 82.8 | 79.7 | 78.1 | 75.8 | 73.5 |
| Mackenzie | 52.3 | 50.6 | 49.6 | 47.8 | 46.7 |
| Corporate and other ^[1] | 4.5 | 4.5 | 4.5 | 4.3 | 4.2 |
| Total | 139.6 | 134.8 | 132.2 | 127.9 | 124.4 |

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

See Part C of this MD&A for more information on IGM's results.

Pargesa

Pargesa's contribution to Power Financial's adjusted net earnings was \$43 million for the three-month period ended March 31, 2017, compared with \$29 million in the corresponding period in 2016, and \$15 million in the fourth quarter of 2016.

The components of Pargesa's adjusted net earnings (described as "economic operating income" in Part D of this MD&A) and net earnings were:

| Three months ended (In millions of Swiss francs) | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--|-------------------|----------------------|-------------------|
| Contribution from principal holdings | | | |
| Share of earnings of: | | | |
| Imerys | 26 | 27 | 26 |
| Dividends from: | | | |
| SGS | 46 | - | 41 |
| Total | - | 4 | (9) |
| Pernod Ricard | - | 11 | - |
| | 72 | 42 | 58 |
| Contribution from private equity activities and other investment funds | 57 | 8 | (2) |
| Net financing charges | (3) | (2) | 26 |
| Other operating income from holding company activities | - | 1 | - |
| General expenses and taxes | (8) | (9) | (5) |
| Adjusted net earnings | 118 | 40 | 77 |
| Other items | 7 | 242 | (448) |
| Net earnings (loss) | 125 | 282 | (371) |

Pargesa's contribution to Power Financial:

| Three months ended (In millions of Canadian dollars) | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|-------------------|----------------------|-------------------|
| Average indirect ownership (%) | 27.8 | 27.8 | 27.8 |
| Contribution to Power Financial's: | | | |
| Adjusted net earnings | 43 | 15 | 29 |
| Other items | 3 | 64 | (217) |
| | 46 | 79 | (188) |

The average exchange rates for the three-month periods ended March 31, 2017 and 2016 were as follows:

| Three months ended | March 31, 2017 | March 31, 2016 | Change % |
|--------------------|-------------------|-------------------|----------|
| Euro/SF | 1.0696 | 1.0957 | (2.4) |
| SF/CAD | 1.3194 | 1.3819 | (4.5) |

A significant portion of Pargesa's adjusted net earnings is composed of dividends from its non-consolidated investments:

- LafargeHolcim (declared in the second quarter);
- SGS (declared in the first quarter);
- Total (declared in the second, third and fourth quarters);
- Pernod Ricard (declared in the second and fourth quarters);
- Umicore (declared in the second and third quarters); and
- adidas (declared in the second quarter).

Adjusted net earnings increased in the three-month period ended March 31, 2017, compared to the corresponding period in 2016, mainly due to:

- An increase in the contribution from SGS of SF5 million;
- An increase in the contribution from private equity activities and other investment funds of SF59 million; and
- Non-cash charges of SF6 million included in net financing charges due to the mark to market of derivative financial instruments related to convertible and exchangeable debentures issued by GBL, compared with non-cash gains of the same nature of SF38 million in the corresponding period in 2016.

See Part D of this MD&A for more information on Pargesa's results.

CORPORATE OPERATIONS

Corporate operations include income (loss) from investments, operating expenses, financing charges, depreciation and income taxes.

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|--|-------------------|----------------------|-------------------|
| Income (loss) from investments | | | |
| Portag3 and Wealthsimple | (10) | (9) | (4) |
| Interest on cash and cash equivalents, foreign exchange gains (losses) and other | 1 | 5 | (8) |
| | (9) | (4) | (12) |
| Operating and other expenses | | | |
| Operating expenses | (20) | (21) | (20) |
| Financing charges | (4) | (5) | (4) |
| Depreciation | (1) | - | (1) |
| Income taxes ^[1] | - | (4) | (4) |
| | (25) | (30) | (29) |
| Corporate operations | (34) | (34) | (41) |

[1] Consists mainly of withholding taxes payable on the repatriation of cash from Power Financial Europe B.V. to Power Financial.

OTHER ITEMS

The following table presents the Corporation's Other items:

| Three months ended | March 31, 2017 | December 31, 2016 | March 31, 2016 |
|---|-------------------|----------------------|-------------------|
| Lifeco | | | |
| Restructuring charges | (20) | (14) | - |
| IGM | | | |
| Reduction of income tax estimates | - | 21 | - |
| Pargesa | | | |
| Total – Gains on partial disposal | - | 74 | 101 |
| LafargeHolcim – Impairment charges | - | - | (308) |
| Engie – Impairment charges and loss on partial disposal | - | (6) | (9) |
| Other (charge) income | 3 | (4) | (1) |
| | (17) | 71 | (217) |

Other items in the first quarter of 2017 were mainly comprised of the Corporation's share of:

Lifeco

FIRST QUARTER

- Restructuring charges of \$20 million: primarily related to Lifeco's health and retail business in Ireland and the completion of integration activities of Empower Retirement.

Other items in the first and fourth quarters of 2016 were mainly comprised of the Corporation's share of:

Lifeco

FOURTH QUARTER

- Restructuring charges of \$14 million: related to a realignment of Putnam.

IGM Financial

FOURTH QUARTER

- Reduction of income tax estimates of \$21 million: consisting of a reduction in income tax estimates related to certain tax filings.

Pargesa

FIRST QUARTER

- Total – Gain on partial disposal of \$101 million: GBL disposed of a 1.1% equity interest in Total.
- LafargeHolcim – Impairment charge of \$308 million: a non-cash charge of €1,443 million at GBL due to the significant decrease of the share price of LafargeHolcim.
- Engie – Impairment charge of \$9 million: a non-cash charge at GBL.

FOURTH QUARTER

- Total – Gain on partial disposal of \$74 million: GBL disposed of an additional 0.7% equity interest in Total.
- Engie – Impairment charge and loss on partial disposal of \$6 million: net impact recorded by GBL of a non-cash charge and a loss on partial disposal of a 1.8% equity interest in Engie.

FINANCIAL POSITION**CONSOLIDATED BALANCE SHEETS (CONDENSED)**

The condensed balance sheet of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at March 31, 2017.

| | Power Financial | Lifeco | IGM | Consolidation adjustments and other ^[1] | Power Financial Consolidated balance sheets | |
|--|--------------------|----------------|---------------|--|--|----------------------|
| | | | | | March 31, 2017 | December 31, 2016 |
| Assets | | | | | | |
| Cash and cash equivalents | 783 | 3,042 | 1,203 | (225) | 4,803 | 4,396 |
| Investments | 125 | 160,968 | 8,110 | 42 | 169,245 | 167,744 |
| Investment in Lifeco | 13,689 | - | 911 | (14,600) | - | - |
| Investment in IGM | 2,888 | 363 | - | (3,251) | - | - |
| Investment in Parjointco | 3,085 | - | - | - | 3,085 | 2,811 |
| Investments in other jointly controlled corporations and associates | - | 71 | - | 54 | 125 | 292 |
| Funds held by ceding insurers | - | 10,496 | - | - | 10,496 | 10,781 |
| Reinsurance assets | - | 5,579 | - | - | 5,579 | 5,627 |
| Other assets | 121 | 10,519 | 1,261 | (104) | 11,797 | 11,292 |
| Intangible assets | - | 3,952 | 2,021 | - | 5,973 | 5,966 |
| Goodwill | - | 5,976 | 2,660 | 637 | 9,273 | 9,274 |
| Interest on account of segregated fund policyholders | - | 204,666 | - | - | 204,666 | 200,403 |
| Total assets | 20,691 | 405,632 | 16,166 | (17,447) | 425,042 | 418,586 |
| Liabilities | | | | | | |
| Insurance and investment contract liabilities | - | 159,319 | - | - | 159,319 | 157,949 |
| Obligations to securitization entities | - | - | 7,650 | - | 7,650 | 7,721 |
| Debentures and other debt instruments | 250 | 5,688 | 1,925 | (42) | 7,821 | 7,513 |
| Other liabilities | 543 | 10,587 | 1,787 | (179) | 12,738 | 12,784 |
| Insurance and investment contracts on account of segregated fund policyholders | - | 204,666 | - | - | 204,666 | 200,403 |
| Total liabilities | 793 | 380,260 | 11,362 | (221) | 392,194 | 386,370 |
| Equity | | | | | | |
| Perpetual preferred shares | 2,580 | 2,514 | 150 | (2,664) | 2,580 | 2,580 |
| Common shareholders' equity | 17,318 | 19,785 | 4,654 | (24,439) | 17,318 | 16,901 |
| Non-controlling interests ^[2, 3] | - | 3,073 | - | 9,877 | 12,950 | 12,735 |
| Total equity | 19,898 | 25,372 | 4,804 | (17,226) | 32,848 | 32,216 |
| Total liabilities and equity | 20,691 | 405,632 | 16,166 | (17,447) | 425,042 | 418,586 |

[1] Consolidation adjustments and other include eliminations and reclassifications.

[2] Non-controlling interests for Lifeco includes the Participating Account surplus in subsidiaries.

[3] Non-controlling interests for consolidation adjustments represents non-controlling interests in the equity of Lifeco and IGM.

Total assets of the Corporation increased to \$425.0 billion at March 31, 2017, compared with \$418.6 billion at December 31, 2016, mainly due to the impact of positive market movement and new business growth, partially offset by the negative impact of currency movement.

Liabilities increased to \$392.2 billion at March 31, 2017, compared with \$386.4 billion at December 31, 2016, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by \$1.4 billion, primarily due to new business, partially offset by restructured reinsurance treaties.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by \$4.3 billion, primarily due to the combined impact of market value gains and investment income of \$4.9 billion and net deposits of \$0.2 billion, partially offset by the impact of currency movement of \$0.1 billion.

Parts B and C of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, Lifeco and IGM are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets, which include its investments in Lifeco and IGM accounted for using the equity method.

| | March 31, 2017 | December 31, 2016 |
|---|-------------------|----------------------|
| Assets | | |
| Cash and cash equivalents ^[1] | 783 | 842 |
| Investment in Lifeco | 13,689 | 13,536 |
| Investment in IGM | 2,888 | 2,866 |
| Investment in Parjointco | 3,085 | 2,811 |
| Investments (including investments in Portag3 and Wealthsimple) | 125 | 76 |
| Other assets | 121 | 122 |
| Total assets | 20,691 | 20,253 |
| Liabilities | | |
| Debentures | 250 | 250 |
| Other liabilities | 543 | 522 |
| Total liabilities | 793 | 772 |
| Equity | | |
| Perpetual preferred shares | 2,580 | 2,580 |
| Common shareholders' equity | 17,318 | 16,901 |
| Total equity | 19,898 | 19,481 |
| Total liabilities and equity | 20,691 | 20,253 |

[1] Cash equivalents include \$250 million (\$341 million at December 31, 2016) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified in investments in the Interim Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to \$783 million at March 31, 2017, compared with \$842 million at the end of December 2016. The first quarter dividends declared by the Corporation and paid on May 1, 2017 are included in other liabilities and amounted to \$325 million. Dividends declared in the first quarter by IGM and received by the Corporation on April 28, 2017 are included in other assets and amounted to \$83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, increased to \$19,662 million at March 31, 2017, compared with \$19,213 million at December 31, 2016:

| | Lifeco | IGM | Parjointco | Total |
|--|--------|-------|------------|--------|
| Carrying value, at the beginning of the year | 13,536 | 2,866 | 2,811 | 19,213 |
| Share of adjusted net earnings | 419 | 104 | 43 | 566 |
| Share of other items | (20) | - | 3 | (17) |
| Share of other comprehensive income (loss) | (3) | 1 | 228 | 226 |
| Dividends | (246) | (83) | - | (329) |
| Other, mainly related to effects of changes in ownership | 3 | - | - | 3 |
| Carrying value, at March 31, 2017 | 13,689 | 2,888 | 3,085 | 19,662 |

EQUITY**Preferred shares**

Preferred shares of the Corporation consist of 10 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Non-Cumulative Floating Rate First Preferred Shares, with an aggregate stated capital of \$2,580 million at March 31, 2017 (same as at December 31, 2016). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's 2016 Consolidated Financial Statements.

Common shareholders' equity

Common shareholders' equity was \$17,318 million at March 31, 2017, compared with \$16,901 million at December 31, 2016:

| Three months ended March 31 | 2017 | 2016 |
|--|--------|--------|
| Common shareholders' equity, at the beginning of the year | 16,901 | 16,893 |
| Changes in retained earnings | | |
| Net earnings before dividends on perpetual preferred shares | 515 | 290 |
| Dividends declared | (325) | (311) |
| Effects of changes in ownership in subsidiaries and other | 25 | (45) |
| | 215 | (66) |
| Changes in reserves | | |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustments | (18) | (667) |
| Investment revaluation and cash flow hedges | 26 | 87 |
| Actuarial gains (losses) on defined benefit plans | (23) | (144) |
| Share of Pargesa and other associates | 238 | 127 |
| Share-based compensation | (22) | (19) |
| | 201 | (616) |
| Issuance of common shares (19,039 shares in 2017 and nil in 2016) under the Corporation's Employee Stock Option Plan | 1 | - |
| Common shareholders' equity at March 31 | 17,318 | 16,211 |

The book value per common share of the Corporation was \$24.28 at March 31, 2017, compared with \$23.69 at the end of 2016.

Outstanding number of common shares

As of the date of this MD&A, there were 713,288,699 common shares of the Corporation outstanding, compared with 713,269,660 at December 31, 2016. As of the date of this MD&A, options were outstanding to purchase up to an aggregate of 11,873,885 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

CASH FLOWS**CONSOLIDATED STATEMENTS OF CASH FLOWS** (CONDENSED)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the three-month period ended March 31, 2017.

| | Power Financial | Lifeco | IGM | Consolidation adjustments and other | Power Financial Consolidated cash flows | |
|---|--------------------|---------|-------|---|--|-------|
| | | | | | 2017 | 2016 |
| Three months ended March 31 | | | | | | |
| Cash flows from: | | | | | | |
| Operating activities | 308 | 1,477 | 117 | (349) | 1,553 | 1,347 |
| Financing activities | (310) | (568) | 391 | 350 | (137) | (556) |
| Investing activities | (57) | (1,118) | 84 | 90 | (1,001) | (864) |
| Effect of changes in exchange rates on cash and cash equivalents | - | (8) | - | - | (8) | (135) |
| Increase (decrease) in cash and cash equivalents | (59) | (217) | 592 | 91 | 407 | (208) |
| Cash and cash equivalents, at the beginning of the year | 842 | 3,259 | 611 | (316) | 4,396 | 4,188 |
| Cash and cash equivalents, at March 31 | 783 | 3,042 | 1,203 | (225) | 4,803 | 3,980 |

Consolidated cash and cash equivalents increased by \$407 million in the three-month period ended March 31, 2017, compared with a decrease of \$208 million in the corresponding period of 2016.

Operating activities produced a net inflow of \$1,553 million in the three-month period ended March 31, 2017, compared with a net inflow of \$1,347 million in the corresponding period of 2016.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$137 million in the three-month period ended March 31, 2017, compared with a net outflow of \$556 million in the corresponding period of 2016.

Cash flows from investing activities resulted in a net outflow of \$1,001 million in the three-month period ended March 31, 2017, compared with a net outflow of \$864 million in the corresponding period of 2016.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of \$91 million in the three-month period ended March 31, 2017, compared with a net inflow of \$88 million in the corresponding period of 2016.

Parts B and C of this MD&A include a discussion of the cash flows of Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Financial is a holding company, corporate cash flows are primarily comprised of dividends received from Lifeco, IGM and Parjointco and income (loss) from cash and cash equivalents, less operating expenses, financing charges, income taxes, and preferred and common share dividends.

The following non-consolidated statements of cash flows of the Corporation, which is not presented in accordance with IFRS, have been prepared to assist the reader as it isolates the cash flows of Power Financial, the parent company.

| Three months ended March 31 | 2017 | 2016 |
|---|--------------|--------------|
| Operating activities | | |
| Net earnings before dividends on perpetual preferred shares | 515 | 290 |
| Adjusting items | | |
| Earnings from Lifeco, IGM and Parjointco not received in cash | (220) | (16) |
| Loss from investments in Portag3 and Wealthsimple | 10 | 4 |
| Other | 3 | 6 |
| | 308 | 284 |
| Financing activities | | |
| Dividends paid on preferred shares | (31) | (32) |
| Dividends paid on common shares | (280) | (266) |
| Issuance of common shares | 1 | - |
| | (310) | (298) |
| Investing activities | | |
| Investments in Portag3 and Wealthsimple | (20) | (13) |
| Purchase of other investments and other | (37) | (3) |
| | (57) | (16) |
| Increase (decrease) in cash and cash equivalents | (59) | (30) |
| Cash and cash equivalents, at the beginning of the year | 842 | 870 |
| Cash and cash equivalents, at March 31 | 783 | 840 |

On a non-consolidated basis, cash and cash equivalents decreased by \$59 million in the three-month period ended March 31, 2017, compared with a decrease of \$30 million in the corresponding period in 2016.

Operating activities resulted in a net inflow of \$308 million in the three-month period ended March 31, 2017, compared with a net inflow of \$284 million in the corresponding period in 2016.

- Dividends paid by Lifeco on its common shares during the three-month period ended March 31, 2017 were \$0.3670 per share, compared with \$0.3460 in the corresponding period of 2016. In the three-month period ended March 31, 2017, the Corporation received dividends from Lifeco of \$246 million, compared with \$232 million in the corresponding period of 2016.
- Dividends paid by IGM on its common shares during the three-month period ended March 31, 2017 were \$0.5625 per share, the same as in the corresponding period of 2016. In the three-month period ended March 31, 2017, the Corporation received dividends from IGM of \$83 million, the same as in the corresponding period of 2016.
- Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco on May 10, 2017 amounted to SF2.44 per bearer share, compared with SF2.38 in 2016.

The Corporation's financing activities during the three-month period ended March 31, 2017 were a net outflow of \$310 million, compared with a net outflow of \$298 million in the corresponding period in 2016, and included:

- Dividends paid on preferred and common shares by the Corporation of \$311 million, compared with \$298 million in the corresponding period of 2016. In the three-month period ended March 31, 2017, dividends paid on the Corporation's common shares were \$0.3925 per share, compared with \$0.3725 per share in the corresponding period of 2016.
- Issuance of common shares of the Corporation for \$1 million pursuant to the Corporation's Employee Stock Option Plan, compared with no issuance in the corresponding period of 2016.

The Corporation's investing activities during the three-month period ended March 31, 2017 represented a net outflow of \$57 million, compared with a net outflow of \$16 million in the corresponding period of 2016.

CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present; and
- maintain an appropriate credit rating to ensure stable access to capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and GBL, are responsible for their respective company's capital management.

The Corporation has positions in long-term investments as well as cash and fixed income securities for liquidity purposes. With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of perpetual preferred shares, debentures, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a permanent and cost-effective source of capital consistent with its strategy of maintaining a relatively low level of debt.

In the following table, consolidated capitalization reflects the consolidation of the Corporation's subsidiaries. The Corporation's consolidated capitalization includes the debentures and other debt instruments of its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. Perpetual preferred shares and total equity accounted for 81% of consolidated capitalization at March 31, 2017.

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|----------------------|
| Debentures and other debt instruments | | |
| Power Financial | 250 | 250 |
| Lifeco | 5,688 | 5,980 |
| IGM | 1,925 | 1,325 |
| Consolidation adjustments | (42) | (42) |
| | 7,821 | 7,513 |
| Preferred shares | | |
| Power Financial | 2,580 | 2,580 |
| Lifeco | 2,514 | 2,514 |
| IGM | 150 | 150 |
| | 5,244 | 5,244 |
| Equity | | |
| Common shareholders' equity | 17,318 | 16,901 |
| Non-controlling interests ^[1] | 10,286 | 10,071 |
| | 27,604 | 26,972 |
| | 40,669 | 39,729 |

[1] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Lifeco and IGM's preferred shares, which are shown in this table as preferred shares.

In January 2017, IGM issued \$400 million of 10-year 3.44% debentures and \$200 million of 30-year 4.56% debentures. The net proceeds will be used by IGM to assist its subsidiary, Mackenzie Investments, in financing a substantial portion of the acquisitions of a 13.9% interest in China Asset Management Co., Ltd., a fund management company in China, and for general corporate purposes.

On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debenture notes at their principal amount together with accrued interest.

Subsequent to March 31, 2017, Lifeco announced its intention to redeem, on June 21, 2017, all of the \$1 billion principal amount of its 5.691% subordinated debentures due June 26, 2067.

The Corporation is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements. Parts B and C of this MD&A further describe the capital management activities of Lifeco and IGM, respectively.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of the Corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The “A+” rating assigned to the Corporation’s debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated “A+” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

The “A (High)” rating assigned to the Corporation’s debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated “A (High)” implies that the capacity for the repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

The credit ratings of the Corporation remain unchanged from those described in the 2016 Annual MD&A.

RISK MANAGEMENT

Power Financial is a holding company that holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts B and C of this MD&A further describe risks related to Lifeco and IGM, respectively. Pargesa, a holding company, is also subject to risks due to the nature of its activities and also those of its direct subsidiary GBL. These risks relate to credit, liquidity and market risk as described in Pargesa’s consolidated financial statements for the year ended December 31, 2016.

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors of the Corporation has overall responsibility for operational risks associated with financial instruments and for monitoring management’s implementation and maintenance of policies and controls to manage risks associated with the Corporation’s business as a holding company.

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

- The Audit Committee addresses risks related to financial reporting and cybersecurity.
- The Compensation Committee considers risks associated with the Corporation’s compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation’s approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee considers the risks related to transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in this MD&A, which investors should carefully consider before investing in securities of the Corporation. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

OWNERSHIP OF COMMON AND PREFERRED SHARES

The share price of Power Financial and its subsidiaries may be volatile and subject to fluctuations in response to numerous factors beyond Power Financial's and such subsidiaries' control. Economic conditions may adversely affect Power Financial and its subsidiaries, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States and Europe. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. These factors may cause decreases in asset values that are deemed to be significant or prolonged, which may result in impairment charges. In periods of increased levels of volatility and related market turmoil, Power Financial's subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

LAWS, RULES AND REGULATIONS

There are many laws, governmental rules and regulations, and stock exchange rules that apply to the Corporation. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could have a significant effect on the business and the financial condition of the Corporation. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

CYBERSECURITY

The Corporation is exposed to risks relating to cybersecurity, in particular cyber threats, which include cyber-attacks such as, but not limited to, hacking, computer viruses, unauthorized access to confidential, proprietary or sensitive information or other breaches of network or Information Technology (IT) security. The Corporation continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cybersecurity threats, which are constantly evolving. Consequently, the Corporation's IT defences are continuously monitored and adapted to both prevent and detect cyber-attacks, and then recover and remediate. Unavailability or breaches could result in a negative impact on the Corporation's financial results or result in reputational damage.

FINANCIAL INSTRUMENTS RISK

Power Financial has established policies, guidelines and procedures designed to identify, measure, monitor and mitigate material risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due.
- Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its obligations.
- Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
 - Currency risk relates to the Corporation operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
 - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
 - Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

Power Financial's management of financial instruments risk has not changed materially from what is described in the 2016 Annual MD&A. For a further discussion of Power Financial's risk management, please refer to the Interim Consolidated Financial Statements and to Note 21 to the Corporation's 2016 Consolidated Financial Statements. Parts B and C of this MD&A describe respectively Lifeco's and IGM's management of financial instruments risk.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

FAIR VALUE MEASUREMENT

At March 31, 2017, there had been no material changes to the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded at fair value from December 31, 2016. See Note 15 to the Corporation's Interim Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the first quarter of 2017. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

| | March 31, 2017 | | | December 31, 2016 | | |
|-----------------|----------------|---------------------|------------------|-------------------|---------------------|------------------|
| | Notional | Maximum credit risk | Total fair value | Notional | Maximum credit risk | Total fair value |
| Power Financial | 88 | 3 | 3 | 14 | 1 | 1 |
| Lifeco | 20,473 | 476 | (1,404) | 17,229 | 528 | (1,484) |
| IGM | 3,827 | 47 | 16 | 4,094 | 43 | 5 |
| | 24,388 | 526 | (1,385) | 21,337 | 572 | (1,478) |

During the three-month period ended March 31, 2017, there was an increase of \$3.1 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward setting to-be-announced security transactions by Lifeco. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to \$526 million at March 31, 2017 from \$572 million at December 31, 2016. The decrease is primarily due to the expiration and settlement of foreign exchange contracts that paid euros and received British pounds.

Parts B and C of this MD&A provide information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements 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.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part B of this MD&A and Note 31 to the Corporation's 2016 Consolidated Financial Statements.

CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

At March 31, 2017, there had been no material changes in the contractual obligations of the Corporation and its subsidiaries from those reported in the 2016 Annual MD&A.

INCOME TAXES (NON-CONSOLIDATED BASIS)

The Corporation had, at March 31, 2017, non-capital losses of \$96 million available to reduce future taxable income (including capital gains). These losses expire from 2028 to 2037. In addition, the Corporation has capital losses of \$84 million that can be used indefinitely. Capital losses can only be used to reduce future capital gains. See also "Transactions with Related Parties" below.

TRANSACTIONS WITH RELATED PARTIES

Power Financial has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In 2013, the Board of Directors of the Corporation approved a tax loss consolidation program with IGM. This program allows Power Financial to generate sufficient taxable income to use its non-capital losses which would otherwise expire, while IGM receives tax deductions which are used to reduce its taxable income.

As of March 31, 2017, under this program, the Corporation owned \$2 billion of 4.50% secured debentures of IGM. These debentures represent the consideration obtained from the sale to IGM of \$2 billion of 4.51% preferred shares issued to Power Financial from a wholly owned subsidiary. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the Corporation's 2016 Annual MD&A and in the notes to the 2016 Consolidated Financial Statements. There were no changes in the Corporation's critical accounting estimates and judgments in the first quarter of 2017.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Corporation's accounting policies from those reported at December 31, 2016.

FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

There have been no significant changes to the future accounting policies that could impact the Corporation from what was disclosed in the 2016 Annual MD&A except as described below.

IFRS 9 – FINANCIAL INSTRUMENTS (IFRS 9)

The Corporation qualifies for the temporary exemption to defer application of IFRS 9 in accordance with amendment “Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*” and will therefore adopt IFRS 9 on January 1, 2021.

Parjointco, a jointly controlled corporation which does not qualify for the exemption, will adopt IFRS 9 on January 1, 2018. As permitted by the amendment, for investments accounted for using the equity method, the Corporation will retain Parjointco’s accounting policies. Parjointco is assessing the impact of the adoption of IFRS 9.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation’s management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Corporation’s internal control over financial reporting during the three-month period ended March 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

SUMMARY OF QUARTERLY RESULTS

| | 2017 | 2016 | | | 2015 | | | | |
|--|---------------|-------|--------|--------|--------|-------|-------|-------|--------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Total revenues ^[1] | 13,569 | 8,576 | 14,106 | 13,470 | 12,970 | 8,961 | 9,281 | 4,901 | 13,369 |
| Adjusted net earnings (attributable to common shareholders) ^[2] | 501 | 545 | 541 | 557 | 476 | 521 | 596 | 559 | 565 |
| per share – basic ^[2] | 0.70 | 0.76 | 0.76 | 0.78 | 0.67 | 0.73 | 0.83 | 0.79 | 0.79 |
| Other items ^[2, 3] | (17) | 71 | (2) | (52) | (217) | 7 | 6 | 57 | 8 |
| per share – basic ^[2] | (0.02) | 0.10 | - | (0.07) | (0.31) | 0.01 | 0.01 | 0.08 | 0.01 |
| Net earnings (attributable to common shareholders) | 484 | 616 | 539 | 505 | 259 | 528 | 602 | 616 | 573 |
| per share – basic | 0.68 | 0.86 | 0.76 | 0.71 | 0.36 | 0.74 | 0.84 | 0.87 | 0.80 |
| per share – diluted | 0.68 | 0.86 | 0.76 | 0.71 | 0.36 | 0.74 | 0.84 | 0.86 | 0.80 |

[1] Revenue in the second quarter of 2015 and fourth quarter of 2016 is lower due to a decrease in the value of Lifeco's bond portfolio resulting from increasing interest rates.

[2] Adjusted net earnings and adjusted net earnings per share attributable to common shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section in this MD&A.

[3] The Corporation's share of IGM and Pargesa's Other items are as follows:

| | 2017 | 2016 | | | 2015 | | | | |
|---|-------------|------|-----|------|-------|------|-----|------|-----|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Lifeco | | | | | | | | | |
| Restructuring charges | (20) | (14) | - | - | - | - | - | - | - |
| IGM | | | | | | | | | |
| Reduction of income tax estimates | - | 21 | - | - | - | - | - | - | - |
| Restructuring | - | - | - | - | - | (15) | - | - | - |
| Pargesa | | | | | | | | | |
| Total – Gain on partial disposal | - | 74 | - | - | 101 | 48 | - | - | 9 |
| LafargeHolcim – Impairment charges | - | - | - | (52) | (308) | - | - | - | - |
| Lafarge – Reversal of impairment charges | - | - | - | - | - | - | 8 | 80 | - |
| Lafarge – Impairment and restructuring charges | - | - | - | - | - | - | - | (23) | - |
| Imerys – Impairment and restructuring charges | - | - | - | - | - | (26) | - | - | - |
| Engie – Impairment charges and loss on partial disposal | - | (6) | - | - | (9) | - | - | - | - |
| Other (charge) income | 3 | (4) | (2) | - | (1) | - | (2) | - | (1) |
| | (17) | 71 | (2) | (52) | (217) | 7 | 6 | 57 | 8 |

GREAT-WEST LIFECO INC.

PART B

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE B 2

FINANCIAL STATEMENTS AND NOTES

PAGE B 35

Please note that the bottom of each page in Part B contains two different page numbers. A page number with the prefix "B" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

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

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MARCH 31, 2017
DATED: MAY 4, 2017**

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months ended March 31, 2017 and includes a comparison to the corresponding period in 2016, to the three months ended December 31, 2016, and to the Company's financial condition as at December 31, 2016. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's condensed consolidated financial statements for the period ended March 31, 2017. Also refer to the 2016 Annual MD&A and consolidated financial statements in the Company's 2016 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking statements. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements may include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures. Forward-looking statements are based on expectations, forecasts, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Company's 2016 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating earnings", "constant currency basis", "premiums and deposits", "sales", "assets under management", "assets under administration" and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information (in Canadian \$ millions, except for per share amounts)

| | As at or for the three months ended | | |
|---|-------------------------------------|---------------------|---------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits: | | | |
| Amounts reported in the financial statements | | | |
| Net premium income (Life insurance, guaranteed annuities and insured health products) | \$ 9,365 | \$ 8,905 | \$ 7,015 |
| Policyholder deposits (segregated funds): | | | |
| Individual products | 3,897 | 3,399 | 3,689 |
| Group products | 2,185 | 1,875 | 2,238 |
| Premiums and deposits reported in the financial statements | 15,447 | 14,179 | 12,942 |
| Self-funded premium equivalents (Administrative services only contracts) ⁽¹⁾ | 716 | 691 | 698 |
| Proprietary mutual funds and institutional deposits ⁽¹⁾ | 17,386 | 15,169 | 16,354 |
| Total premiums and deposits⁽¹⁾ | 33,549 | 30,039 | 29,994 |
| Fee and other income | 1,305 | 1,345 | 1,254 |
| Net policyholder benefits, dividends and experience refunds | 8,543 | 7,841 | 6,539 |
| Earnings | | | |
| Net earnings - common shareholders | \$ 591 | \$ 676 | \$ 620 |
| Per common share | | | |
| Basic earnings | 0.598 | 0.686 | 0.625 |
| Dividends paid | 0.367 | 0.346 | 0.346 |
| Book value ⁽²⁾ | 19.99 | 19.76 | 19.28 |
| Return on common shareholders' equity⁽³⁾ | | | |
| Net earnings | 13.6% | 13.8% | 14.0% |
| Total assets per financial statements | | | |
| | \$ 405,632 | \$ 399,912 | \$ 390,245 |
| Proprietary mutual funds and institutional net assets ⁽⁴⁾ | 270,121 | 259,215 | 237,984 |
| Total assets under management⁽⁴⁾ | 675,753 | 659,127 | 628,229 |
| Other assets under administration ⁽⁵⁾ | 620,064 | 589,291 | 558,290 |
| Total assets under administration | \$ 1,295,817 | \$ 1,248,418 | \$ 1,186,519 |
| Total equity | \$ 25,372 | \$ 25,008 | \$ 24,531 |

⁽¹⁾ In addition to premiums and deposits reported in the financial statements, the Company includes premium equivalents on self-funded group insurance administrative services only (ASO) contracts and deposits on proprietary mutual funds and institutional accounts to calculate total premiums and deposits (a non-IFRS financial measure). This measure provides useful information as it is an indicator of top line growth.

⁽²⁾ Certain comparative figures have been adjusted for presentation purposes.

⁽³⁾ Return on common shareholders' equity is detailed within the "Capital Allocation Methodology" section.

⁽⁴⁾ Total assets under management (a non-IFRS financial measure) provides an indicator of the size and volume of the overall business of the Company. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients. This includes internally and externally managed funds where the Company has oversight of the investment policies.

⁽⁵⁾ Other assets under administration (a non-IFRS financial measure) includes assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

NET EARNINGS

Consolidated net earnings of Lifeco include the net earnings of The Great-West Life Assurance Company (Great-West Life) and its operating subsidiaries, London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life) and Irish Life Group Limited (Irish Life); Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam); together with Lifeco's Corporate operating results.

Lifeco's net earnings attributable to common shareholders (net earnings) for the three month period ended March 31, 2017 were \$591 million compared to \$620 million a year ago and \$676 million in the previous quarter. On a per share basis, this represents \$0.598 per common share (\$0.597 diluted) for the first quarter of 2017 compared to \$0.625 per common share (\$0.623 diluted) a year ago and \$0.686 per common share (\$0.685 diluted) in the previous quarter. Included in Lifeco's net earnings for the first quarter of 2017 were restructuring costs of \$28 million, which included \$17 million related to the Company's health and retail businesses in Ireland and \$11 million related to the completion of integration activities for Empower Retirement. Excluding these costs, net earnings for the first quarter of 2017 were \$619 million or \$0.627 per common share (\$0.625 diluted).

Net earnings - common shareholders

| | For the three months ended | | |
|---|-----------------------------------|-------------------------|--------------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Canada | | | |
| Individual Customer ⁽¹⁾ | \$ 146 | \$ 179 | \$ 155 |
| Group Customer ⁽¹⁾ | 104 | 154 | 105 |
| Canada Corporate | 5 | (7) | 16 |
| | <u>255</u> | <u>326</u> | <u>276</u> |
| United States | | | |
| Financial Services | 85 | 80 | 90 |
| Asset Management | (16) | (3) | (25) |
| U.S. Corporate | (13) | (22) | (2) |
| | <u>56</u> | <u>55</u> | <u>63</u> |
| Europe | | | |
| Insurance & Annuities | 225 | 225 | 226 |
| Reinsurance | 81 | 86 | 63 |
| Europe Corporate | (17) | (4) | (2) |
| | <u>289</u> | <u>307</u> | <u>287</u> |
| Lifeco Corporate | <u>(9)</u> | <u>(12)</u> | <u>(6)</u> |
| Net earnings - common shareholders | <u>\$ 591</u> | <u>\$ 676</u> | <u>\$ 620</u> |
| Adjusted net earnings, excluding restructuring costs - common shareholders⁽²⁾ | <u>\$ 619</u> | <u>\$ 696</u> | <u>\$ 620</u> |

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments, reflecting the realignment of the Canada segment operations into two business units.

⁽²⁾ The first quarter of 2017 included restructuring costs of \$28 million; including \$17 million relating to the Insurance & Annuities business unit and \$11 million relating to the Financial Services business unit. The fourth quarter of 2016 included restructuring costs of \$20 million relating to a realignment of the Asset Management business unit.

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates mostly decreased during the quarter. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates had no material impact on net earnings or on the Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changes in fair values of bonds backing insurance contract liabilities recorded through profit or loss is mostly offset by a corresponding change in the insurance contract liabilities.

Refer to note 4 to the Company's condensed consolidated financial statements for the period ended March 31, 2017 for a further description of the Company's sensitivity to interest rate fluctuations.

Equity Markets

In the regions where the Company operates, average equity market levels in the first quarter of 2017 were up compared to the same period in 2016 and ended the quarter at higher market levels compared to December 31, 2016. Relative to the Company's expectation, the change in average market levels and market volatility had a positive impact on net earnings of approximately \$5 million during the first quarter of 2017 (\$13 million negative impact in the first quarter of 2016), related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, net earnings were positively impacted by approximately \$9 million in the first quarter of 2017 (\$7 million negative impact in the first quarter of 2016), related to seed money investments held in the Asset Management and Canada Corporate business units.

Comparing the first quarter of 2017 to the first quarter of 2016, average equity market levels were up by 21% in Canada (as measured by S&P TSX), 19% in the U.S. (measured by S&P 500), 21% in the U.K. (measured by FTSE 100) and 12% in broader Europe (measured by Eurostoxx 50). The major equity indices finished the first quarter of 2017 up by 2% in Canada, 6% in the U.S., 3% in the U.K. and 6% in broader Europe, compared to December 31, 2016.

Foreign Currency

Throughout this document, a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis", "impact of currency movement" and "effect of currency translation fluctuations". These measures have been calculated using the average or period-end rates, as appropriate, in effect at the date of the comparative period. This non-IFRS measure provides useful information as it facilitates the comparability of results between periods.

The average currency translation rate for the first quarter of 2017 decreased for the U.S. dollar, British pound, and euro compared to the first quarter of 2016. The overall impact of currency movement on the Company's net earnings for the three month period ended March 31, 2017 was a decrease of \$44 million compared to translation rates a year ago.

From December 31, 2016 to March 31, 2017, the market rates at the end of the reporting period used to translate the U.S. dollar assets and liabilities to the Canadian dollar decreased. For the British pound, the March 31, 2017 end-of-period market rate increased compared to December 31, 2016, while the euro was consistent. The movements in end-of-period market rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of \$22 million during the quarter recorded in other comprehensive income.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

ACTUARIAL ASSUMPTION CHANGES

During the first quarter of 2017, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of \$38 million, compared to \$48 million for the same quarter last year and \$115 million for the previous quarter. In Europe, net earnings were positively impacted by \$38 million primarily due to updated annuitant mortality assumptions. In the U.S. and Canada, the impact of actuarial assumption changes was negligible.

PREMIUMS AND DEPOSITS AND SALES

Total premiums and deposits (a non-IFRS financial measure) include premiums on risk-based insurance and annuity products net of ceded reinsurance (as defined under IFRS), premium equivalents on self-funded group insurance ASO contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. This measure provides an indicator of top-line growth.

Sales (a non-IFRS financial measure) for risk-based insurance and annuity products include 100% of single premium and annualized premiums expected in the first twelve months of the plan. Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies. For individual wealth products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds. For group wealth products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan. This measure provides an indicator of new business growth.

Premiums and deposits

| | For the three months ended | | |
|------------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Canada | | | |
| Individual Customer ⁽¹⁾ | \$ 2,932 | \$ 2,769 | \$ 2,510 |
| Group Customer ⁽¹⁾ | 4,027 | 3,912 | 3,526 |
| | 6,959 | 6,681 | 6,036 |
| United States | | | |
| Financial Services | 3,598 | 3,525 | 3,729 |
| Asset Management | 13,960 | 11,119 | 12,388 |
| | 17,558 | 14,644 | 16,117 |
| Europe | | | |
| Insurance & Annuities | 5,155 | 4,984 | 5,674 |
| Reinsurance | 3,877 | 3,730 | 2,167 |
| | 9,032 | 8,714 | 7,841 |
| Total premiums and deposits | \$ 33,549 | \$ 30,039 | \$ 29,994 |

Sales

| | For the three months ended | | |
|--------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Canada | \$ 3,663 | \$ 3,871 | \$ 3,268 |
| United States | 24,352 | 18,384 | 40,158 |
| Europe - Insurance & Annuities | 4,416 | 4,410 | 4,574 |
| Total sales | \$ 32,431 | \$ 26,665 | \$ 48,000 |

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments, reflecting the realignment of the Canada segment operations into two business units.

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

NET INVESTMENT INCOME

| | For the three months ended | | |
|--|-----------------------------------|-------------------------|--------------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Net investment income | | | |
| Investment income earned (net of investment properties expenses) | \$ 1,474 | \$ 1,522 | \$ 1,656 |
| Allowances for credit losses on loans and receivables | (4) | (13) | (7) |
| Net realized gains | 30 | 25 | 51 |
| Regular investment income | 1,500 | 1,534 | 1,700 |
| Investment expenses | (31) | (27) | (27) |
| Regular net investment income | 1,469 | 1,507 | 1,673 |
| Changes in fair value through profit or loss | 735 | (3,943) | 2,410 |
| Net investment income | \$ 2,204 | \$ (2,436) | \$ 4,083 |

Net investment income in the first quarter of 2017, which includes changes in fair value through profit or loss, decreased by \$1,879 million compared to the same quarter last year. The changes in fair value in the first quarter of 2017 were an increase of \$735 million compared to an increase of \$2,410 million for the first quarter of 2016, primarily due to a smaller decline in bond yields in the first quarter of 2017 compared to the same quarter last year.

Regular net investment income in the first quarter of 2017 of \$1,469 million, which excludes changes in fair value through profit or loss, decreased by \$204 million compared to the same quarter last year. The decrease was primarily due to currency movement as the Canadian dollar strengthened against the British pound and U.S. dollar. Net realized gains include gains on available-for-sale securities of \$8 million for the first quarter of 2017 compared to \$31 million for the same quarter last year.

Net investment income in the first quarter of 2017 increased by \$4,640 million compared to the previous quarter, primarily due to an increase in fair values of \$735 million in the first quarter of 2017 compared to a decrease of \$3,943 million in the previous quarter. The net increase in fair values during the first quarter was primarily due to a decrease in bond yields, while the net decrease in fair values in the previous quarter was primarily due to an increase in bond yields.

Credit Markets

In the first quarter of 2017, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$1 million (\$4 million net charge in the first quarter of 2016). Changes in credit ratings in the Company's bond portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by \$3 million (\$14 million net recovery in the first quarter of 2016).

FEE AND OTHER INCOME

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

| | For the three months ended | | |
|--|-----------------------------------|-------------------------|--------------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Canada | | | |
| Segregated funds, mutual funds and other | \$ 343 | \$ 345 | \$ 319 |
| ASO contracts | 44 | 41 | 43 |
| | <u>387</u> | <u>386</u> | <u>362</u> |
| United States | | | |
| Segregated funds, mutual funds and other | 594 | 619 | 571 |
| Europe | | | |
| Segregated funds, mutual funds and other | 324 | 340 | 321 |
| Total fee and other income | <u>\$ 1,305</u> | <u>\$ 1,345</u> | <u>\$ 1,254</u> |

The information in the table above is a summary of gross fee and other income for the Company. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

PAID OR CREDITED TO POLICYHOLDERS

Paid or credited to policyholders

| | For the three months ended | | |
|---------------|-----------------------------------|-------------------------|--------------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Canada | \$ 3,245 | \$ 1,444 | \$ 3,301 |
| United States | 1,552 | 387 | 2,112 |
| Europe | 5,065 | 2,542 | 4,265 |
| Total | <u>\$ 9,862</u> | <u>\$ 4,373</u> | <u>\$ 9,678</u> |

Amounts paid or credited to policyholders include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends, experience refund payments and changes in insurance and investment contract liabilities. The changes in contract liabilities include the impact of changes in the fair value of certain invested assets supporting those liabilities as well as changes in the provision for future credit losses. The amounts do not include benefit payments for ASO contracts, segregated funds or mutual funds.

For the three months ended March 31, 2017, consolidated amounts paid or credited to policyholders were \$9.9 billion, including \$8.6 billion of policyholder benefit payments and a \$1.3 billion increase in contract liabilities. The increase of \$0.2 billion from the same period in 2016 consisted of a \$2.0 billion increase in benefit payments, mostly offset by a \$1.8 billion decrease in changes in contract liabilities. The decrease in changes in contract liabilities was primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The increase in benefit payments was primarily due to new and restructured reinsurance treaties, partially offset by the impact of currency movement.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders increased by \$5.5 billion. The increase consisted of a \$4.8 billion increase in changes in contract liabilities, primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The increase also consisted of a \$0.7 billion increase in benefit payments, primarily due to new and restructured reinsurance treaties, partially offset by the impact of currency movement.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the first quarter of 2017, the Company had an effective income tax rate of 13%, up from 3% in the first quarter of 2016. The effective income tax rate for the first quarter of 2017 increased due to a lower percentage of income subject to lower rates in foreign jurisdictions as well as changes in certain tax estimates. During the first quarter of 2016, one-time items totaling \$66 million decreased the effective income tax rate by 10%, primarily due to elections and settlements with tax authorities.

The first quarter 2017 effective income tax rate of 13% was lower than the fourth quarter 2016 rate of 18%, primarily due to a higher percentage of the Company's income consisting of non-taxable investment income and income subject to lower rates of income tax in foreign jurisdictions.

CONSOLIDATED FINANCIAL POSITION

ASSETS

| | March 31, 2017 | | | |
|---|-------------------|-------------------|-------------------|---------------------|
| | Canada | United States | Europe | Total |
| Assets under administration | | | | |
| Assets | | | | |
| Invested assets | \$ 71,039 | \$ 44,974 | \$ 48,431 | \$ 164,444 |
| Goodwill and intangible assets | 5,128 | 2,369 | 2,431 | 9,928 |
| Other assets | 3,277 | 4,790 | 18,527 | 26,594 |
| Segregated funds net assets | 76,858 | 35,728 | 92,080 | 204,666 |
| Total assets | 156,302 | 87,861 | 161,469 | 405,632 |
| Proprietary mutual funds and institutional net assets | 6,163 | 228,245 | 35,713 | 270,121 |
| Total assets under management | 162,465 | 316,106 | 197,182 | 675,753 |
| Other assets under administration | 16,011 | 564,835 | 39,218 | 620,064 |
| Total assets under administration | \$ 178,476 | \$ 880,941 | \$ 236,400 | \$ 1,295,817 |
| | December 31, 2016 | | | |
| | Canada | United States | Europe | Total |
| Assets | | | | |
| Invested assets | \$ 70,311 | \$ 44,904 | \$ 47,940 | \$ 163,155 |
| Goodwill and intangible assets | 5,133 | 2,388 | 2,428 | 9,949 |
| Other assets | 3,171 | 4,537 | 18,697 | 26,405 |
| Segregated funds net assets | 74,909 | 35,414 | 90,080 | 200,403 |
| Total assets | 153,524 | 87,243 | 159,145 | 399,912 |
| Proprietary mutual funds and institutional net assets | 5,852 | 219,699 | 33,664 | 259,215 |
| Total assets under management | 159,376 | 306,942 | 192,809 | 659,127 |
| Other assets under administration | 15,911 | 534,428 | 38,952 | 589,291 |
| Total assets under administration | \$ 175,287 | \$ 841,370 | \$ 231,761 | \$ 1,248,418 |

Total assets under administration at March 31, 2017 increased by \$47.4 billion to \$1.3 trillion compared to December 31, 2016, primarily due to the impact of positive market movement and new business growth, partially offset by the impact of currency movement.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. Within the framework of the Company's policies, the Company implements strategies and reviews and adjusts them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Bond portfolio – It is the Company's policy to acquire only investment grade bonds subject to prudent and well-defined investment policies. The total bond portfolio, including short-term investments, was \$117.8 billion or 72% of invested assets at March 31, 2017 and \$116.8 billion or 72% at December 31, 2016. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 81% rated A or higher.

Bond portfolio quality

| | March 31, 2017 | | December 31, 2016 | |
|--------------|-------------------|--------------|-------------------|-------------|
| AAA | \$ 25,599 | 22 % | \$ 27,762 | 24% |
| AA | 31,178 | 26 | 29,816 | 26 |
| A | 38,957 | 33 | 37,787 | 32 |
| BBB | 20,837 | 18 | 20,116 | 17 |
| BB or lower | 1,270 | 1 | 1,292 | 1 |
| Total | \$ 117,841 | 100 % | \$ 116,773 | 100% |

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages.

Mortgage portfolio

| Mortgage loans by type | March 31, 2017 | | | | December 31, 2016 | |
|---------------------------|-----------------|------------------|------------------|-------------|-------------------|-------------|
| | Insured | Non-insured | Total | | Total | |
| Single family residential | \$ 697 | \$ 1,393 | \$ 2,090 | 9% | \$ 2,075 | 9% |
| Multi-family residential | 3,088 | 3,197 | 6,285 | 29 | 5,987 | 28 |
| Commercial | 256 | 13,396 | 13,652 | 62 | 13,589 | 63 |
| Total | \$ 4,041 | \$ 17,986 | \$ 22,027 | 100% | \$ 21,651 | 100% |

The total mortgage portfolio was \$22.0 billion or 13% of invested assets at March 31, 2017, compared to \$21.7 billion or 13% of invested assets at December 31, 2016. Total insured loans were \$4.0 billion or 18% of the mortgage portfolio.

Single family residential mortgages

| Region | March 31, 2017 | | December 31, 2016 | |
|------------------|-----------------|-------------|-------------------|-------------|
| Ontario | \$ 1,010 | 49% | \$ 1,005 | 49% |
| Quebec | 445 | 21 | 436 | 21 |
| Alberta | 139 | 7 | 140 | 7 |
| British Columbia | 126 | 6 | 127 | 6 |
| Newfoundland | 113 | 5 | 113 | 5 |
| Saskatchewan | 86 | 4 | 86 | 4 |
| Nova Scotia | 66 | 3 | 65 | 3 |
| Manitoba | 53 | 3 | 53 | 3 |
| New Brunswick | 47 | 2 | 46 | 2 |
| Other | 5 | — | 4 | — |
| Total | \$ 2,090 | 100% | \$ 2,075 | 100% |

During the three months ended March 31, 2017, single family mortgage originations, including renewals, were \$117 million, of which 26% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfil their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum of 25 years and the loan-to-value to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at March 31, 2017.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation.

At March 31, 2017, the total actuarial provision for future credit losses in insurance contract liabilities was \$2,986 million compared to \$2,946 million at December 31, 2016, an increase of \$40 million, primarily due to normal business activity.

The aggregate of impairment provisions of \$48 million (\$45 million at December 31, 2016) and actuarial provisions for future credit losses in insurance contract liabilities of \$2,986 million (\$2,946 million at December 31, 2016) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at March 31, 2017 (2.0% at December 31, 2016).

United Kingdom Property Related Exposures

Holdings of United Kingdom Mortgages and Investment Properties

| | March 31, 2017 | | | | | | December 31, 2016 |
|-----------------------|--------------------------|---------------------------|------------------|-----------------|---------------|-----------------|----------------------|
| | Multi-Family Residential | Retail & shopping centres | Office buildings | Industrial | Other | Total | Total |
| Mortgages | 356 | 1,473 | 684 | 928 | 388 | 3,829 | 3,772 |
| Investment properties | — | 1,094 | 626 | 612 | 420 | 2,752 | 2,729 |
| Total | \$ 356 | \$ 2,567 | \$ 1,310 | \$ 1,540 | \$ 808 | \$ 6,581 | \$ 6,501 |

At March 31, 2017, the Company's holdings of property related investments in the U.K. were \$6.6 billion (\$6.5 billion at December 31, 2016), or 3.8% of invested assets including funds held by ceding insurers. Holdings in Central London were \$2.0 billion (\$1.9 billion at December 31, 2016) or 1.2% of invested assets including funds held by ceding insurers, while holdings in other regions of the U.K. were \$4.6 billion (\$4.6 billion at December 31, 2016) or 2.6% of invested assets including funds held by ceding insurers. These holdings were well diversified across property type - Retail (39%), Industrial/Other (36%), Office (20%) and Multi-family (5%). The weighted average loan-to-value ratio of the mortgages was 54% and the weighted average debt-service coverage ratio was 2.2 at March 31, 2017. At March 31, 2017, the weighted average mortgage and property lease term exceeded 13 years.

DERIVATIVE FINANCIAL INSTRUMENTS

During the first quarter of 2017, there were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At March 31, 2017, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$132 million (\$159 million at December 31, 2016) and pledged on derivative liabilities was \$467 million (\$475 million at December 31, 2016).

During the three month period ended March 31, 2017, the outstanding notional amount of derivative contracts increased by \$3.3 billion to \$20.5 billion, primarily due to an increase in forward settling to-be-announced security transactions.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, decreased to \$476 million at March 31, 2017 from \$528 million at December 31, 2016. The decrease is primarily due to the expiration and settlement of foreign exchange contracts that paid euro and received British pounds.

LIABILITIES

| Total liabilities | March 31 2017 | December 31 2016 |
|--|--------------------------|-----------------------------|
| Insurance and investment contract liabilities | \$ 159,319 | \$ 157,949 |
| Other general fund liabilities | 16,275 | 16,552 |
| Investment and insurance contracts on account of segregated fund policyholders | 204,666 | 200,403 |
| Total | \$ 380,260 | \$ 374,904 |

Total liabilities increased by \$5.4 billion to \$380.3 billion at March 31, 2017 from December 31, 2016. Investment and insurance contracts on account of segregated fund policyholders increased by \$4.3 billion, primarily due to the combined impact of market value gains and investment income of \$4.9 billion and net deposits of \$0.2 billion, partially offset by the impact of currency movement of \$0.1 billion. Insurance and investment contract liabilities increased by \$1.4 billion. The increase was primarily due to new business, partially offset by restructured reinsurance treaties. The positive impact of fair value adjustments offset the normal release of liabilities.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

Certain guaranteed minimum withdrawal benefit (GMWB) products offered by the Company offer levels of death and maturity guarantees. At March 31, 2017, the amount of GMWB products in-force in Canada, the U.S., Ireland and Germany were \$4,061 million (\$3,917 million at December 31, 2016). The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products.

Segregated fund and variable annuity guarantee exposure

| | March 31, 2017 | | | | |
|----------------------------|------------------|---------------------------------------|--------------|---------------|----------------------|
| | Market Value | Investment deficiency by benefit type | | | Total ⁽¹⁾ |
| | | Income | Maturity | Death | |
| Canada | \$ 32,043 | \$ — | \$ 14 | \$ 45 | \$ 45 |
| United States | 12,857 | 6 | — | 40 | 46 |
| Europe | | | | | |
| Insurance & Annuities | 8,882 | 6 | — | 374 | 374 |
| Reinsurance ⁽²⁾ | 1,160 | 374 | — | 18 | 392 |
| Total Europe | 10,042 | 380 | — | 392 | 766 |
| Total | \$ 54,942 | \$ 386 | \$ 14 | \$ 477 | \$ 857 |

(1) A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on March 31, 2017.

(2) Reinsurance exposure is to markets in Canada and the United States.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on March 31, 2017. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were \$6 million in-quarter (\$8 million for the first quarter of 2016) with the majority arising in the Reinsurance business unit in the Europe segment.

LIFECO CAPITAL STRUCTURE

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

DEBENTURES AND OTHER DEBT INSTRUMENTS

At March 31, 2017, debentures and other debt instruments decreased by \$292 million to \$5,688 million compared to December 31, 2016, primarily due to Irish Life Assurance plc (ILA), a subsidiary of the Company, redeeming its 5.25% €200 million subordinated debenture notes at their principal amount together with accrued interest during the quarter.

Subsequent to the period ended March 31, 2017, Great-West Lifeco Finance (Delaware) LP, a subsidiary of the Company, announced its intention to redeem all \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067 on June 21, 2017 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date. This redemption will have no impact on the MCCR ratio as the debenture is not held within the Company's Office of the Superintendent of Financial Institutions (OSFI) regulated entities.

SHARE CAPITAL AND SURPLUS

Share capital outstanding at March 31, 2017 was \$9,768 million, which comprises \$7,254 million of common shares, \$2,264 million of non-cumulative First Preferred Shares, \$213 million of 5-year rate reset First Preferred Shares and \$37 million of floating rate First Preferred Shares.

The Company commenced a normal course issuer bid (NCIB) on January 9, 2017 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan. During the three months ended March 31, 2017, the Company repurchased and subsequently cancelled 12,698 common shares (2016 - 624,181) at an average cost per share of \$37.10 (2016 - \$34.32) under its NCIB.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining adequate levels of liquid investments. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At March 31, 2017, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$7.2 billion (\$7.9 billion at December 31, 2016) and other liquid assets and marketable securities of \$92.4 billion (\$91.6 billion at December 31, 2016). Included in the cash, cash equivalents and short-term bonds at March 31, 2017 was \$1.1 billion (\$1.1 billion at December 31, 2016) at the Lifeco holding company level. In addition, the Company maintains committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

CASH FLOWS

| Cash flows | For the three months ended March 31 | |
|---|--|-----------------|
| | 2017 | 2016 |
| Cash flows relating to the following activities: | | |
| Operations | \$ 1,477 | \$ 1,366 |
| Financing | (568) | (413) |
| Investment | (1,118) | (708) |
| | (209) | 245 |
| Effects of changes in exchange rates on cash and cash equivalents | (8) | (135) |
| Increase (decrease) in cash and cash equivalents in the period | (217) | 110 |
| Cash and cash equivalents, beginning of period | 3,259 | 2,813 |
| Cash and cash equivalents, end of period | \$ 3,042 | \$ 2,923 |

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the first quarter of 2017, cash and cash equivalents decreased by \$217 million from December 31, 2016. Cash flows provided by operations during the first quarter of 2017 were \$1,477 million, an increase of \$111 million compared to the first quarter of 2016. Cash flows used in financing were \$568 million, primarily used for the payment of dividends to common shareholders of \$363 million and the redemption of debt of \$284 million, partially offset by the issuance of common shares of \$110 million. In the first quarter of 2017, the Company increased the quarterly dividend to common shareholders from \$0.346 per common share to \$0.367 per common share. For the three months ended March 31, 2017, cash flows were used by the Company to acquire an additional \$1,118 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2016.

CAPITAL MANAGEMENT AND ADEQUACY

At the holding company level, the Company monitors the amount of consolidated capital available and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements, as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements and strategic plans. The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. The capitalization decisions of the Company and its operating subsidiaries also give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the MCCR ratio. The internal target range of the MCCR ratio for Lifeco's major Canadian operating subsidiaries is 175% to 215% (on a consolidated basis).

Great-West Life's MCCR ratio at March 31, 2017 was 239% (240% at December 31, 2016). London Life's MCCR ratio at March 31, 2017 was 226% (217% at December 31, 2016). Canada Life's MCCR ratio at March 31, 2017 was 275% (275% at December 31, 2016). The MCCR ratio does not take into account any impact from \$1.1 billion of liquidity at the Lifeco holding company level at March 31, 2017 (\$1.1 billion at December 31, 2016).

The MCCR of 239% at Great-West Life included minus 4 points for the redemption of the perpetual capital notes at Irish Life Assurance plc. In the fourth quarter of 2016, there was a new €200 million debenture relating to the issuance of €500 million bonds issued by Great-West Lifeco that increased the MCCR for Great-West Life and Canada Life. The debenture replaced the redeemed perpetual capital note at Irish Life Assurance plc. The net MCCR impact of the debenture in the fourth quarter of 2016, combined with the redemption in the first quarter of 2017 is nil.

In calculating the MCCR position, available regulatory capital is reduced by goodwill and intangible assets, subject to a prescribed inclusion for a portion of intangible assets. The OSFI MCCR guideline also prescribes that quarterly re-measurements to defined benefit plans, impacting available capital for the Company's federally regulated subsidiaries, are amortized over twelve quarters.

The Board of Directors reviews and approves an annual capital plan as well as capital transactions undertaken by management pursuant to the plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

OSFI Regulatory Capital Initiatives

On September 12, 2016 OSFI issued the Life Insurance Capital Adequacy Test (LICAT) guideline, a new regulatory capital framework for the Canadian insurance industry. The LICAT guideline will replace the MCCR guideline effective January 1, 2018. OSFI has stated that the LICAT guideline is not expected to increase the amount of capital in the industry compared to the current MCCR guideline. Since OSFI developed the LICAT guideline to better align risk measures with the economic realities of the life insurance business, capital distribution and impact by risk and by company may change. OSFI is conducting assessments of the new guideline, which will help to inform further amendments to the LICAT guideline during 2017. The Company actively participates in the OSFI assessments and is evaluating the impact of LICAT on its business.

The Company will continue ongoing dialogue with OSFI, The Canadian Institute of Actuaries, The Canadian Life and Health Insurance Association and other industry participants during the assessment period and subsequent implementation phase.

Due to the evolving nature of IFRS and proposed future changes to IFRS for the measurement of insurance contract liabilities, there will likely be further regulatory capital and accounting changes, some of which may be significant.

CAPITAL ALLOCATION METHODOLOGY

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

The capital allocation methodology allows the Company to calculate comparable Return on Equity (ROE) for each business unit. These ROEs are therefore based on the capital the business unit has been allocated and the financing charges associated with that capital.

| Return on Equity ⁽¹⁾ | March 31 2017 | Dec. 31 2016 | March 31 2016 |
|--|------------------|-----------------|------------------|
| Canada | 20.6 % | 19.9 % | 20.0 % |
| U.S. Financial Services ⁽²⁾ | 10.0 % | 10.6 % | 11.6 % |
| U.S. Asset Management (Putnam) ⁽²⁾ | (2.5)% | (2.9)% | 0.2 % |
| Europe | 16.9 % | 17.1 % | 16.4 % |
| Lifeco Corporate | (3.7)% | (5.2)% | (2.7)% |
| Total Lifeco Net Earnings Basis | 13.6 % | 13.8 % | 14.0 % |
| Total Lifeco Adjusted Net Earnings Basis, excluding restructuring costs⁽³⁾ | 13.9 % | 14.0 % | 14.0 % |

⁽¹⁾ Return on Equity is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.

⁽²⁾ U.S. Financial Services includes U.S. Corporate. For December 31, 2016, restructuring costs relating to Putnam of \$20 million were included in U.S. Asset Management (Putnam).

⁽³⁾ The first quarter of 2017 included restructuring costs of \$28 million relating to the Insurance & Annuities and Financial Services business units. The fourth quarter of 2016 included restructuring costs of \$20 million relating to a realignment of the Asset Management business unit. The third quarter of 2016 included restructuring costs of \$13 million related to the Insurance & Annuities business unit.

The Company reported ROE based on net earnings of 13.6% at March 31, 2017, compared to 13.8% at December 31, 2016. Excluding the impact of restructuring costs, the Company reported ROE based on adjusted net earnings of 13.9% at March 31, 2017.

RATINGS

Lifeco maintains ratings from five independent ratings companies. In the first quarter of 2017, the credit ratings for Lifeco and its major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's group credit ratings in the first quarter of 2017.

| Rating agency | Measurement | Lifeco | Great-West Life | London Life | Canada Life | Great-West Life & Annuity Insurance |
|------------------------------------|------------------------------|----------|-----------------|-------------|-------------|-------------------------------------|
| A.M. Best Company | Financial Strength | | A+ | A+ | A+ | A+ |
| DBRS Limited | Issuer Rating | A (high) | AA | | | |
| | Financial Strength | | AA | AA | AA | NR |
| | Senior Debt | A (high) | | | | |
| | Subordinated Debt | | | | AA (low) | |
| Fitch Ratings | Insurer Financial Strength | | AA | AA | AA | AA |
| | Senior Debt | A | | | | |
| Moody's Investors Service | Insurance Financial Strength | | Aa3 | Aa3 | Aa3 | Aa3 |
| Standard & Poor's Ratings Services | Insurer Financial Strength | | AA | AA | AA | AA |
| | Senior Debt | A+ | | | | |
| | Subordinated Debt | | | | AA- | |

Irish Life is part of the group ratings for Standard & Poor's Rating Services; however, is not part of the group ratings for Fitch Ratings. ILA has an insurer financial strength rating of AA from Fitch Ratings and a long-term credit rating of A+ from Standard & Poor's Ratings Services. The ILA €200 million perpetual capital notes assumed on the acquisition of Irish Life are rated A by Fitch Ratings and A- by Standard & Poor's Ratings Services, unchanged from the fourth quarter of 2016. Subsequent to March 31, 2017, following the redemption of the ILA subordinated debt, Standard & Poor's Ratings Services affirmed and subsequently withdrew its ILA ratings.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco, including the comparative figures, are presented on an IFRS basis after capital allocation. Consolidated operating results for Lifeco comprise the net earnings of Great-West Life and its operating subsidiaries, London Life and Canada Life; Great-West Financial and Putnam; together with Lifeco's Corporate results.

For reporting purposes, the consolidated operating results are grouped into four reportable segments – Canada, United States, Europe and Lifeco Corporate – reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results. There are two primary business units included in this segment. Through the Individual Customer business unit, the Company provides life, disability and critical illness insurance products as well as accumulation and annuity products to individual clients. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor and direct marketing insurance as well as accumulation and annuity products and other specialty products to group clients in Canada.

Selected consolidated financial information - Canada

| | For the three months ended | | |
|---|----------------------------|-------------------|-------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits | \$ 6,959 | \$ 6,681 | \$ 6,036 |
| Sales | 3,663 | 3,871 | 3,268 |
| Fee and other income | 387 | 386 | 362 |
| Net earnings | 255 | 326 | 276 |
| Total assets | \$ 156,302 | \$ 153,524 | \$ 146,860 |
| Proprietary mutual funds and institutional net assets | 6,163 | 5,852 | 5,238 |
| Total assets under management | 162,465 | 159,376 | 152,098 |
| Other assets under administration | 16,011 | 15,911 | 15,231 |
| Total assets under administration | \$ 178,476 | \$ 175,287 | \$ 167,329 |

2017 DEVELOPMENTS

- In 2017, Great-West Life, London Life and Canada Life realigned their Canadian operations into two new business units: one focused on individual customers and the other on group customers. As part of the realignment, a new strategic customer marketing function has been created to provide a more holistic customer experience through digital and innovative capabilities and services. In conjunction with this, subsequent to March 31, 2017, the Company announced it was undertaking \$200 million pre-tax of annualized expense reductions expected to be complete by the first quarter of 2019. As part of this effort, the Company expects to incur \$215 million of restructuring costs which are expected to reduce net earnings by \$127 million in the second quarter of 2017.
- On January 1, 2017, Individual Customer launched updated participating whole life, term and universal life insurance products that comply with the new tax exempt legislation effective January 2017.
- During the first quarter of 2017, in recognition of the ongoing work the Company has completed relating to changes in regulation, the Company established the Advice Channel Regulatory Strategy Program, focused on working with industry associations to help shape regulatory policy, coordinating with external stakeholders to ensure there is a commitment to customer-focused practices and working with internal stakeholders to ensure all of the Company's strategies, policies and practices put the customer first.

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

| | For the three months ended | | |
|--------------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits ⁽¹⁾ | \$ 2,932 | \$ 2,769 | \$ 2,510 |
| Sales ⁽¹⁾ | 2,860 | 2,648 | 2,392 |
| Fee and other income ⁽¹⁾ | 225 | 225 | 209 |
| Net earnings ⁽¹⁾ | 146 | 179 | 155 |

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments, reflecting the realignment of the Canada segment operations into two business units.

Premiums and deposits

Premiums and deposits for the first quarter of 2017 increased by \$0.4 billion to \$2.9 billion compared to the same quarter last year, due to an increase in individual wealth premiums and deposits of \$0.2 billion and an increase in individual insurance premiums of \$0.2 billion. Individual insurance premiums increased primarily due to a 22% increase in participating life premiums.

Premiums and deposits for the first quarter of 2017 increased by \$0.2 billion compared to the previous quarter, primarily due to higher deposits for individual investment funds driven by registered retirement savings plan seasonality impacts.

Sales

Sales for the first quarter of 2017 increased by \$0.5 billion to \$2.9 billion compared to the same quarter last year, due to an increase in individual wealth sales of \$0.3 billion and an increase in individual insurance sales of \$0.2 billion. The increase in individual insurance sales was primarily due to a 149% increase in participating life sales and a 100% increase in Universal Life insurance product sales. Higher individual insurance sales were primarily driven by the transition rules associated with the new tax exempt legislation effective January 1, 2017, which allow for insurance applied for under the old regime to be issued and delivered by March 31, 2017, under certain circumstances.

Sales for the first quarter of 2017 increased by \$0.2 billion compared to the previous quarter, primarily due to the same reason discussed for premiums and deposits for the same period.

For the individual wealth investment fund business, net cash inflows for the first quarter of 2017 were \$125 million compared to \$120 million for the same quarter last year and \$99 million for the previous quarter.

Fee and other income

Fee and other income for the first quarter of 2017 increased by \$16 million compared to the same quarter last year, primarily due to higher average assets under administration driven by higher average equity market levels, partially offset by lower margins.

Fee and other income of \$225 million for the first quarter of 2017 was comparable to the previous quarter.

Net earnings

Net earnings for the first quarter of 2017 decreased by \$9 million to \$146 million compared to the same quarter last year. The decrease was primarily due to unfavourable individual insurance policyholder behaviour experience, lower contributions from investment experience and lower contributions from insurance contract liability basis changes. These decreases were partially offset by lower new business strain, higher net fee income and favourable mortality experience.

Net earnings for the first quarter of 2017 decreased by \$33 million compared to the previous quarter. The decrease was primarily due to lower contributions from investment experience and less favourable mortality and individual insurance policyholder behaviour experience. These decreases were partially offset by lower new business strain and favourable morbidity experience.

For the first quarter of 2017, net earnings attributable to the participating account increased by \$24 million to \$29 million compared to the same quarter last year, primarily due to lower new business strain.

Net earnings attributable to the participating account for the first quarter of 2017 decreased by \$149 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes, partially offset by lower new business strain.

GROUP CUSTOMER

OPERATING RESULTS

| | For the three months ended | | |
|--------------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits ⁽¹⁾ | \$ 4,027 | \$ 3,912 | \$ 3,526 |
| Sales ⁽¹⁾ | 803 | 1,223 | 876 |
| Fee and other income ⁽¹⁾ | 149 | 147 | 141 |
| Net earnings ⁽¹⁾ | 104 | 154 | 105 |

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments, reflecting the realignment of the Canada segment operations into two business units.

Premiums and deposits

Premiums and deposits for the first quarter of 2017 increased by \$0.5 billion to \$4.0 billion compared to the same quarter last year, primarily due to an increase in group wealth premiums and deposits of \$0.3 billion and an increase in group insurance premiums and deposits of \$0.2 billion. The increase in group wealth was primarily due to an increase in group capital accumulation plans (GCAP) while the increase in group insurance was primarily due to an increase in large case market premiums and deposits.

Premiums and deposits for the first quarter of 2017 increased by \$0.1 billion compared to the previous quarter, primarily due to an increase in premiums and deposits for the group insurance large case market and GCAP products, mostly offset by lower premiums and deposits related to single premium group annuities (SPGAs).

Sales

Sales for the first quarter of 2017 decreased by \$0.1 billion to \$0.8 billion compared to the same period last year, primarily due to a decrease in group insurance sales of \$0.2 billion partially offset by an increase in group wealth sales of \$0.1 billion. The decrease in group insurance sales was primarily due to lower sales in the large case and creditor markets while the increase in group wealth sales was primarily due to higher sales of SPGA products. Sales of creditor products and large cases can be highly variable from quarter to quarter.

Sales for the first quarter of 2017 decreased by \$0.4 billion compared to the previous quarter, primarily due to lower sales of SPGAs.

For the group wealth segregated fund business, net cash inflows for the first quarter of 2017 were \$282 million, compared to net cash inflows of \$217 million for the same quarter last year and \$133 million for the previous quarter.

Fee and other income

Fee and other income for the first quarter of 2017 increased by \$8 million compared to the same quarter last year, primarily due to higher average assets under administration driven by higher average equity market levels, partially offset by lower margins.

Fee and other income for the first quarter of 2017 was comparable to the previous quarter.

Net earnings

Net earnings for the first quarter of 2017 of \$104 million were comparable to the same quarter last year. Less favourable mortality experience and lower contributions from insurance contract liability basis changes were mostly offset by more favourable non-refund long-term disability morbidity experience.

Net earnings for the first quarter of 2017 decreased by \$50 million compared to the previous quarter. The decrease was primarily due to less favourable insurance mortality experience, lower new business volumes, higher expenses and lower contributions from insurance contract liability basis changes, partially offset by more favourable longevity experience for wealth products.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with or allocated to the Canadian business units.

Net earnings for the first quarter of 2017 decreased by \$11 million to \$5 million compared to the same quarter last year, primarily due to lower investment income.

Net earnings for the first quarter of 2017 increased by \$12 million compared to the previous quarter, primarily due to the favourable impact of changes to certain income tax estimates and lower allocated financing charges.

UNITED STATES

The United States operating results for Lifeco include the results of Great-West Financial, Putnam and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. The Company also provides life insurance, annuity and executive benefits products through its Individual Markets operations.

Through its Asset Management business unit, the Company provides investment management, certain administrative functions, distribution and related services, through a broad range of investment products.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates the comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Selected consolidated financial information - United States

| | For the three months ended | | |
|---|----------------------------|-------------------|-------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits | \$ 17,558 | \$ 14,644 | \$ 16,117 |
| Sales | 24,352 | 18,384 | 40,158 |
| Fee and other income | 594 | 619 | 571 |
| Net earnings | 56 | 55 | 63 |
| Net earnings (US\$) | 42 | 41 | 47 |
| Total assets | \$ 87,861 | \$ 87,243 | \$ 83,424 |
| Proprietary mutual funds and institutional net assets | 228,245 | 219,699 | 202,833 |
| Total assets under management | 316,106 | 306,942 | 286,257 |
| Other assets under administration | 564,835 | 534,428 | 503,156 |
| Total assets under administration | \$ 880,941 | \$ 841,370 | \$ 789,413 |

2017 DEVELOPMENTS

- Net earnings for the three months ended March 31, 2017 were US\$42 million, a decrease of US\$5 million compared to the same quarter last year. Included in net earnings for the three months ended March 31, 2017 were restructuring costs of US\$8 million primarily resulting from Great-West Financial executing a restructuring action to right-size the cost structure and better position the business competitively following the finalization of the Empower Retirement integration activities.
- On April 6, 2016, the U.S. Department of Labor (“DOL”) issued a new rule redefining and expanding who is a fiduciary by reason of providing investment advice to a retirement plan or holder of an individual retirement account. Compliance with the rule was generally required by April 10, 2017 (certain parts by January 1, 2018). On April 4, 2017, the DOL extended the general compliance date for the rule from April 10, 2017 to June 9, 2017 (with no extension of the January 1, 2018 date). The Company has analyzed the rule against current business practices, particularly in its Empower Retirement and Individual Markets businesses. The rule requires changes to certain aspects of product and service delivery but management does not expect that it will prevent Great-West Financial or Putnam from executing on their overall business strategy and growth objectives. The Company is continuing with its implementation plan for compliance with the new June 9, 2017 effective date.
- The Company continues to monitor the potential for significant policy changes following the 2016 U.S. elections, including corporate tax reform which would have an impact on the Company’s deferred tax assets and liabilities as well as the effective tax rate in subsequent periods.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2017 DEVELOPMENTS

- Empower Retirement has completed its program activities related to integrating the J.P. Morgan Retirement Plan Services (RPS) business, improving the client-facing experience as well as streamlining back-office processing. The Company expects that these enhancements will increase market share by driving future sales and improving the retention of participants and assets. Empower Retirement participant accounts have grown to approximately 8.2 million at March 31, 2017 from 8 million at December 31, 2016. The Company has invested US\$159 million in total on this multi-year initiative. For the three months ended March 31, 2017, these costs, which were primarily restructuring costs, decreased net earnings by US\$9 million (US\$6 million decrease for the three months ended March 31, 2016).

Annualized synergies achieved through efficiencies from the conversion of business onto a single back-office platform, increased utilization of Great-West Global, which launched in the third quarter of 2015 with over 600 professionals based in India and scale-driven cost improvements were US\$34 million. The impact of these synergies has been mostly offset by the reinvestment in ongoing development as well as customer acquisition and retention.

OPERATING RESULTS

| | For the three months ended | | |
|------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits | \$ 3,598 | \$ 3,525 | \$ 3,729 |
| Sales ⁽¹⁾ | 10,392 | 7,265 | 27,770 |
| Fee and other income | 366 | 383 | 321 |
| Net earnings | 85 | 80 | 90 |
| Premiums and deposits (US\$) | \$ 2,726 | \$ 2,650 | \$ 2,722 |
| Sales (US\$) ⁽¹⁾ | 7,873 | 5,462 | 20,270 |
| Fee and other income (US\$) | 277 | 288 | 234 |
| Net earnings (US\$) | 64 | 59 | 67 |

⁽¹⁾ For the three months ended March 31, 2017, sales included US\$0.5 billion relating to Putnam managed funds sold on the Empower Retirement platform.

Premiums and deposits

Premiums and deposits for the first quarter of 2017 of US\$2.7 billion were comparable to the same quarter last year.

Premiums and deposits for the first quarter of 2017 increased by US\$0.1 billion compared to the previous quarter, primarily due to higher sales in the executive benefits line of business for Individual Markets.

Sales

Sales in the first quarter of 2017 decreased by US\$12.4 billion to US\$7.9 billion compared to the same quarter last year, primarily due to a decrease in Empower Retirement sales driven by one large plan sale in the first quarter of 2016, which did not recur. Large plan sales can be highly variable from period to period and tend to be lower margin.

Sales in the first quarter of 2017 increased by US\$2.4 billion compared to the previous quarter, primarily due to higher Empower Retirement large plan sales.

Fee and other income

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and recordkeeping services and investment advisory services. Generally, fees are earned based on assets under management, assets under administration or the number of plans and participants for which services are provided.

Fee and other income for the first quarter of 2017 increased by US\$43 million to US\$277 million compared to the same quarter last year, primarily due to growth in participants and higher average equity markets.

Fee and other income for the first quarter of 2017 increased US\$22 million compared to the previous quarter, when adjusted for reclassification adjustments of US\$33 million, primarily due to growth in participants and higher average equity markets.

Net earnings

Net earnings for the first quarter of 2017 decreased by US\$3 million to US\$64 million compared to the same quarter last year. Net earnings for the first quarter of 2016 included the positive impact of a management election to claim foreign tax credits of US\$19 million. Excluding this item, net earnings increased by US\$16 million, primarily due to higher net fee income and higher contributions from investment experience. First quarter 2017 results included US\$3 million of strategic and business development expenses related to Empower Retirement, compared to US\$5 million for the first quarter of 2016.

Net earnings for the first quarter of 2017 increased by US\$5 million compared to the previous quarter, primarily due to lower operating expenses, partially offset by lower contributions from investment experience.

ASSET MANAGEMENT**2017 DEVELOPMENTS**

- During the fourth quarter of 2016, Putnam announced that it was undertaking US\$65 million pre-tax in expense reductions and was realigning its resources to better position itself for current and future opportunities. These expense reductions are being addressed through a reduction of staff, elimination of certain non-core business programs and vendor consolidation. As of March 31, 2017, the Company has achieved more than US\$50 million in annualized reductions. This resulted in an expense reduction of US\$13 million in the first quarter of 2017. As part of this effort, Putnam has reduced its staff by nearly eight percent, primarily operations and technology professionals, but also a small number of investment management professionals.
- Putnam continues to sustain strong investment performance relative to its peers. As of March 31, 2017, approximately 71% and 83% of Putnam's fund assets performed at levels above the Lipper top quartile and Lipper median, respectively, on a one-year basis. Additionally, approximately 72% of Putnam's fund assets performed at levels above the Lipper median on a five-year basis.
- For the sixth consecutive year, Putnam has been named the winner of DALBAR's Total Client Experience award recognizing overall mutual fund customer service quality. Additionally, Putnam has been acknowledged for outstanding service by the National Quality Review, earning a 5-Star performance rating in processing operations.

OPERATING RESULTS

| | For the three months ended | | |
|--|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Sales | \$ 13,960 | \$ 11,119 | \$ 12,388 |
| Fee income | | | |
| Investment management fees | 193 | 194 | 199 |
| Performance fees | (13) | (6) | (5) |
| Service fees | 38 | 37 | 42 |
| Underwriting & distribution fees | 10 | 11 | 14 |
| Fee income | 228 | 236 | 250 |
| Core net earnings (loss) ⁽¹⁾⁽²⁾ | (2) | (4) | (17) |
| Less: Financing and other expenses (after-tax) ⁽¹⁾ | (14) | 1 | (8) |
| Reported net earnings (loss) ⁽²⁾ | (16) | (3) | (25) |
| Sales (US\$) | \$ 10,576 | \$ 8,360 | \$ 9,042 |
| Fee income (US\$) | | | |
| Investment management fees (US\$) | 146 | 146 | 145 |
| Performance fees (US\$) | (10) | (4) | (4) |
| Service fees (US\$) | 29 | 28 | 31 |
| Underwriting & distribution fees (US\$) | 8 | 8 | 11 |
| Fee income (US\$) | 173 | 178 | 183 |
| Core net earnings (loss) (US\$) ⁽¹⁾⁽²⁾ | (1) | (3) | (12) |
| Less: Financing and other expenses (after-tax) (US\$) ⁽¹⁾ | (11) | 1 | (6) |
| Reported net earnings (loss) (US\$) ⁽²⁾ | (12) | (2) | (18) |
| Pre-tax operating margin ⁽²⁾⁽³⁾ | (1.1)% | (0.1)% | (12.3)% |
| Average assets under management (US\$) | \$ 157,432 | \$ 151,903 | \$ 141,391 |

⁽¹⁾ Core net earnings (loss) (a non-IFRS financial measure) is a measure of the Asset Management business unit's performance. Core net earnings (loss) includes the impact of dealer commissions and software amortization, and excludes the impact of certain corporate financing charges and allocations, fair value adjustments related to stock-based compensation, certain tax adjustments and other non-recurring transactions.

⁽²⁾ For the three months ended December 31, 2016, core and reported net earnings excluded restructuring expenses of \$20 million (US\$15 million), which were included in U.S. Corporate.

⁽³⁾ Pre-tax operating margin (a non-IFRS financial measure) is a measure of the Asset Management business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income.

Sales

Sales in the first quarter of 2017 increased by US\$1.5 billion, or 17%, to US\$10.6 billion compared to the same quarter last year, due to a US\$1.3 billion increase in institutional sales and a US\$0.2 billion increase in mutual fund sales.

Sales in the first quarter of 2017 increased by US\$2.2 billion, or 27%, compared to the previous quarter, primarily due to a US\$1.6 billion increase in institutional sales and a US\$0.6 billion increase in mutual fund sales.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales.

Fee income for the first quarter of 2017 decreased by US\$10 million to US\$173 million compared to the same quarter last year. The decrease was primarily due to lower performance fees on mutual funds, lower underwriting and distribution fees as well as lower service fees reflecting a decrease in the number of accounts.

Fee income for the first quarter of 2017 decreased by US\$5 million compared to the previous quarter, primarily due to decreased performance fees due to the seasonality in which these fees were earned.

Net earnings

The core net loss (a non-IFRS financial measure) for the first quarter of 2017 was US\$1 million compared to a core net loss of US\$12 million for the same quarter last year. The decrease in the net loss was primarily due to lower expenses of US\$8 million after-tax (US\$13 million pre-tax) related to the expense reductions undertaken in the fourth quarter of 2016, as well as higher net investment income, driven by gains on seed capital, partially offset by lower net fee income. In the first quarter of 2017, the reported net loss, including financing and other expenses, was US\$12 million compared to a reported net loss of US\$18 million for the same quarter last year. Financing and other expenses for the first quarter of 2017 increased by US\$5 million compared to the same quarter last year, primarily due to lower income taxes for the same quarter last year, driven by a management election to claim foreign tax credits of US\$6 million.

The core net loss for the first quarter of 2017 was US\$1 million compared to a core net loss of US\$3 million for the previous quarter, which excluded restructuring costs of US\$15 million. The decrease in the net loss was primarily due to higher net investment income driven by gains on seed capital, partially offset by an expense recovery during the fourth quarter of 2016 that did not recur. The reported net loss, including financing and other expenses for the first quarter of 2017 was US\$12 million compared to a reported net loss of US\$2 million in the previous quarter. Financing and other expenses for the first quarter of 2017 were US\$11 million compared to an expense recovery of US\$1 million for the previous quarter, primarily due to the positive impact of adjustments to certain income tax estimates of US\$11 million in the previous quarter.

ASSETS UNDER MANAGEMENT

Assets under management (\$US)

| | For the three months ended | | |
|--|-----------------------------------|-------------------------|--------------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Beginning assets | \$ 152,122 | \$ 153,798 | \$ 148,370 |
| Sales - Mutual funds | 5,207 | 4,636 | 4,959 |
| Redemptions - Mutual funds | <u>(5,953)</u> | <u>(5,560)</u> | <u>(7,569)</u> |
| Net asset flows - Mutual funds | (746) | (924) | (2,610) |
| Sales - Institutional | 5,369 | 3,724 | 4,083 |
| Redemptions - Institutional | <u>(3,310)</u> | <u>(4,251)</u> | <u>(3,176)</u> |
| Net asset flows - Institutional | 2,059 | (527) | 907 |
| Net asset flows - Total | 1,313 | (1,451) | (1,703) |
| Impact of market/performance | <u>6,510</u> | <u>(225)</u> | <u>(864)</u> |
| Ending assets | \$ 159,945 | \$ 152,122 | \$ 145,803 |
| <u>Average assets under management</u> | | | |
| Mutual funds | 73,682 | 71,679 | 72,522 |
| Institutional assets | <u>83,750</u> | <u>80,224</u> | <u>68,869</u> |
| Total average assets under management | \$ 157,432 | \$ 151,903 | \$ 141,391 |

Average AUM for the three months ended March 31, 2017 was US\$157.4 billion, an increase of US\$16.0 billion or 11% compared to the same quarter last year, primarily due to the cumulative impact of positive markets and net asset inflows from the institutional business over the twelve month period. Net asset inflows for the first quarter of 2017 were US\$1.3 billion compared to net asset outflows of US\$1.7 billion in the same quarter last year. In-quarter institutional net asset inflows were US\$2.1 billion and mutual fund net asset outflows were US\$0.8 billion.

Average AUM for the three months ended March 31, 2017 increased by US\$5.5 billion or 4% compared to the previous quarter, primarily due to the same reasons discussed for in the in-quarter results.

UNITED STATES CORPORATE

United States Corporate consists of items not associated directly with or allocated to the United States business units, including the impact of certain non-continuing items related to the U.S. segment.

In the first quarter of 2017, the net loss increased by US\$8 million to US\$10 million compared to the same quarter last year, primarily due to higher restructuring costs and expenses related to discontinued operations resulting from the Healthcare division sold in 2008. First quarter 2017 results included restructuring costs of US\$8 million relating to Empower Retirement and the acquisition of RPS as well as business strategy restructuring, compared to US\$2 million for the same quarter last year.

The net loss for the three months ended March 31, 2017 decreased by US\$6 million to US\$10 million compared to the previous quarter, primarily due to lower restructuring costs, partially offset by expenses related to discontinued operations discussed for the in-quarter results. Fourth quarter 2016 results included restructuring costs of US\$15 million related to Putnam that did not recur.

EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance, together with an allocation of a portion of Lifeco's corporate results. Insurance & Annuities provides protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the U.K., the Isle of Man and Germany, as well as through Irish Life in Ireland. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted through Canada Life, London Life and their subsidiaries.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates the comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Selected consolidated financial information - Europe

| | For the three months ended | | |
|--|----------------------------|-------------------|-------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits | \$ 9,032 | \$ 8,714 | \$ 7,841 |
| Fee and other income | 324 | 340 | 321 |
| Net earnings | 289 | 307 | 287 |
| Total assets | \$ 161,469 | \$ 159,145 | \$ 159,961 |
| Proprietary mutual funds and institutional net assets | 35,713 | 33,664 | 29,913 |
| Total assets under management | 197,182 | 192,809 | 189,874 |
| Other assets under administration | 39,218 | 38,952 | 39,903 |
| Total assets under administration⁽¹⁾ | \$ 236,400 | \$ 231,761 | \$ 229,777 |

⁽¹⁾ At March 31, 2017, total assets under administration excludes \$8.1 billion of assets managed for other business units within the Lifeco group of companies (\$7.9 billion at December 31, 2016).

2017 DEVELOPMENTS

- Net earnings for the first quarter of 2017, were \$289 million, an increase of \$2 million compared to the same quarter last year. Strong business performance and a gain on the sale of the Company's holdings of Allianz Ireland were offset by the negative impact of currency movement of \$42 million and restructuring costs of \$17 million.
- In the first quarter of 2017, restructuring costs of \$9 million or €6 million associated with the integration of Irish Life Health have been incurred, which resulted from the acquisitions of Aviva Health Insurance Ireland Limited and GloHealth Financial Services Limited. In the first quarter of 2017, the Company achieved €1 million of annualized synergies relating to the integration of the Irish Life Health operations and €5 million of annualized synergies have been achieved to date. The Company remains on track to achieve targeted annual cost savings of €16 million pre-tax within the next 9 months.
- In the first quarter of 2017, restructuring costs of \$8 million or €6 million were recognized relating to the Irish Life retail business with expected annualized pre-tax savings of €8 million to be achieved by the end of 2017 (of which €2 million have been achieved to date).

- Some market volatility remains following the U.K.'s formal notification in March 2017 of its intention to leave the European Union (EU), the April 18, 2017 announcement of a U.K. general election on June 8, 2017 and the results of the first round of the French Presidential election. The most notable impact following the Brexit vote on the Company's financial results has been the weakening of the British pound. The average currency translation rate for the Company's British pound net earnings have declined by 16% from the first quarter of 2016 to the first quarter of 2017. The Company will continue to work closely with customers, business partners and regulators over the next few years as the U.K. and the EU enter a period of negotiation and agree on their new relationship. The Company's other European businesses may also see some impacts arising from the market uncertainty in Europe from Brexit, but the impacts are not currently expected to be significant.
- In March 2017, the Company completed the sale of its 30.43% ownership of Allianz Ireland to a subsidiary of Allianz SE. The sale was approved by the shareholders of Allianz Irish Life Holdings plc and sanctioned by the High Court in Ireland. Consideration received for the sale was €145 million and resulted in a €15 million gain on disposal.
- On February 8, 2017, Irish Life Assurance plc, a subsidiary of the Company, redeemed its 5.25% €200 million subordinated debenture notes at their principal amount together with accrued interest.
- During the first quarter of 2017, the Company received a number of awards:
 - Canada Life Group Insurance in the U.K. won the "Best Group Protection Provider" award at the 2017 Corporate Adviser Awards for the fourth consecutive year.
 - At the Accenture Digital Media Awards, Irish Life Corporate Business won "Best in Financial Services".
 - Irish Life won the "Best Investment Fund Provider" at the 2017 Longboat Analytics Financial Services Awards.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

| | For the three months ended | | |
|--------------------------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits ⁽¹⁾ | \$ 5,155 | \$ 4,984 | \$ 5,674 |
| Sales ⁽¹⁾ | 4,416 | 4,410 | 4,574 |
| Fee and other income | 319 | 333 | 316 |
| Net earnings | 225 | 225 | 226 |

⁽¹⁾ For the three months ended March 31, 2017, premiums and deposits and sales exclude \$0.3 billion of assets managed for other business units within the Lifeco group of companies (\$0.4 billion for the three months ended December 31, 2016 and nil for the three months ended March 31, 2016).

Premiums and deposits

Premiums and deposits for the first quarter of 2017 decreased by \$0.5 billion to \$5.2 billion compared to the same quarter last year. The decrease was primarily due to lower fund management sales in Ireland and the impact of currency movement, partially offset by higher payout annuity and wealth management sales in the U.K., Ireland and Germany. The Company continues to develop its presence in the U.K. bulk payout annuity market, where trustees insure pension annuities in payment, and this contributed to the sales for the period.

Premiums and deposits for the first quarter of 2017 increased by \$0.2 billion compared to the previous quarter, primarily due to higher payout annuity sales in the U.K. partially offset by lower fund management sales in Ireland.

Sales

Sales for the first quarter of 2017 decreased by \$0.2 billion to \$4.4 billion compared to the same quarter last year. Excluding the negative impact of currency movement, sales increased for the first quarter of 2017 compared to the same quarter last year, primarily due to higher annuity and wealth management sales in the U.K. and Ireland, partially offset by lower fund management sales.

Sales for the first quarter of 2017 of \$4.4 billion were comparable to the previous quarter.

Fee and other income

Fee and other income for the first quarter of 2017 increased by \$3 million to \$319 million compared to the same quarter last year. The increase was primarily due to higher asset management fees and higher other income, which can be highly variable from quarter to quarter, mostly offset by currency movement.

Fee and other income for first quarter of 2017 decreased by \$14 million compared to the previous quarter, primarily due to the impact of currency movement and lower investment gain-related fee income associated with a closed block of Irish unit-linked business. The fee income on the closed block of Irish unit-linked business is particularly sensitive to market levels at the start and end of a reporting period.

Net earnings

Net earnings for the first quarter of 2017 decreased by \$1 million to \$225 million compared to the same quarter last year. Lower contributions from investment experience and the negative impact of currency movement were mostly offset by more favourable mortality experience, the impact of higher new business volumes relating to payout annuities sales and a gain on the sale of the Company's Allianz Ireland holdings. In addition, net earnings in the first quarter of 2016 were favourably impacted by lower income taxes, which included the impact of U.K. corporate tax rate changes on deferred tax balances.

Net earnings for the first quarter of 2017 of \$225 million were comparable to the fourth quarter 2016. Improved morbidity experience in Ireland, the impact of higher new business volumes and a gain relating to Allianz Ireland sale discussed for the in-quarter results were mostly offset by lower contributions from insurance contract liability basis changes.

REINSURANCE

OPERATING RESULTS

| | For the three months ended | | |
|-----------------------|----------------------------|-----------------|------------------|
| | March 31 2017 | Dec. 31 2016 | March 31 2016 |
| Premiums and deposits | \$ 3,877 | \$ 3,730 | \$ 2,167 |
| Fee and other income | 5 | 7 | 5 |
| Net earnings | 81 | 86 | 63 |

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the first quarter of 2017 increased from \$2.2 billion to \$3.9 billion compared to the same quarter last year, primarily due to new and restructured reinsurance agreements and higher volumes relating to existing business.

Premiums and deposits for the first quarter of 2017 increased by \$0.1 billion compared to the previous quarter, primarily due to new and restructured reinsurance agreements and higher volumes relating to existing business.

Fee and other income

Fee and other income for the first quarter of 2017 of \$5 million was comparable to the same period last year.

Fee and other income for the first quarter of 2017 decreased by \$2 million compared to the prior quarter, primarily due to a one-time fee in the fourth quarter of 2016 related to the completion of a reinsurance agreement.

Net earnings

Net earnings for the first quarter of 2017 increased by \$18 million to \$81 million compared to the same quarter last year. The increase was primarily due to favourable mortality experience in the life and payout annuity lines of business, partially offset by the impact of currency movement.

Net earnings for the first quarter of 2017 decreased by \$5 million compared to the previous quarter. The decrease was primarily due to lower new business volumes partially offset by higher contributions from insurance contract liability basis changes.

EUROPE CORPORATE

The Europe Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the first quarter of 2017, Europe Corporate had a net loss of \$17 million compared to a net loss of \$2 million for the same quarter last year. First quarter 2017 results included restructuring costs of \$17 million related to Irish Life Health and the Irish Life business strategy to support business growth in the retail division, compared to \$1 million related to the integration of Legal & General International (Ireland) Limited for the same quarter last year.

For the three months ended March 31, 2017, Europe Corporate had a net loss of \$17 million compared to a net loss of \$4 million for the previous quarter, primarily due to the impact of higher restructuring costs discussed for the in-quarter results.

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

For the three months ended March 31, 2017, Lifeco Corporate had a net loss of \$9 million compared to \$6 million for the same period in 2016, primarily due to higher operating expenses.

The net loss for the three months ended March 31, 2017 decreased from \$12 million in the previous quarter to \$9 million in the current quarter, primarily due to higher net investment income and lower financing charges.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to possible operational surprises, losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations. The Board of Directors is ultimately responsible for the Company's risk governance and associated risk policies. These include the ERM Policy, which establishes the guiding principles of risk management, and the RAF, which reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives. During the first quarter of 2017, there were no significant changes to the Company's risk management and control practices. Refer to the Company's 2016 Annual MD&A for a detailed description of the Company's risk management and control practices.

ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2017, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes* and *Annual Improvements 2014 - 2016 Cycle* for the amendment to IFRS 12 *Disclosure of Interest in Other Entities*, effective January 1, 2017. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

In regards to future accounting policy changes that could impact the Company, there have been no significant changes from the disclosure included in the Company's 2016 Annual MD&A.

OTHER INFORMATION

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal controls during the three month period ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions have not changed materially from December 31, 2016.

QUARTERLY FINANCIAL INFORMATION

| Quarterly financial information (in \$ millions, except per share amounts) | 2017 | | | | | 2016 | | | 2015 | | |
|---|------------------------------------|-------------------|----------|-----------|-----------|-----------|----------|----------|----------|----|----|
| | Q1 ⁽²⁾ | Q4 ⁽³⁾ | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q4 | Q3 | Q2 |
| | Total revenue⁽¹⁾ | \$ 12,874 | \$ 7,814 | \$ 13,408 | \$ 12,807 | \$ 12,352 | \$ 8,321 | \$ 8,596 | \$ 4,224 | | |
| Common shareholders | | | | | | | | | | | |
| Net earnings | | | | | | | | | | | |
| Total | 591 | 676 | 674 | 671 | 620 | 683 | 720 | 659 | | | |
| Basic - per share | 0.598 | 0.686 | 0.682 | 0.675 | 0.625 | 0.688 | 0.724 | 0.661 | | | |
| Diluted - per share | 0.597 | 0.685 | 0.681 | 0.674 | 0.623 | 0.686 | 0.722 | 0.659 | | | |

⁽¹⁾ Revenue includes the changes in fair value through profit or loss on investment assets.

⁽²⁾ Net earnings for the first quarter of 2017 included restructuring costs relating to the Insurance & Annuities and Financial Services business units. Excluding the impact of these restructuring costs, net earnings for the first quarter of 2017 were \$619 million or \$0.627 per common share (\$0.625 diluted).

⁽³⁾ Net earnings for the fourth quarter of 2016 included restructuring costs relating to a realignment of the Asset Management business unit. Excluding the impact of these restructuring costs, net earnings for the fourth quarter of 2016 were \$696 million or \$0.707 per common share (\$0.706 diluted).

Lifeco's consolidated net earnings attributable to common shareholders were \$591 million for the first quarter of 2017 compared to \$620 million reported a year ago. On a per share basis, this represents \$0.598 per common share (\$0.597 diluted) for the first quarter of 2017 compared to \$0.625 per common share (\$0.623 diluted) a year ago.

Total revenue for the first quarter of 2017 was \$12,874 million and comprises premium income of \$9,365 million, regular net investment income of \$1,469 million, a positive change in fair value through profit or loss on investment assets of \$735 million and fee and other income of \$1,305 million.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

| Translation of foreign currency | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 |
|---------------------------------|---------|---------|----------|---------|---------|
| Period ended | 2017 | 2016 | 2016 | 2016 | 2016 |
| United States dollar | | | | | |
| Balance sheet | \$ 1.33 | \$ 1.34 | \$ 1.31 | \$ 1.30 | \$ 1.30 |
| Income and expenses | \$ 1.32 | \$ 1.33 | \$ 1.31 | \$ 1.29 | \$ 1.37 |
| British pound | | | | | |
| Balance sheet | \$ 1.67 | \$ 1.66 | \$ 1.71 | \$ 1.72 | \$ 1.87 |
| Income and expenses | \$ 1.64 | \$ 1.66 | \$ 1.71 | \$ 1.85 | \$ 1.96 |
| Euro | | | | | |
| Balance sheet | \$ 1.42 | \$ 1.42 | \$ 1.47 | \$ 1.44 | \$ 1.48 |
| Income and expenses | \$ 1.41 | \$ 1.44 | \$ 1.46 | \$ 1.46 | \$ 1.51 |

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)
(in Canadian \$ millions except per share amounts)

| | For the three months ended | | |
|--|----------------------------|------------------------|------------------------|
| | March 31 2017 | December 31 2016 | March 31 2016 |
| Income | | | |
| Premium income | | | |
| Gross premiums written | \$ 10,484 | \$ 9,989 | \$ 7,926 |
| Ceded premiums | (1,119) | (1,084) | (911) |
| Total net premiums | <u>9,365</u> | <u>8,905</u> | <u>7,015</u> |
| Net investment income (note 3) | | | |
| Regular net investment income | 1,469 | 1,507 | 1,673 |
| Changes in fair value through profit or loss | 735 | (3,943) | 2,410 |
| Total net investment income (loss) | <u>2,204</u> | <u>(2,436)</u> | <u>4,083</u> |
| Fee and other income | <u>1,305</u> | <u>1,345</u> | <u>1,254</u> |
| | <u>12,874</u> | <u>7,814</u> | <u>12,352</u> |
| Benefits and expenses | | | |
| Policyholder benefits | | | |
| Gross | 8,595 | 8,078 | 6,642 |
| Ceded | (610) | (585) | (472) |
| Total net policyholder benefits | <u>7,985</u> | <u>7,493</u> | <u>6,170</u> |
| Policyholder dividends and experience refunds | 558 | 348 | 369 |
| Changes in insurance and investment contract liabilities | 1,319 | (3,468) | 3,139 |
| Total paid or credited to policyholders | <u>9,862</u> | <u>4,373</u> | <u>9,678</u> |
| Commissions | 753 | 853 | 566 |
| Operating and administrative expenses | 1,233 | 1,250 | 1,208 |
| Premium taxes | 123 | 112 | 92 |
| Financing charges (note 8) | 76 | 75 | 78 |
| Amortization of finite life intangible assets | 45 | 44 | 46 |
| Restructuring and acquisition expenses | 37 | 35 | 4 |
| Earnings before income taxes | <u>745</u> | <u>1,072</u> | <u>680</u> |
| Income taxes (note 13) | 96 | 188 | 24 |
| Net earnings before non-controlling interests | <u>649</u> | <u>884</u> | <u>656</u> |
| Attributable to non-controlling interests | 27 | 177 | 5 |
| Net earnings | <u>622</u> | <u>707</u> | <u>651</u> |
| Preferred share dividends | 31 | 31 | 31 |
| Net earnings - common shareholders | <u>\$ 591</u> | <u>\$ 676</u> | <u>\$ 620</u> |
| Earnings per common share (note 10) | | | |
| Basic | <u>\$ 0.598</u> | <u>\$ 0.686</u> | <u>\$ 0.625</u> |
| Diluted | <u>\$ 0.597</u> | <u>\$ 0.685</u> | <u>\$ 0.623</u> |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*
(in Canadian \$ millions)

| | For the three months ended | | |
|--|----------------------------|---------------------|------------------|
| | March 31 2017 | December 31 2016 | March 31 2016 |
| Net earnings | \$ 622 | \$ 707 | \$ 651 |
| Other comprehensive income (loss) | | | |
| Items that may be reclassified subsequently to Consolidated Statements of Earnings | | | |
| Unrealized foreign exchange losses on translation of foreign operations | (22) | (73) | (984) |
| Unrealized foreign exchange gains on euro debt designated as hedge of the net investment in foreign operations | — | 27 | 10 |
| Income tax expense | — | (4) | (1) |
| Unrealized gains (losses) on available-for-sale assets | 30 | (163) | 121 |
| Income tax (expense) benefit | (6) | 40 | (24) |
| Realized gains on available-for-sale assets | (8) | (10) | (31) |
| Income tax expense | 2 | 3 | 4 |
| Unrealized gains on cash flow hedges | 24 | 38 | 95 |
| Income tax expense | (9) | (13) | (36) |
| Realized losses on cash flow hedges | — | — | 1 |
| Non-controlling interests | (6) | 64 | 6 |
| Income tax (expense) benefit | 2 | (19) | 3 |
| Total items that may be reclassified | 7 | (110) | (836) |
| Items that will not be reclassified to Consolidated Statements of Earnings | | | |
| Re-measurements on defined benefit pension and other post-employment benefit plans (note 12) | (17) | 470 | (242) |
| Income tax (expense) benefit | (9) | (108) | 62 |
| Non-controlling interests | 6 | (34) | 19 |
| Income tax (expense) benefit | (2) | 9 | (5) |
| Total items that will not be reclassified | (22) | 337 | (166) |
| Total other comprehensive income (loss) | (15) | 227 | (1,002) |
| Comprehensive income (loss) | \$ 607 | \$ 934 | \$ (351) |

CONSOLIDATED BALANCE SHEETS *(unaudited)*
(in Canadian \$ millions)

| | March 31 | December 31 |
|---|-------------------|--------------------|
| | 2017 | 2016 |
| Assets | | |
| Cash and cash equivalents | \$ 3,042 | \$ 3,259 |
| Bonds (note 3) | 117,841 | 116,773 |
| Mortgage loans (note 3) | 22,027 | 21,651 |
| Stocks (note 3) | 8,677 | 8,665 |
| Investment properties (note 3) | 4,421 | 4,340 |
| Loans to policyholders | 8,436 | 8,467 |
| | 164,444 | 163,155 |
| Funds held by ceding insurers | 10,496 | 10,781 |
| Goodwill | 5,976 | 5,977 |
| Intangible assets | 3,952 | 3,972 |
| Derivative financial instruments | 476 | 528 |
| Owner occupied properties | 648 | 649 |
| Fixed assets | 298 | 304 |
| Other assets | 2,384 | 2,263 |
| Premiums in course of collection, accounts and interest receivable | 4,776 | 4,311 |
| Reinsurance assets (note 6) | 5,579 | 5,627 |
| Current income taxes | 103 | 97 |
| Deferred tax assets | 1,834 | 1,845 |
| Investments on account of segregated fund policyholders (note 7) | 204,666 | 200,403 |
| Total assets | \$ 405,632 | \$ 399,912 |
| Liabilities | | |
| Insurance contract liabilities (note 6) | \$ 157,319 | \$ 155,940 |
| Investment contract liabilities (note 6) | 2,000 | 2,009 |
| Debentures and other debt instruments | 5,688 | 5,980 |
| Capital trust securities | 161 | 161 |
| Funds held under reinsurance contracts | 326 | 320 |
| Derivative financial instruments | 1,880 | 2,012 |
| Accounts payable | 2,375 | 2,049 |
| Other liabilities | 3,620 | 3,836 |
| Current income taxes | 573 | 549 |
| Deferred tax liabilities | 1,652 | 1,645 |
| Investment and insurance contracts on account of segregated fund policyholders (note 7) | 204,666 | 200,403 |
| Total liabilities | 380,260 | 374,904 |
| Equity | | |
| Non-controlling interests | | |
| Participating account surplus in subsidiaries | 2,810 | 2,782 |
| Non-controlling interests in subsidiaries | 263 | 224 |
| Shareholders' equity | | |
| Share capital (note 9) | | |
| Preferred shares | 2,514 | 2,514 |
| Common shares | 7,254 | 7,130 |
| Accumulated surplus | 11,674 | 11,465 |
| Accumulated other comprehensive income | 744 | 746 |
| Contributed surplus | 113 | 147 |
| Total equity | 25,372 | 25,008 |
| Total liabilities and equity | \$ 405,632 | \$ 399,912 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*
(in Canadian \$ millions)

March 31, 2017

| | Share capital | Contributed surplus | Accumulated surplus | Accumulated other comprehensive income | Non- controlling interests | Total equity |
|--|------------------|------------------------|------------------------|---|----------------------------------|------------------|
| Balance, beginning of year | \$ 9,644 | \$ 147 | \$ 11,465 | \$ 746 | \$ 3,006 | \$ 25,008 |
| Net earnings | — | — | 622 | — | 27 | 649 |
| Other comprehensive loss | — | — | — | (15) | — | (15) |
| | 9,644 | 147 | 12,087 | 731 | 3,033 | 25,642 |
| Dividends to shareholders | | | | | | |
| Preferred shareholders (note 10) | — | — | (31) | — | — | (31) |
| Common shareholders | — | — | (363) | — | — | (363) |
| Shares exercised and issued under share-based payment plans (note 9) | 124 | (55) | — | — | 43 | 112 |
| Share-based payment plans expense | — | 21 | — | — | — | 21 |
| Equity settlement of Putnam share-based plans | — | — | — | — | (9) | (9) |
| Dilution loss on non-controlling interests | — | — | (6) | — | 6 | — |
| Disposal of investment in associate (note 3) | — | — | (13) | 13 | — | — |
| Balance, end of period | \$ 9,768 | \$ 113 | \$ 11,674 | \$ 744 | \$ 3,073 | \$ 25,372 |

March 31, 2016

| | Share capital | Contributed surplus | Accumulated surplus | Accumulated other comprehensive income | Non- controlling interests | Total equity |
|---|------------------|------------------------|------------------------|---|----------------------------------|------------------|
| Balance, beginning of year | \$ 9,670 | \$ 135 | \$ 10,416 | \$ 2,218 | \$ 2,821 | \$ 25,260 |
| Net earnings | — | — | 651 | — | 5 | 656 |
| Other comprehensive loss | — | — | — | (1,002) | (23) | (1,025) |
| | 9,670 | 135 | 11,067 | 1,216 | 2,803 | 24,891 |
| Dividends to shareholders | | | | | | |
| Preferred shareholders (note 10) | — | — | (31) | — | — | (31) |
| Common shareholders | — | — | (343) | — | — | (343) |
| Shares exercised and issued under share-based payment plans (note 9) | 15 | (45) | — | — | 49 | 19 |
| Share-based payment plans expense | — | 16 | — | — | — | 16 |
| Shares purchased and cancelled under Normal Course Issuer Bid (note 9) | (21) | — | — | — | — | (21) |
| Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 9) | 17 | — | (17) | — | — | — |
| Dilution loss on non-controlling interests | — | — | (19) | — | 19 | — |
| Balance, end of period | \$ 9,681 | \$ 106 | \$ 10,657 | \$ 1,216 | \$ 2,871 | \$ 24,531 |

CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*
(in Canadian \$ millions)

| | For the three months ended March 31 | |
|---|--|-----------------|
| | 2017 | 2016 |
| Operations | | |
| Earnings before income taxes | \$ 745 | \$ 680 |
| Income taxes paid, net of refunds received | (90) | (58) |
| Adjustments: | | |
| Change in insurance and investment contract liabilities | 1,652 | 3,208 |
| Change in funds held by ceding insurers | 225 | 260 |
| Change in funds held under reinsurance contracts | 4 | (5) |
| Change in reinsurance assets | 46 | (131) |
| Changes in fair value through profit or loss | (735) | (2,410) |
| Other | (370) | (178) |
| | 1,477 | 1,366 |
| Financing Activities | | |
| Issue of common shares (note 9) | 110 | 15 |
| Purchased and cancelled common shares (note 9) | — | (21) |
| Decrease in line of credit of subsidiary | — | (41) |
| Increase (decrease) in debentures and other debt instruments (note 8) | (284) | 8 |
| Dividends paid on common shares | (363) | (343) |
| Dividends paid on preferred shares | (31) | (31) |
| | (568) | (413) |
| Investment Activities | | |
| Bond sales and maturities | 7,826 | 7,610 |
| Mortgage loan repayments | 563 | 662 |
| Stock sales | 753 | 1,125 |
| Change in loans to policyholders | (13) | 19 |
| Investment in bonds | (8,677) | (8,314) |
| Investment in mortgage loans | (961) | (752) |
| Investment in stocks | (576) | (984) |
| Investment in investment properties | (33) | (74) |
| | (1,118) | (708) |
| Effect of changes in exchange rates on cash and cash equivalents | (8) | (135) |
| Increase (decrease) in cash and cash equivalents | (217) | 110 |
| Cash and cash equivalents, beginning of period | 3,259 | 2,813 |
| Cash and cash equivalents, end of period | \$ 3,042 | \$ 2,923 |
| Supplementary cash flow information | | |
| Interest income received | \$ 1,278 | \$ 1,356 |
| Interest paid | \$ 40 | \$ 39 |
| Dividend income received | \$ 58 | \$ 77 |

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Corporation of Canada group of companies and its direct parent is Power Financial Corporation (Power Financial).

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 and Europe through its operating subsidiaries including The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam).

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three months ended March 31, 2017 were approved by the Board of Directors on May 4, 2017.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2016 consolidated annual audited financial statements and notes thereto.

The financial statements of the Company at March 31, 2017 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated annual audited financial statements for the year ended December 31, 2016 except as described below.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes* and *Annual Improvements 2014 - 2016 Cycle* for the amendment to IFRS 12 *Disclosure of Interest in Other Entities*, effective January 1, 2017. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

There have been no significant changes to the future accounting policies that could impact the Company, as disclosed in the December 31, 2016 consolidated annual audited financial statements.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2016 consolidated annual audited financial statements and notes thereto.

The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party credit rating.

3. Portfolio Investments

(a) Carrying values and estimated fair values of portfolio investments are as follows:

| | March 31, 2017 | | December 31, 2016 | |
|---|-------------------|-------------------|-------------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Bonds | | | | |
| Designated fair value through profit or loss ⁽¹⁾ | \$ 85,817 | \$ 85,817 | \$ 85,739 | \$ 85,739 |
| Classified fair value through profit or loss ⁽¹⁾ | 2,077 | 2,077 | 2,586 | 2,586 |
| Available-for-sale | 12,733 | 12,733 | 11,478 | 11,478 |
| Loans and receivables | 17,214 | 18,921 | 16,970 | 18,484 |
| | 117,841 | 119,548 | 116,773 | 118,287 |
| Mortgage loans | | | | |
| Residential | 8,375 | 8,646 | 8,062 | 8,260 |
| Commercial | 13,652 | 14,507 | 13,589 | 14,290 |
| | 22,027 | 23,153 | 21,651 | 22,550 |
| Stocks | | | | |
| Designated fair value through profit or loss ⁽¹⁾ | 7,820 | 7,820 | 7,606 | 7,606 |
| Available-for-sale | 47 | 47 | 48 | 48 |
| Available-for-sale, at cost ⁽²⁾ | 376 | 376 | 391 | 391 |
| Equity method ⁽³⁾ | 434 | 435 | 620 | 610 |
| | 8,677 | 8,678 | 8,665 | 8,655 |
| Investment properties | 4,421 | 4,421 | 4,340 | 4,340 |
| Total | \$ 152,966 | \$ 155,800 | \$ 151,429 | \$ 153,832 |

⁽¹⁾ A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

⁽²⁾ Fair value cannot be reliably measured, therefore the investments are held at cost.

⁽³⁾ During the first quarter of 2017, the investment in Allianz Ireland, an investment previously held through the Company's indirect wholly owned subsidiary Irish Life Group Limited with a carrying value of \$192, was disposed of by the Company resulting in a gain of \$16 recorded in net investment income. The carrying value of the investment reflected \$13 of actuarial losses from the associate's pension plan (note 12). These actuarial losses were transferred within equity from accumulated other comprehensive income to accumulated surplus.

3. *Portfolio Investments (cont'd)*

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

| | March 31 2017 | December 31 2016 |
|------------------------------------|------------------|---------------------|
| Impaired amounts by classification | | |
| Fair value through profit or loss | \$ 267 | \$ 283 |
| Available-for-sale | 12 | 10 |
| Loans and receivables | 80 | 79 |
| Total | \$ 359 | \$ 372 |

The carrying amount of impaired investments includes \$302 bonds, \$53 mortgage loans and \$4 stocks at March 31, 2017 (\$315 bonds and \$57 mortgage loans at December 31, 2016). The above carrying values for loans and receivables are net of allowances of \$47 at March 31, 2017 and \$43 at December 31, 2016.

(c) Net investment income comprises the following:

| For the three months ended March 31, 2017 | Bonds | Mortgage loans | Stocks | Investment properties | Other | Total |
|--|-----------------|-------------------|---------------|--------------------------|--------------|-----------------|
| Regular net investment income: | | | | | | |
| Investment income earned | \$ 1,034 | \$ 223 | \$ 66 | \$ 81 | \$ 91 | \$ 1,495 |
| Net realized gains | | | | | | |
| Available-for-sale | 8 | — | — | — | — | 8 |
| Other classifications | 9 | 13 | — | — | — | 22 |
| Net allowances for credit losses on loans and receivables | | | | | | |
| | — | (4) | — | — | — | (4) |
| Other income and expenses | — | — | — | (21) | (31) | (52) |
| | 1,051 | 232 | 66 | 60 | 60 | 1,469 |
| Changes in fair value on fair value through profit or loss assets: | | | | | | |
| Classified fair value through profit or loss | 11 | — | — | — | — | 11 |
| Designated fair value through profit or loss | 529 | — | 158 | — | 5 | 692 |
| Recorded at fair value through profit or loss | — | — | — | 32 | — | 32 |
| | 540 | — | 158 | 32 | 5 | 735 |
| Total | \$ 1,591 | \$ 232 | \$ 224 | \$ 92 | \$ 65 | \$ 2,204 |

3. *Portfolio Investments (cont'd)*

| For the three months ended March 31, 2016 | Bonds | Mortgage loans | Stocks | Investment properties | Other | Total |
|--|-----------------|-------------------|---------------|--------------------------|--------------|-----------------|
| Regular net investment income: | | | | | | |
| Investment income earned | \$ 1,094 | \$ 237 | \$ 79 | \$ 83 | \$ 183 | \$ 1,676 |
| Net realized gains | | | | | | |
| Available-for-sale | 30 | — | 1 | — | — | 31 |
| Other classifications | 11 | 9 | — | — | — | 20 |
| Net allowances for credit losses on loans and receivables | | | | | | |
| | — | (7) | — | — | — | (7) |
| Other income and expenses | | | | | | |
| | — | — | — | (20) | (27) | (47) |
| | 1,135 | 239 | 80 | 63 | 156 | 1,673 |
| Changes in fair value on fair value through profit or loss assets: | | | | | | |
| Classified fair value through profit or loss | 42 | — | — | — | — | 42 |
| Designated fair value through profit or loss | 2,254 | — | 152 | — | (62) | 2,344 |
| Recorded at fair value through profit or loss | — | — | — | 24 | — | 24 |
| | 2,296 | — | 152 | 24 | (62) | 2,410 |
| Total | \$ 3,431 | \$ 239 | \$ 232 | \$ 87 | \$ 94 | \$ 4,083 |

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends, distributions from private equity and equity income from the investment in IGM Financial Inc. (IGM) and Allianz Ireland, which was disposed of during the first quarter of 2017. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

4. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks. The Company's approach to risk management has not substantially changed from that described in the Company's 2016 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2016 consolidated annual audited financial statements and the "Risk Management and Control Practices" section in the Company's December 31, 2016 Management's Discussion and Analysis.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

4. Financial Instruments Risk Management (cont'd)

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments when due.

Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. No significant changes have occurred from the year ended December 31, 2016.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. The Company maintains committed lines of credit with Canadian chartered banks.

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,
- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,
- Changes in business mix, effective income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

4. Financial Instruments Risk Management (cont'd)

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. The Company's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net earnings.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries prescribed scenarios:

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates at March 31, 2017 and December 31, 2016.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates at March 31, 2017 and December 31, 2016.

4. Financial Instruments Risk Management (cont'd)

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' net earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

| | March 31, 2017 | | December 31, 2016 | |
|--|----------------|-------------|-------------------|-------------|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Change in interest rates | | | | |
| Increase (decrease) in insurance and investment contract liabilities | \$ (197) | \$ 615 | \$ (202) | \$ 677 |
| Increase (decrease) in net earnings | \$ 145 | \$ (445) | \$ 149 | \$ (491) |

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

| | March 31, 2017 | | December 31, 2016 | |
|--|----------------|--------------|-------------------|--------------|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| Change in equity values | | | | |
| Increase (decrease) in non-participating insurance and investment contract liabilities | \$ (52) | \$ 58 | \$ (51) | \$ 61 |
| Increase (decrease) in net earnings | \$ 42 | \$ (46) | \$ 43 | \$ (50) |

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

4. Financial Instruments Risk Management (cont'd)

| | March 31, 2017 | | December 31, 2016 | |
|---|----------------|-------------|-------------------|-------------|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Change in best estimate return assumptions | | | | |
| Increase (decrease) in non-participating insurance contract liabilities | \$ (519) | \$ 566 | \$ (504) | \$ 552 |
| Increase (decrease) in net earnings | \$ 418 | \$ (448) | \$ 407 | \$ (438) |

5. Fair Value Measurement

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, and investment properties.

5. Fair Value Measurement (cont'd)

The following presents the Company's assets and liabilities measured at fair value on a recurring basis by hierarchy level:

| Assets measured at fair value | March 31, 2017 | | | |
|---|------------------|-------------------|-----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 3,042 | \$ — | \$ — | \$ 3,042 |
| Financial assets at fair value through profit or loss | | | | |
| Bonds | — | 87,835 | 59 | 87,894 |
| Stocks | 7,687 | 1 | 132 | 7,820 |
| Total financial assets at fair value through profit or loss | 7,687 | 87,836 | 191 | 95,714 |
| Available-for-sale financial assets | | | | |
| Bonds | — | 12,733 | — | 12,733 |
| Stocks | 46 | — | 1 | 47 |
| Total available-for-sale financial assets | 46 | 12,733 | 1 | 12,780 |
| Investment properties | — | — | 4,421 | 4,421 |
| Funds held by ceding insurers | 154 | 8,313 | — | 8,467 |
| Derivatives ⁽¹⁾ | 1 | 475 | — | 476 |
| Other assets: | | | | |
| Trading account assets | 362 | 213 | 1 | 576 |
| Other ⁽²⁾ | 126 | — | — | 126 |
| Total assets measured at fair value | \$ 11,418 | \$ 109,570 | \$ 4,614 | \$ 125,602 |
| Liabilities measured at fair value | | | | |
| Derivatives ⁽³⁾ | \$ 1 | \$ 1,879 | \$ — | \$ 1,880 |
| Investment contract liabilities | — | 1,977 | 23 | 2,000 |
| Other liabilities | 126 | — | — | 126 |
| Total liabilities measured at fair value | \$ 127 | \$ 3,856 | \$ 23 | \$ 4,006 |

⁽¹⁾ Excludes collateral received from counterparties of \$131.

⁽²⁾ Includes cash collateral under securities lending agreements.

⁽³⁾ Excludes collateral pledged to counterparties of \$418.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

5. Fair Value Measurement (cont'd)

| | December 31, 2016 | | | |
|---|-------------------|-------------------|-----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets measured at fair value | | | | |
| Cash and cash equivalents | \$ 3,259 | \$ — | \$ — | \$ 3,259 |
| Financial assets at fair value through profit or loss | | | | |
| Bonds | — | 88,324 | 1 | 88,325 |
| Stocks | 7,520 | 6 | 80 | 7,606 |
| Total financial assets at fair value through profit or loss | 7,520 | 88,330 | 81 | 95,931 |
| Available-for-sale financial assets | | | | |
| Bonds | — | 11,478 | — | 11,478 |
| Stocks | 47 | — | 1 | 48 |
| Total available-for-sale financial assets | 47 | 11,478 | 1 | 11,526 |
| Investment properties | — | — | 4,340 | 4,340 |
| Funds held by ceding insurers | 214 | 8,391 | — | 8,605 |
| Derivatives ⁽¹⁾ | 3 | 525 | — | 528 |
| Other assets: | | | | |
| Trading account assets | 302 | 213 | 1 | 516 |
| Total assets measured at fair value | <u>\$ 11,345</u> | <u>\$ 108,937</u> | <u>\$ 4,423</u> | <u>\$ 124,705</u> |
| Liabilities measured at fair value | | | | |
| Derivatives ⁽²⁾ | \$ 1 | \$ 2,011 | \$ — | \$ 2,012 |
| Investment contract liabilities | — | 1,989 | 20 | 2,009 |
| Total liabilities measured at fair value | <u>\$ 1</u> | <u>\$ 4,000</u> | <u>\$ 20</u> | <u>\$ 4,021</u> |

⁽¹⁾ Excludes collateral received from counterparties of \$149.

⁽²⁾ Excludes collateral pledged to counterparties of \$425.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

5. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

| | March 31, 2017 | | | | | | | |
|---|--|---------------------------------|---|----------------------------------|--------------------------|---|----------------------------|---------------------------------------|
| | Fair value through profit or loss bonds | Available- for-sale bonds | Fair value through profit or loss stocks ⁽³⁾ | Available- for-sale stocks | Investment properties | Other assets- trading account ⁽⁴⁾ | Total Level 3 assets | Investment contract liabilities |
| Balance, beginning of year | \$ 1 | \$ — | \$ 80 | \$ 1 | \$ 4,340 | \$ 1 | \$ 4,423 | \$ 20 |
| Total gains | | | | | | | | |
| Included in net earnings | — | — | 2 | — | 32 | — | 34 | — |
| Included in other comprehensive income ⁽¹⁾ | — | — | — | — | 16 | — | 16 | — |
| Purchases | — | — | 54 | — | 33 | — | 87 | — |
| Sales | — | — | (8) | — | — | — | (8) | — |
| Other | — | — | — | — | — | — | — | 3 |
| Transfers into Level 3 ⁽²⁾ | 59 | — | 4 | — | — | — | 63 | — |
| Transfers out of Level 3 ⁽²⁾ | (1) | — | — | — | — | — | (1) | — |
| Balance, end of period | \$ 59 | \$ — | \$ 132 | \$ 1 | \$ 4,421 | \$ 1 | \$ 4,614 | \$ 23 |
| Total gains for the period included in net investment income | \$ — | \$ — | \$ 2 | \$ — | \$ 32 | \$ — | \$ 34 | \$ — |
| Change in unrealized gains for the period included in net earnings for assets held at March 31, 2017 | \$ — | \$ — | \$ 2 | \$ — | \$ 29 | \$ — | \$ 31 | \$ — |

- (1) Amount of other comprehensive income for investment properties represents the unrealized gains (losses) on foreign exchange.
- (2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.
- (3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.
- (4) Includes illiquid equities where prices are not quoted; however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

5. Fair Value Measurement (cont'd)

| | December 31, 2016 | | | | | | | |
|---|--|---------------------------------|---|----------------------------------|--------------------------|---|----------------------------|---------------------------------------|
| | Fair value through profit or loss bonds | Available- for-sale bonds | Fair value through profit or loss stocks ⁽³⁾ | Available- for-sale stocks | Investment properties | Other assets - trading ⁽⁴⁾ | Total Level 3 assets | Investment contract liabilities |
| Balance, beginning of year | \$ 10 | \$ 1 | \$ 66 | \$ 1 | \$ 5,237 | \$ 5 | \$ 5,320 | \$ 27 |
| Total gains | | | | | | | | |
| Included in net earnings | — | — | 2 | — | 61 | — | 63 | — |
| Included in other comprehensive income (loss) ⁽¹⁾ | — | — | — | — | (633) | — | (633) | — |
| Purchases | — | — | 50 | — | 102 | — | 152 | — |
| Sales | — | — | (38) | — | (427) | (5) | (470) | — |
| Other | — | — | — | — | — | — | — | (7) |
| Transfers into Level 3 ⁽²⁾ | — | — | — | — | — | 1 | 1 | — |
| Transfers out of Level 3 ⁽²⁾ | (9) | (1) | — | — | — | — | (10) | — |
| Balance, end of year | <u>\$ 1</u> | <u>\$ —</u> | <u>\$ 80</u> | <u>\$ 1</u> | <u>\$ 4,340</u> | <u>\$ 1</u> | <u>\$ 4,423</u> | <u>\$ 20</u> |
| Total gains for the year included in net investment income | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2</u> | <u>\$ —</u> | <u>\$ 61</u> | <u>\$ —</u> | <u>\$ 63</u> | <u>\$ —</u> |
| Change in unrealized gains for the year included in earnings for assets held at December 31, 2016 | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 3</u> | <u>\$ —</u> | <u>\$ 1</u> | <u>\$ —</u> | <u>\$ 4</u> | <u>\$ —</u> |

- (1) Amount of other comprehensive income for investment properties represents the unrealized gains (losses) on foreign exchange.
- (2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.
- (3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.
- (4) Includes illiquid equities where prices are not quoted; however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

5. Fair Value Measurement (cont'd)

The following sets out information about significant unobservable inputs used at period-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy:

| Type of asset | Valuation approach | Significant unobservable input | Input value | Inter-relationship between key unobservable inputs and fair value measurement |
|-----------------------|--|--------------------------------|--------------------------|---|
| Investment properties | Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates. | Discount rate | Range of 2.9% - 10.3% | A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. |
| | | Reversionary rate | Range of 4.8% - 7.8% | A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value. |
| | | Vacancy rate | Weighted average of 3.0% | A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value. |

6. Insurance and Investment Contract Liabilities

| | March 31, 2017 | | |
|---------------------------------|-------------------|--------------------|-------------------|
| | Gross liability | Reinsurance assets | Net |
| Insurance contract liabilities | \$ 157,319 | \$ 5,579 | \$ 151,740 |
| Investment contract liabilities | 2,000 | — | 2,000 |
| Total | \$ 159,319 | \$ 5,579 | \$ 153,740 |
| | December 31, 2016 | | |
| | Gross liability | Reinsurance assets | Net |
| Insurance contract liabilities | \$ 155,940 | \$ 5,627 | \$ 150,313 |
| Investment contract liabilities | 2,009 | — | 2,009 |
| Total | \$ 157,949 | \$ 5,627 | \$ 152,322 |

7. Segregated Funds

The following presents details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of the Company's operations, on account of segregated fund policyholders:

(a) Investments on account of segregated fund policyholders

| | March 31 | December 31 |
|---------------------------------------|-------------------|--------------------|
| | 2017 | 2016 |
| Cash and cash equivalents | \$ 12,540 | \$ 12,487 |
| Bonds | 41,801 | 41,619 |
| Mortgage loans | 2,662 | 2,622 |
| Stocks and units in unit trusts | 84,271 | 81,033 |
| Mutual funds | 53,040 | 51,726 |
| Investment properties | 11,256 | 11,019 |
| | 205,570 | 200,506 |
| Accrued income | 393 | 359 |
| Other liabilities | (2,124) | (2,009) |
| Non-controlling mutual funds interest | 827 | 1,547 |
| Total | \$ 204,666 | \$ 200,403 |

(b) Investment and insurance contracts on account of segregated fund policyholders

| | For the three months | |
|--|-----------------------------|-------------------|
| | ended March 31 | |
| | 2017 | 2016 |
| Balance, beginning of year | \$ 200,403 | \$ 198,194 |
| Additions (deductions): | | |
| Policyholder deposits | 6,082 | 5,927 |
| Net investment income | 215 | 659 |
| Net realized capital gains on investments | 1,235 | 702 |
| Net unrealized capital gains (losses) on investments | 3,461 | (1,374) |
| Unrealized losses due to changes in foreign exchange rates | (52) | (5,688) |
| Policyholder withdrawals | (5,928) | (5,446) |
| Segregated Fund investment in General Fund | (35) | 16 |
| General Fund investment in Segregated Fund | (2) | (1) |
| Net transfer from General Fund | 7 | 6 |
| Non-controlling mutual funds interest | (720) | 6 |
| Total | 4,263 | (5,193) |
| Balance, end of period | \$ 204,666 | \$ 193,001 |

7. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 5)

| | March 31, 2017 | | | |
|---|-------------------|------------------|------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments on account of segregated fund policyholders ⁽¹⁾ | \$ 131,541 | \$ 62,152 | \$ 12,290 | \$ 205,983 |

(1) Excludes other liabilities, net of other assets, of \$1,317.

| | December 31, 2016 | | | |
|--|-------------------|-----------|-----------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments on account of segregated fund policyholders ⁽¹⁾ | \$ 125,829 | \$ 63,804 | \$ 12,045 | \$ 201,678 |

(1) Excludes other liabilities, net of other assets, of \$1,275.

During the first three months of 2017 certain foreign stock holdings valued at \$2,611 have been transferred from Level 2 to Level 1 (\$18 were transferred from Level 2 to Level 1 at December 31, 2016) based on the Company's ability to utilize observable, quoted prices in active markets.

Level 2 assets include those assets where fair value is not available from normal market pricing sources and where the Company does not have visibility through to the underlying assets.

The following presents additional information about the Company's investments on account of segregated fund policyholders for which the Company has utilized Level 3 inputs to determine fair value:

| | March 31 2017 | December 31 2016 |
|--|------------------|---------------------|
| Balance, beginning of year | \$ 12,045 | \$ 11,765 |
| Total gains (losses) included in segregated fund investment income | 9 | (109) |
| Purchases | 233 | 584 |
| Sales | (72) | (370) |
| Transfers into Level 3 | 75 | 175 |
| Balance, end of period | \$ 12,290 | \$ 12,045 |

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors. There were no transfers out of Level 3 during the period ended March 31, 2017.

For further details on the Company's risk and guarantee exposure and the management of these risks, refer to the "Segregated Fund and Variable Annuity Guarantees" section of the Company's Management's Discussion and Analysis for the period ended March 31, 2017 and the "Risk Management and Control Practices" section of the Company's December 31, 2016 Management's Discussion and Analysis.

8. Financing Charges

Financing charges consist of the following:

| | For the three months ended March 31 | |
|---|--|-------|
| | 2017 | 2016 |
| Operating charges | | |
| Interest on operating lines and short-term debt instruments | \$ 2 | \$ 2 |
| Financial charges | | |
| Interest on long-term debentures and other debt instruments | 64 | 66 |
| Interest on capital trust securities | 3 | 3 |
| Other | 7 | 7 |
| | 74 | 76 |
| Total | \$ 76 | \$ 78 |

During the first quarter of 2017, Irish Life Assurance, an indirect wholly owned subsidiary of the Company, redeemed its 5.25% 200 euro subordinated debenture notes at their principal amount together with accrued interest.

Subsequent Event

Subsequent to the first quarter of 2017, Great-West Lifeco Finance (Delaware) LP announced its intention to redeem all \$1,000 principal amount of its 5.691% subordinated debentures due June 21, 2067 on June 21, 2017 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

9. Share Capital

Common Shares

| | For the three months ended March 31 | | | |
|--|-------------------------------------|-------------------|-------------|-------------------|
| | 2017 | | 2016 | |
| | Number | Carrying value | Number | Carrying value |
| Common shares | | | | |
| Balance, beginning of year | 986,398,335 | \$ 7,130 | 993,350,331 | \$ 7,156 |
| Purchased and cancelled under Normal Course Issuer Bid | (12,698) | — | (624,181) | (21) |
| Excess of redemption proceeds over stated capital per Normal Course Issuer Bid | — | — | — | 17 |
| Exercised and issued under stock option plan | 3,552,684 | 124 | 473,574 | 15 |
| Balance, end of period | 989,938,321 | \$ 7,254 | 993,199,724 | \$ 7,167 |

During the three months ended March 31, 2017, 3,552,684 common shares were exercised under the Company's stock plan with a carrying value of \$124, including \$14 from contributed surplus transferred upon exercise (473,574 with a carrying value of \$15 during the three months ended March 31, 2016).

9. *Share Capital (cont'd)*

On January 5, 2017, the Company announced a normal course issuer bid commencing January 9, 2017 and terminating January 8, 2018 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

During the three months ended March 31, 2017, the Company repurchased and subsequently cancelled 12,698 common shares under the current normal course issuer bid at cost of less than \$1 (624,181 during the three months ended March 31, 2016 under the previous normal course issuer bid at a cost of \$21). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. Excess paid over the average carrying value is recognized as a reduction to equity and was less than \$1 during the three months ended March 31, 2017 (\$17 during the three months ended March 31, 2016 under the previous normal course issuer bid).

10. **Earnings per Common Share**

| | For the three months ended March 31 | |
|--|--|--------------------|
| | 2017 | 2016 |
| Earnings | | |
| Net earnings | \$ 622 | \$ 651 |
| Preferred share dividends | (31) | (31) |
| Net earnings - common shareholders | \$ 591 | \$ 620 |
| Number of common shares | | |
| Average number of common shares outstanding | 987,690,025 | 993,250,972 |
| Add: Potential exercise of outstanding stock options | 2,137,788 | 1,807,514 |
| Average number of common shares outstanding - diluted basis | 989,827,813 | 995,058,486 |
| Basic earnings per common share | \$ 0.598 | \$ 0.625 |
| Diluted earnings per common share | \$ 0.597 | \$ 0.623 |
| Dividends per common share | \$ 0.3670 | \$ 0.3460 |

11. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders value in the context of the Company's operational risks and strategic plans.

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all external capital transactions undertaken by management.

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

(b) Regulatory Capital

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements. For this purpose, various additions or deductions from capital are mandated by the guidelines issued by OSFI. The following provides a summary of the Minimum Continuing Capital and Surplus Requirements information and ratios for Great-West Life:

| | March 31 2017 | December 31 2016 |
|------------------------------------|--------------------------|---------------------|
| Adjusted Net Tier 1 Capital | \$ 13,452 | \$ 13,071 |
| Net Tier 2 Capital | 2,665 | 2,798 |
| Total Capital Available | \$ 16,117 | \$ 15,869 |
| Total Capital Required | \$ 6,742 | \$ 6,618 |
| Tier 1 Ratio | 200% | 198% |
| Total Ratio | 239% | 240% |

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions.

12. Pension Plans and Other Post-Employment Benefits

The total pension plans and other post-employment benefits expense included in operating expenses and other comprehensive income are as follows:

| | For the three months ended March 31 | |
|---|--|----------------------|
| | 2017 | 2016 |
| Pension plans | | |
| Service costs | \$ 51 | \$ 52 |
| Net interest cost | 6 | 6 |
| Curtailment | — | (13) |
| | <u>57</u> | <u>45</u> |
| Other post-employment benefits | | |
| Service costs | 1 | 1 |
| Net interest cost | 3 | 3 |
| | <u>4</u> | <u>4</u> |
| Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings | <u>61</u> | 49 |
| Pension plans - re-measurements | | |
| Actuarial loss | 103 | 273 |
| Return on assets greater than assumed | (83) | (6) |
| Administrative expenses less than assumed | (1) | (1) |
| Change in the asset ceiling | (12) | (26) |
| Actuarial loss (gain) - investment in associate ⁽¹⁾ | 1 | (9) |
| Pension plans re-measurement loss | <u>8</u> | <u>231</u> |
| Other post-employment benefits - re-measurements | | |
| Actuarial loss | <u>9</u> | <u>11</u> |
| Pension plans and other post-employment benefits re-measurements - other comprehensive loss | <u>17</u> | <u>242</u> |
| Total pension plans and other post-employment benefits expense including re-measurements | <u><u>\$ 78</u></u> | <u><u>\$ 291</u></u> |

⁽¹⁾ This includes the Company's share of pension plan re-measurements for an investment in an associate accounted for under the equity method. During the first quarter of 2017, the Company transferred actuarial losses of \$13 from accumulated other comprehensive income to accumulated surplus. These losses were for accumulated pension plan re-measurements for an investment in an associate that was disposed of (note 3).

The following sets out the weighted average discount rate used to re-measure the defined benefit obligation for pension plans and other post-employment benefits at the following dates:

| | March 31 | | December 31 | |
|--------------------------------|----------|------|-------------|------|
| | 2017 | 2016 | 2016 | 2015 |
| Weighted average discount rate | 3.3% | 3.5% | 3.4% | 3.8% |

13. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

| | For the three months ended March 31 | |
|---------------------------------|--|--------------|
| | 2017 | 2016 |
| Current income taxes | \$ 104 | \$ 54 |
| Deferred income taxes | (8) | (30) |
| Total income tax expense | \$ 96 | \$ 24 |

(b) Effective Income Tax Rate

The effective income tax rates are generally lower than the Company's statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in certain foreign jurisdictions.

The overall effective income tax rate for Lifeco for the three months ended March 31, 2017 was 12.9% compared to 3.5% for the three months ended March 31, 2016.

The effective income tax rate for the three months ended March 31, 2017 is higher than the effective income tax rate for the same period last year due to elections and settlements with tax authorities during the first quarter of 2016 as well as lower earnings in low-tax jurisdictions in the first quarter of 2017.

(c) Deferred Tax Assets

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities will be available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

The deferred income tax asset includes balances which are dependent on future taxable profits where the relevant entities have incurred losses in either the current year or the preceding year. The aggregate deferred income tax asset for the most significant entities where this applies is \$1,386 at March 31, 2017 (\$1,389 at December 31, 2016).

14. Segmented Information

Consolidated Net Earnings

For the three months ended March 31, 2017

| | Canada | United States | Europe | Lifeco Corporate | Total |
|---|---------------|---------------|---------------|------------------|---------------|
| Income | | | | | |
| Total net premiums | \$ 3,295 | \$ 1,229 | \$ 4,841 | \$ — | \$ 9,365 |
| Net investment income | | | | | |
| Regular net investment income | 613 | 455 | 402 | (1) | 1,469 |
| Changes in fair value through profit or loss | 375 | 102 | 258 | — | 735 |
| Total net investment income (loss) | 988 | 557 | 660 | (1) | 2,204 |
| Fee and other income | 387 | 594 | 324 | — | 1,305 |
| | <u>4,670</u> | <u>2,380</u> | <u>5,825</u> | <u>(1)</u> | <u>12,874</u> |
| Benefits and expenses | | | | | |
| Paid or credited to policyholders | 3,245 | 1,552 | 5,065 | — | 9,862 |
| Other ⁽¹⁾ | 1,028 | 686 | 386 | 9 | 2,109 |
| Financing charges | 30 | 34 | 12 | — | 76 |
| Amortization of finite life intangible assets | 17 | 21 | 7 | — | 45 |
| Restructuring and acquisition expenses | — | 17 | 20 | — | 37 |
| Earnings (loss) before income taxes | <u>350</u> | <u>70</u> | <u>335</u> | <u>(10)</u> | <u>745</u> |
| Income taxes (recovery) | 65 | 11 | 23 | (3) | 96 |
| Net earnings (loss) before non-controlling interests | <u>285</u> | <u>59</u> | <u>312</u> | <u>(7)</u> | <u>649</u> |
| Non-controlling interests | 29 | (1) | (1) | — | 27 |
| Net earnings (loss) | <u>256</u> | <u>60</u> | <u>313</u> | <u>(7)</u> | <u>622</u> |
| Preferred share dividends | 26 | — | 5 | — | 31 |
| Net earnings (loss) before capital allocation | <u>230</u> | <u>60</u> | <u>308</u> | <u>(7)</u> | <u>591</u> |
| Impact of capital allocation | 25 | (4) | (19) | (2) | — |
| Net earnings (loss) - common shareholders | <u>\$ 255</u> | <u>\$ 56</u> | <u>\$ 289</u> | <u>\$ (9)</u> | <u>\$ 591</u> |

⁽¹⁾ Includes commissions, operating and administrative expenses and premium taxes.

14. Segmented Information (cont'd)

For the three months ended March 31, 2016

| | Canada | United States | Europe | Lifeco Corporate | Total |
|--|---------------|---------------|---------------|------------------|---------------|
| Income | | | | | |
| Total net premiums | \$ 2,861 | \$ 1,380 | \$ 2,774 | \$ — | \$ 7,015 |
| Net investment income | | | | | |
| Regular net investment income | 736 | 454 | 483 | — | 1,673 |
| Changes in fair value through profit or loss | 537 | 481 | 1,392 | — | 2,410 |
| Total net investment income | 1,273 | 935 | 1,875 | — | 4,083 |
| Fee and other income | 362 | 571 | 321 | — | 1,254 |
| | <u>4,496</u> | <u>2,886</u> | <u>4,970</u> | <u>—</u> | <u>12,352</u> |
| Benefits and expenses | | | | | |
| Paid or credited to policyholders | 3,301 | 2,112 | 4,265 | — | 9,678 |
| Other ⁽¹⁾ | 817 | 686 | 359 | 4 | 1,866 |
| Financing charges | 29 | 37 | 12 | — | 78 |
| Amortization of finite life intangible assets | 16 | 22 | 8 | — | 46 |
| Restructuring and acquisition expenses | — | 3 | 1 | — | 4 |
| Earnings (loss) before income taxes | 333 | 26 | 325 | (4) | 680 |
| Income taxes (recovery) | 51 | (40) | 13 | — | 24 |
| Net earnings (loss) before non-controlling interests | 282 | 66 | 312 | (4) | 656 |
| Non-controlling interests | 5 | 1 | (1) | — | 5 |
| Net earnings (loss) | 277 | 65 | 313 | (4) | 651 |
| Preferred share dividends | 26 | — | 5 | — | 31 |
| Net earnings (loss) before capital allocation | 251 | 65 | 308 | (4) | 620 |
| Impact of capital allocation | 25 | (2) | (21) | (2) | — |
| Net earnings (loss) - common shareholders | <u>\$ 276</u> | <u>\$ 63</u> | <u>\$ 287</u> | <u>\$ (6)</u> | <u>\$ 620</u> |

⁽¹⁾ Includes commissions, operating and administrative expenses and premium taxes.

15. Subsequent Event

Canadian Business Transformation

Subsequent to the first quarter of 2017, the Company's Board of Directors approved certain restructuring initiatives in the Company's Canadian operations to support its transformation plan. In the second quarter of 2017, the Company will record a restructuring charge of \$215 pre-tax (\$172 pre-tax in the shareholder account and \$43 pre-tax in the participating account). This charge will reflect planned expense reductions and an organizational realignment to respond to changing customer needs and expectations in Canada. The expense reductions will address costs across the Canadian operations and corporate functions primarily through a reduction in staff, exiting of certain lease agreements and information system impairments.

IGM FINANCIAL INC.

PART C

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE C 2

FINANCIAL STATEMENTS AND NOTES

PAGE C 48

Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

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

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three months ended March 31, 2017 and should be read in conjunction with the unaudited Interim

Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2016 IGM Financial Inc. Annual Report filed on www.sedar.com. Commentary in the MD&A as at and for the three months ended March 31, 2017 is as of May 5, 2017.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International

Accounting Standard 34, *Interim Financial Reporting* (IFRS) and are presented in Canadian dollars (Note 2 of the Interim Financial Statements).

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

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

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

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

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

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

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

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1, 2 and 3.

IGM FINANCIAL INC.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

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

Investment fund assets under management were \$141.7 billion at March 31, 2017 compared with \$127.1 billion at March 31, 2016 and \$137.2 billion at December 31, 2016. Average investment fund assets under management for the first quarter of 2017 were \$139.6 billion compared to \$124.4 billion in the first quarter of 2016.

Total assets under management were \$147.1 billion at March 31, 2017 compared with \$133.4 billion at March 31, 2016 and \$142.3 billion at December 31, 2016. Average total assets under

management for the first quarter of 2017 were \$144.9 billion compared to \$130.8 billion in the first quarter of 2016.

Net earnings available to common shareholders for the three months ended March 31, 2017 were \$177.1 million or 74 cents per share compared with net earnings available to common shareholders of \$167.0 million or 69 cents per share for the comparative period in 2016.

Shareholders' equity was \$4.8 billion as at March 31, 2017, compared to \$4.7 billion at December 31, 2016. Return on average common equity for the three months ended March 31, 2017 was 15.3% compared with 14.7% for the comparative period in 2016. The quarterly dividend per common share declared in the first quarter of 2017 was 56.25 cents, unchanged from the fourth quarter of 2016.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

| THREE MONTHS ENDED (\$ millions) | 2017 MARCH 31 | | 2016 DECEMBER 31 | | 2016 MARCH 31 | |
|--|------------------|--------------------|---------------------|--------------------|------------------|--------------------|
| | EARNINGS | EPS ⁽¹⁾ | EARNINGS | EPS ⁽¹⁾ | EARNINGS | EPS ⁽¹⁾ |
| Adjusted net earnings available to common shareholders – Non-IFRS measure | \$ 177.1 | \$ 0.74 | \$ 199.0 | \$ 0.83 | \$ 167.0 | \$ 0.69 |
| Reduction in income tax estimates related to certain tax filings | – | – | 34.0 | 0.14 | – | – |
| Net earnings available to common shareholders – IFRS | \$ 177.1 | \$ 0.74 | \$ 233.0 | \$ 0.97 | \$ 167.0 | \$ 0.69 |
| EBITDA – Non-IFRS measure | \$ 324.6 | | \$ 352.0 | | \$ 304.2 | |
| Commission amortization | (58.9) | | (58.4) | | (59.8) | |
| Amortization of capital assets and intangible assets and other | (12.2) | | (11.8) | | (11.0) | |
| Interest expense on long-term debt | (26.8) | | (23.2) | | (22.9) | |
| Earnings before income taxes | 226.7 | | 258.6 | | 210.5 | |
| Income taxes | (47.4) | | (23.4) | | (41.3) | |
| Perpetual preferred share dividends | (2.2) | | (2.2) | | (2.2) | |
| Net earnings available to common shareholders – IFRS | \$ 177.1 | | \$ 233.0 | | \$ 167.0 | |

(1) Diluted earnings per share

REPORTABLE SEGMENTS

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

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

Management measures and evaluates the performance of these segments based on EBIT as shown in Tables 2 and 3. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Tables 2 and 3 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.

- *Income taxes* – changes in the effective tax rates are shown in Table 4.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2017 VS. Q1 2016

| THREE MONTHS ENDED (\$ millions) | INVESTORS GROUP | | MACKENZIE | | CORPORATE & OTHER | | TOTAL | |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 |
| Revenues | | | | | | | | |
| Fee income | \$ 478.1 | \$ 431.7 | \$ 198.5 | \$ 185.4 | \$ 65.3 | \$ 62.0 | \$ 741.9 | \$ 679.1 |
| Net investment income and other | 18.0 | 13.8 | 0.1 | 0.3 | 29.7 | 29.6 | 47.8 | 43.7 |
| | 496.1 | 445.5 | 198.6 | 185.7 | 95.0 | 91.6 | 789.7 | 722.8 |
| Expenses | | | | | | | | |
| Commission | 169.6 | 147.4 | 74.6 | 71.7 | 45.1 | 42.4 | 289.3 | 261.5 |
| Non-Commission | 147.7 | 135.0 | 82.5 | 77.6 | 16.7 | 15.3 | 246.9 | 227.9 |
| | 317.3 | 282.4 | 157.1 | 149.3 | 61.8 | 57.7 | 536.2 | 489.4 |
| Earnings before interest and taxes | \$ 178.8 | \$ 163.1 | \$ 41.5 | \$ 36.4 | \$ 33.2 | \$ 33.9 | 253.5 | 233.4 |
| Interest expense | | | | | | | (26.8) | (22.9) |
| Earnings before income taxes | | | | | | | 226.7 | 210.5 |
| Income taxes | | | | | | | 47.4 | 41.3 |
| Net earnings | | | | | | | 179.3 | 169.2 |
| Perpetual preferred share dividends | | | | | | | 2.2 | 2.2 |
| Net earnings available to common shareholders | | | | | | | \$ 177.1 | \$ 167.0 |
| Adjusted net earnings available to common shareholders⁽¹⁾ | | | | | | | \$ 177.1 | \$ 167.0 |

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

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q1 2017 VS. Q4 2016

| THREE MONTHS ENDED (\$ millions) | INVESTORS GROUP | | MACKENZIE | | CORPORATE & OTHER | | TOTAL | |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| | 2017 MAR. 31 | 2016 DEC. 31 | 2017 MAR. 31 | 2016 DEC. 31 | 2017 MAR. 31 | 2016 DEC. 31 | 2017 MAR. 31 | 2016 DEC. 31 |
| Revenues | | | | | | | | |
| Fee income | \$ 478.1 | \$ 489.5 | \$ 198.5 | \$ 198.2 | \$ 65.3 | \$ 64.7 | \$ 741.9 | \$ 752.4 |
| Net investment income and other | 18.0 | 20.1 | 0.1 | 0.7 | 29.7 | 27.9 | 47.8 | 48.7 |
| | 496.1 | 509.6 | 198.6 | 198.9 | 95.0 | 92.6 | 789.7 | 801.1 |
| Expenses | | | | | | | | |
| Commission | 169.6 | 169.9 | 74.6 | 73.8 | 45.1 | 44.5 | 289.3 | 288.2 |
| Non-Commission | 147.7 | 139.1 | 82.5 | 76.3 | 16.7 | 15.7 | 246.9 | 231.1 |
| | 317.3 | 309.0 | 157.1 | 150.1 | 61.8 | 60.2 | 536.2 | 519.3 |
| Earnings before interest and taxes | \$ 178.8 | \$ 200.6 | \$ 41.5 | \$ 48.8 | \$ 33.2 | \$ 32.4 | 253.5 | 281.8 |
| Interest expense | | | | | | | (26.8) | (23.2) |
| Earnings before income taxes | | | | | | | 226.7 | 258.6 |
| Income taxes | | | | | | | 47.4 | 23.4 |
| Net earnings | | | | | | | 179.3 | 235.2 |
| Perpetual preferred share dividends | | | | | | | 2.2 | 2.2 |
| Net earnings available to common shareholders | | | | | | | \$ 177.1 | \$ 233.0 |
| Adjusted net earnings available to common shareholders⁽¹⁾ | | | | | | | \$ 177.1 | \$ 199.0 |

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

TABLE 4: EFFECTIVE INCOME TAX RATE

| THREE MONTHS ENDED | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 |
|--|-----------------|-----------------|-----------------|
| Income taxes at Canadian federal and provincial statutory rates | 26.84 % | 26.84 % | 26.84 % |
| Effect of: | | | |
| Proportionate share of affiliate's earnings | (3.33) | (2.76) | (3.56) |
| Loss consolidation ⁽¹⁾ | (2.64) | (2.36) | (2.87) |
| Other items | 0.03 | 0.49 | (0.76) |
| Effective income tax rate – adjusted net earnings | 20.90 | 22.21 | 19.65 |
| Reduction in income tax estimates related to certain tax filings | – | (13.15) | – |
| Effective income tax rate – net earnings | 20.90 % | 9.06 % | 19.65 % |

(1) See Note 25 – Related Party Transactions of the Consolidated Financial Statements included in the 2016 IGM Financial Inc. Annual Report (Annual Financial Statements).

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$147.1 billion at March 31, 2017 compared to \$133.4 billion at March 31, 2016. Changes in total assets under management are detailed in Table 5.

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

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016

| THREE MONTHS ENDED (\$ millions) | INVESTORS GROUP | | MACKENZIE | | INVESTMENT PLANNING COUNSEL | | CONSOLIDATED ⁽¹⁾ | |
|---|------------------|------------------|------------------|------------------|--------------------------------|-----------------|-----------------------------|-------------------|
| | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 | 2017 MAR. 31 | 2016 MAR. 31 |
| Investment funds | | | | | | | | |
| Mutual funds⁽²⁾ | | | | | | | | |
| Gross sales – long-term | \$ 2,563 | \$ 1,964 | \$ 2,752 | \$ 1,731 | \$ 209 | \$ 245 | \$ 5,524 | \$ 3,940 |
| Total mutual fund gross sales | 2,932 | 2,267 | 2,861 | 1,841 | 217 | 262 | 6,010 | 4,370 |
| Net sales – long-term | 719 | 355 | 50 | (228) | 12 | 65 | 781 | 192 |
| Total mutual fund net sales | 890 | 467 | 76 | (198) | 17 | 79 | 983 | 348 |
| ETFs | | | | | | | | |
| Net creations | | | \$ 114 | \$ – | | | \$ 114 | \$ – |
| Total investment fund net sales⁽³⁾ | \$ 890 | \$ 467 | \$ 139 | \$ (198) | \$ 17 | \$ 79 | \$ 1,046 | \$ 348 |
| Sub-advisory, institutional and other accounts | | | | | | | | |
| Net sales | \$ – | \$ – | \$ 289 | \$ (189) | \$ – | \$ – | \$ 119 | \$ (282) |
| Combined net sales⁽²⁾ | \$ 890 | \$ 467 | \$ 428 | \$ (387) | \$ 17 | \$ 79 | \$ 1,165 | \$ 66 |
| Change in total assets under management | | | | | | | | |
| Net sales | \$ 890 | \$ 467 | \$ 428 | \$ (387) | \$ 17 | \$ 79 | \$ 1,165 | \$ 66 |
| Investment returns | 1,860 | (176) | 1,847 | (576) | 135 | (28) | 3,614 | (836) |
| Net change in assets | 2,750 | 291 | 2,275 | (963) | 152 | 51 | 4,779 | (770) |
| Beginning assets | 81,693 | 75,373 | 64,035 | 61,653 | 4,501 | 4,178 | 142,281 | 134,124 |
| Ending assets | \$ 84,443 | \$ 75,664 | \$ 66,310 | \$ 60,690 | \$ 4,653 | \$ 4,229 | \$ 147,060 | \$ 133,354 |
| Total assets under management consists of: | | | | | | | | |
| Investment funds | | | | | | | | |
| Mutual funds | \$ 83,900 | \$ 75,223 | \$ 52,937 | \$ 47,627 | \$ 4,653 | \$ 4,229 | \$ 141,487 | \$ 127,076 |
| ETFs | – | – | 234 | – | – | – | 234 | – |
| Total investment funds ⁽⁴⁾ | 83,900 | 75,223 | 53,102 | 47,627 | 4,653 | 4,229 | 141,652 | 127,076 |
| Sub-advisory, institutional and other accounts | 543 | 441 | 13,208 | 13,063 | – | – | 5,408 | 6,278 |
| Ending assets | \$ 84,443 | \$ 75,664 | \$ 66,310 | \$ 60,690 | \$ 4,653 | \$ 4,229 | \$ 147,060 | \$ 133,354 |

(1) Total Net Sales excluded \$170 million in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$93 million in 2016). Total assets under management excluded \$8.3 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.2 billion at March 31, 2016).

(2) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(3) Mackenzie and Consolidated investment fund net sales exclude Mackenzie mutual fund investment in ETFs of \$51 million at March 31, 2017.

(4) Mackenzie and Consolidated investment fund assets under management exclude Mackenzie mutual fund investment in ETFs of \$69 million at March 31, 2017.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 6 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 6, largely reflect changes in domestic and foreign markets.

TABLE 6: SUMMARY OF QUARTERLY RESULTS

| | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2015 Q4 | 2015 Q3 | 2015 Q2 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Consolidated statements of earnings (\$ millions) | | | | | | | | |
| Revenues | | | | | | | | |
| Management fees | \$ 527.7 | \$ 525.7 | \$ 518.3 | \$ 497.4 | \$ 483.8 | \$ 504.1 | \$ 508.5 | \$ 517.3 |
| Administration fees | 109.0 | 109.0 | 107.9 | 104.4 | 100.3 | 104.7 | 104.6 | 106.0 |
| Distribution fees | 105.2 | 117.7 | 101.1 | 96.3 | 95.0 | 97.0 | 92.7 | 95.3 |
| Net investment income and other | 47.8 | 48.7 | 49.1 | 46.3 | 43.7 | 49.7 | 45.9 | 44.6 |
| | 789.7 | 801.1 | 776.4 | 744.4 | 722.8 | 755.5 | 751.7 | 763.2 |
| Expenses | | | | | | | | |
| Commission | 289.3 | 288.2 | 273.1 | 267.2 | 261.5 | 264.3 | 263.2 | 267.7 |
| Non-commission | 246.9 | 231.1 | 224.9 | 231.7 | 227.9 | 214.5 | 208.4 | 215.9 |
| Interest | 26.8 | 23.2 | 23.2 | 22.9 | 22.9 | 23.2 | 23.2 | 22.9 |
| | 563.0 | 542.5 | 521.2 | 521.8 | 512.3 | 502.0 | 494.8 | 506.5 |
| Earnings before undernoted Restructuring and other charges | 226.7 | 258.6 | 255.2 | 222.6 | 210.5 | 253.5 | 256.9 | 256.7 |
| | - | - | - | - | - | (33.9) | - | - |
| Earnings before income taxes | 226.7 | 258.6 | 255.2 | 222.6 | 210.5 | 219.6 | 256.9 | 256.7 |
| Income taxes | 47.4 | 23.4 | 55.4 | 47.5 | 41.3 | 43.5 | 55.7 | 56.0 |
| Net earnings | 179.3 | 235.2 | 199.8 | 175.1 | 169.2 | 176.1 | 201.2 | 200.7 |
| Perpetual preferred share dividends | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Net earnings available to common shareholders | \$ 177.1 | \$ 233.0 | \$ 197.6 | \$ 172.9 | \$ 167.0 | \$ 173.9 | \$ 199.0 | \$ 198.5 |
| Reconciliation of Non-IFRS financial measures⁽¹⁾ (\$ millions) | | | | | | | | |
| Adjusted net earnings available to common shareholders – non-IFRS measure | \$ 177.1 | \$ 199.0 | \$ 197.6 | \$ 172.9 | \$ 167.0 | \$ 198.2 | \$ 199.0 | \$ 198.5 |
| Other items: | | | | | | | | |
| Reduction in income tax estimates related to certain tax filings | - | 34.0 | - | - | - | - | - | - |
| Restructuring and other charges, net of tax | - | - | - | - | - | (24.3) | - | - |
| Net earnings available to common shareholders – IFRS | \$ 177.1 | \$ 233.0 | \$ 197.6 | \$ 172.9 | \$ 167.0 | \$ 173.9 | \$ 199.0 | \$ 198.5 |
| Earnings per Share (c) | | | | | | | | |
| Adjusted net earnings available to common shareholders ⁽¹⁾ | | | | | | | | |
| – Basic | 74 | 83 | 82 | 72 | 69 | 81 | 81 | 80 |
| – Diluted | 74 | 83 | 82 | 72 | 69 | 81 | 81 | 80 |
| Net earnings available to common shareholders | | | | | | | | |
| – Basic | 74 | 97 | 82 | 72 | 69 | 71 | 81 | 80 |
| – Diluted | 74 | 97 | 82 | 72 | 69 | 71 | 81 | 80 |
| Average daily investment fund assets (\$ billions) | \$ 139.6 | \$ 134.8 | \$ 132.2 | \$ 127.9 | \$ 124.4 | \$ 127.8 | \$ 128.6 | \$ 131.4 |
| Total investment fund assets under management (\$ billions) | \$ 141.7 | \$ 137.2 | \$ 133.7 | \$ 128.8 | \$ 127.1 | \$ 127.5 | \$ 124.9 | \$ 129.7 |
| Total assets under management (\$ billions) | \$ 147.1 | \$ 142.3 | \$ 140.3 | \$ 135.1 | \$ 133.4 | \$ 134.1 | \$ 131.4 | \$ 136.4 |

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

INVESTORS GROUP

REVIEW OF THE BUSINESS

INVESTORS GROUP STRATEGY

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

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

CONSULTANT NETWORK

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

At March 31, 2017, Investors Group had a Consultant network of 4,754, down from 5,321 at March 31, 2016. To help better understand the nature and composition of Investors Group's Consultant network, the following detail provides a breakdown of the Consultant network into its significant components:

- 2,262 Consultant practices at March 31, 2017 (2,366 at March 31, 2016), which reflect Consultants with more than four years of Investors Group experience. These practices may include Associates as described below. The level of Consultant practices is a key measurement of our business as they serve clientele representing over 95% of AUM.
- 1,482 New Consultants at March 31, 2017 (2,051 at March 31, 2016), which are those Consultants with less than four years of Investors Group experience.
- 1,010 Associates and Regional Directors at March 31, 2017 (904 at March 31, 2016). Associates are licensed team

members of Consultant practices who provide financial planning services and advice to the team's clientele.

Investors Group has accelerated the departure of some Consultants who have not developed a successful practice. We also tightened recruiting standards to promote greater likelihood of success while also enhancing our culture and brand.

Over 50% of Consultant practices have professionals who are qualified as Certified Financial Planners (CFP) or its Quebec equivalent, Financial Planners (F.Pl.) and approximately 80% of Consultant practices are qualified or enrolled to be qualified. At March 31, 2017, 1,578 individuals in our Consultant network held the CFP designation or the F.Pl. designation. In addition, there were 2,571 individuals enrolled in these programs to gain these designations. The total of 4,149 of those studying to be or qualified as CFP or F.Pl. is up 78% from 2,325 at March 31, 2016. The CFP and F.Pl. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2016 that Investors Group has more CFP designation holders than any other organization in Canada.

ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

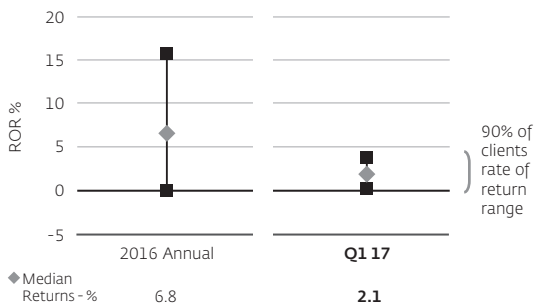
Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both Investors Group's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from Investors Group's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting close to 1,100 Consultants throughout Quebec and the 21 Quebec region offices. Mutual fund assets under management in Quebec were approximately \$14 billion as at March 31, 2017.

NEW DEALER PLATFORM

A new dealer platform was launched in the fourth quarter of 2016 which delivers an enhanced service experience to Consultants and clients. This new dealer platform has allowed us to internalize carrying broker functionality and client statement preparation for Investment Industry Regulatory Organization of Canada (IIROC) and Mutual Fund Dealers Association of Canada (MFDA) nominee accounts, which were previously performed

Client Account Rate of Return (ROR) Experience



by a third party service provider, and has provided increased automation of transaction activity. This platform supports the introduction of new IIROC based products designed to support the high net worth segment of our client base. The new platform is expected to result in efficiencies over the long term.

QUARTERLY STATEMENTS

Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of having different composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year. The second chart reflects the client account median rates of return based on one, three and five year timeframes as at March 31, 2017. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of Investors Group client accounts.

For the three months ended March 31, 2017, the client account median rate of return was approximately 2.1% and 97% of client accounts experienced positive returns.

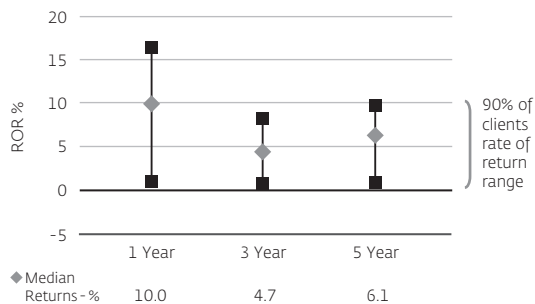
CLIENT PERFORMANCE AND RATE OF RETURN REPORTING

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

Beginning with the June 30, 2015 client statements, we added quarterly multiple-period account rate of return reporting to most Investors Group's client statements. Our clients now have a multiple-period view of their performance, including one year, three year and five year rates of return.

Client Account Rate of Return (ROR) Experience

As at March 31, 2017



CLIENT EXPERIENCE SURVEY

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

The results of the surveys for the four quarters ending March 31, 2017 are detailed in Table 7.

ASSETS UNDER MANAGEMENT

The composition of total assets under management is summarized in Table 8. At March 31, 2017, Investors Group's mutual fund and total assets under management were \$83.9 billion and \$84.4 billion, respectively.

The level of assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in mutual funds assets under management for the periods under review are reflected in Table 8.

FUND PERFORMANCE

At March 31, 2017, 50.2% of Investors Group mutual funds had a rating of three stars or better from the Morningstar¹ fund ranking service and 12.8% had a rating of four or five stars. This compared to the Morningstar¹ universe of 63.5% for three stars or better and 26.6% for four and five star funds at March 31, 2017. Morningstar Ratings¹ are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

In January, the Investors Québec Enterprise Fund received an award from FundGrade A+ Awards, along with the Investors International Small Cap Class – which also received a FundGrade A+ award in 2015. Also in January, Québec Enterprise Fund was

TABLE 7: CLIENT EXPERIENCE SURVEY – INVESTORS GROUP

SURVEYS COMPLETED FOR THE FOUR QUARTERS ENDING MARCH 31, 2017

| New client households surveyed 90 days after account opening | | |
|--|--|------|
| Satisfied with service | | 96 % |
| Offered a financial plan | | 92 |
| Satisfied with discussion about goals and concerns | | 97 |
| Willing to refer | | 94 |
| Client households with 12+ months tenure | | |
| Satisfied with service | | 92 % |
| Have a financial plan | | 85 |
| Satisfied with level of contact | | 93 |
| Willing to refer | | 88 |

TABLE 8: TOTAL ASSETS UNDER MANAGEMENT – INVESTORS GROUP

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|--|------------------|------------------|------------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Mutual fund assets under management⁽¹⁾ | | | | | |
| Sales | \$ 2,932 | \$ 2,089 | \$ 2,267 | 40.4 % | 29.3 % |
| Redemptions | 2,042 | 1,828 | 1,800 | 11.7 | 13.4 |
| Net sales (redemptions) | 890 | 261 | 467 | 241.0 | 90.6 |
| Investment returns | 1,768 | 2,089 | (141) | (15.4) | N/M |
| Net change in assets | 2,658 | 2,350 | 326 | 13.1 | N/M |
| Beginning assets | 81,242 | 78,892 | 74,897 | 3.0 | 8.5 |
| Ending assets | \$ 83,900 | \$ 81,242 | \$ 75,223 | 3.3 % | 11.5 % |
| Total assets under management | | | | | |
| Mutual funds | \$ 83,900 | \$ 81,242 | \$ 75,223 | 3.3 % | 11.5 % |
| Sub-advisory, institutional and other accounts | 543 | 451 | 441 | 20.4 | 23.1 |
| | \$ 84,443 | \$ 81,693 | \$ 75,664 | 3.4 % | 11.6 % |
| Average assets⁽²⁾ | | | | | |
| Mutual Fund | \$ 82,751 | \$ 79,744 | \$ 73,549 | 3.8 % | 12.5 % |
| Total | \$ 83,256 | \$ 80,212 | \$ 73,994 | 3.8 % | 12.5 % |

(1) Includes Investors Group Azure SMA and Investors Group mutual funds.

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

recognized by Corporate Knights as part of their 2017 Eco-Fund Rating – earning a five-star rating.

CHANGES TO MUTUAL FUND PRODUCT OFFERING

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

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

Effective January 1, 2017, Investors Group discontinued the deferred sales charge (DSC) purchase option for its mutual funds and, at the same time, fees on no-load series were reduced.

HIGH NET WORTH OFFERINGS

High net worth clients represent a growing segment of our client base. Investors Group has several offerings to address the needs of high net worth clients and continues to look at ways to provide further offerings to this segment.

Pricing for Households with Investment Assets in Excess of \$500,000

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

- Series J had assets of \$23.5 billion at March 31, 2017, an increase of 2.2% from \$23.0 billion at March 31, 2016.
- Series U provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At March 31, 2017, Series U assets under management had increased to \$8.1 billion, compared to \$3.8 billion at March 31, 2016, an increase of 113.3%.

iProfile™

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

At March 31, 2017, the iProfile program assets under management were \$3.3 billion, an increase of 101.9% from \$1.6 billion at March 31, 2016.

Unbundled Fee Structures

A growing portion of Investors Group's client assets are in Series U and iProfile, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At March 31, 2017, \$11.4 billion, or 13.5% of Investors Group's mutual fund assets under management, were in products with unbundled fee structures, up 109.9% from \$5.4 billion at March 31, 2016.

Separately Managed Accounts and Fee-Based Brokerage Account

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

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

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

CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016

Investors Group's total assets under management were \$84.4 billion compared to \$75.7 billion at March 31, 2016.

Investors Group's sub-advisory, institutional and other accounts were \$543 million at March 31, 2017 compared to \$441 million at March 31, 2016, an increase of 23.1%. During the quarter, the Company launched the Ivy IG International Small Cap Fund with assets of \$39 million at March 31, 2017.

Investors Group's mutual fund assets under management were \$83.9 billion at March 31, 2017, representing an increase of 11.5% from \$75.2 billion at March 31, 2016. Average daily mutual fund assets were \$82.8 billion in the first quarter of 2017, up 12.5% from \$73.5 billion in the first quarter of 2016.

For the quarter ended March 31, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.9 billion, an increase of 29.3% from the comparative period in 2016. Mutual fund redemptions totalled \$2.0 billion, an increase of 13.4% from 2016. Investors Group mutual fund net sales for the first quarter of 2017 were \$890 million compared with net sales of \$467 million in 2016. During the first quarter, investment returns resulted in an increase of \$1.8 billion in mutual fund assets compared to a decrease of \$141 million in the first quarter of 2016.

Sales of long-term funds were \$2.6 billion for the first quarter of 2017, an increase of 30.5% from the previous year. Net sales of long-term funds for the first quarter of 2017 were \$719 million compared to net sales of \$355 million in 2016.

Investors Group's annualized quarterly redemption rate for long-term funds was 9.2% in the first quarter of 2017 compared to 8.9% in the first quarter of 2016. Investors Group's twelve month trailing redemption rate for long-term funds was 8.8% at March 31, 2017 compared to 8.7% at March 31, 2016, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.3% at March 31, 2017.

CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q4 2016

Investors Group's total assets under management were \$84.4 billion compared to \$81.7 billion at December 31, 2016. Investors Group's sub-advisory, institutional and other accounts were \$543 million at March 31, 2017 compared to \$451 million at December 31, 2016, an increase of 20.4%.

Investors Group's mutual fund assets under management were \$83.9 billion at March 31, 2017, an increase of 3.3% from \$81.2 billion at December 31, 2016. Average daily mutual fund assets were \$82.8 billion in the first quarter of 2017 compared to \$79.7 billion in the fourth quarter of 2016, an increase of 3.8%.

For the quarter ended March 31, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.9 billion, an increase of 40.4% from the fourth quarter of 2016. Mutual fund redemptions, which totalled \$2.0 billion for the first quarter, increased 11.7% from the previous quarter and the annualized quarterly redemption rate was 9.2% in the first quarter compared to 8.3% in the fourth quarter of 2016. Investors Group mutual fund net sales were \$890 million for the current quarter compared to net sales of \$261 million in the previous quarter. Sales of long-term funds were \$2.6 billion for the current quarter compared to \$1.8 billion in the previous quarter. Net sales of long-term funds for the current quarter were \$719 million compared to net sales of \$202 million in the previous quarter.

OTHER PRODUCTS AND SERVICES

SEGREGATED FUNDS

Investors Group offers segregated funds which include the Investors Group Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At March 31, 2017, total segregated fund assets were \$1.8 billion compared to \$1.7 billion at March 31, 2016.

INSURANCE

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the quarter ended March 31, 2017, sales of insurance products as measured by new annualized

premiums were \$24 million, an increase of 30.6% from \$18 million in 2016.

SECURITIES OPERATIONS

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

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

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

MORTGAGE OPERATIONS

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

Through its mortgage banking operations, mortgages originated by Investors Group Mortgage Planning Specialists are sold to the Investors Mortgage and Short Term Income Fund, Investors Canadian Corporate Bond Fund, securitization programs, and institutional investors. Certain subsidiaries of Investors Group are Canada Mortgage and Housing Corporation (CMHC)-approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and are approved sellers of NHA MBS into the Canada Mortgage Bond Program (CMB Program). Securitization programs also include certain bank-sponsored asset-backed commercial paper (ABCP) programs. Residential mortgages are also held by Investors Group's intermediary operations.

Mortgage fundings for the quarter ended March 31, 2017 were \$311 million compared to \$457 million in 2016, a decrease of 31.9%. At March 31, 2017, mortgages serviced by Investors

Group related to its mortgage banking operations totalled \$11.1 billion, compared to \$10.6 billion at March 31, 2016, an increase of 4.8%.

SOLUTIONS BANKING[†]

Investors Group's Solutions Banking[†] offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. The offering also includes an All-in-One product which is a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account to meet the needs of our clients while minimizing overall interest costs. Through Solutions Banking[†], clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking[†]

offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of Investors Group clients in the Solutions Banking[†] offering totalled \$3.2 billion at March 31, 2017.

Available credit associated with Solutions Banking[†] All-in-One accounts originated for the quarter ended March 31, 2017 was \$149 million, compared to \$170 million in 2016. At March 31, 2017, the balance outstanding of Solutions Banking All-in-One products was \$1.8 billion, which represented approximately 46% of total available credit associated with these accounts.

ADDITIONAL PRODUCTS AND SERVICES

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

REVIEW OF SEGMENT OPERATING RESULTS

Investors Group's earnings before interest and taxes are presented in Table 9.

Q1 2017 VS. Q1 2016

FEE INCOME

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

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$341.1 million in the first quarter of 2017, an increase of \$32.9 million or 10.7% from \$308.2 million in 2016.

The net increase in management fees in the three months ended March 31, 2017 was primarily due to the increase in average assets under management of 12.5%, as shown in Table 8. The average management fee rate in the first quarter of 2017 was 166.1 basis points of average assets under management compared to 167.6 basis points in 2016.

Management fees were also impacted by a decrease of \$2.8 million in fee income in the quarter due to one less calendar day in 2017 compared to 2016.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship

services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$79.9 million in the current quarter compared to \$73.6 million a year ago, an increase of 8.6%. The increase resulted primarily from changes in average assets under management offset, in part, by fee reductions. Effective January 1, 2017, as part of the discontinuation of deferred sales charge (DSC) series options, Investors Group reduced the administration fees on no-load series to DSC levels. The impact on administration fee revenue during the quarter associated with the changes was \$1.7 million.

Distribution fees are earned from:

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

Distribution fee income of \$57.1 million for the first quarter of 2017 increased by \$7.2 million from \$49.9 million in 2016 primarily due to the strength of insurance sales in the quarter offset, in part, by lower redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

TABLE 9: OPERATING RESULTS – INVESTORS GROUP

| THREE MONTHS ENDED (\$ millions) | | | | % CHANGE | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 |
| Revenues | | | | | |
| Management fees | \$ 341.1 | \$ 337.8 | \$ 308.2 | 1.0 % | 10.7 % |
| Administration fees | 79.9 | 80.6 | 73.6 | (0.9) | 8.6 |
| Distribution fees | 57.1 | 71.1 | 49.9 | (19.7) | 14.4 |
| | 478.1 | 489.5 | 431.7 | (2.3) | 10.7 |
| Net investment income and other | 18.0 | 20.1 | 13.8 | (10.4) | 30.4 |
| | 496.1 | 509.6 | 445.5 | (2.6) | 11.4 |
| Expenses | | | | | |
| Commission | 90.9 | 96.0 | 79.0 | (5.3) | 15.1 |
| Asset retention bonus and premium | 78.7 | 73.9 | 68.4 | 6.5 | 15.1 |
| Non-commission | 147.7 | 139.1 | 135.0 | 6.2 | 9.4 |
| | 317.3 | 309.0 | 282.4 | 2.7 | 12.4 |
| Earnings before interest and taxes | \$ 178.8 | \$ 200.6 | \$ 163.1 | (10.9) % | 9.6 % |

NET INVESTMENT INCOME AND OTHER

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

Net investment income and other was \$18.0 million in the first quarter of 2017, an increase of \$4.2 million from \$13.8 million in 2016.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.8 million for the first quarter of 2017 compared to \$14.1 million in 2016, an increase of \$2.7 million. A summary of mortgage banking operations for the quarter under review is presented in Table 10. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – increased by \$1.4 million for the quarter ended March 31, 2017 to \$16.3 million compared to 2016. The increase resulted from higher average balances of securitized loans.
- Gains realized on the sale of residential mortgages – decreased by \$0.6 million for the quarter ended March 31, 2017 to \$2.1 million compared to 2016. The decrease in gains resulted from lower margins.

- Fair value adjustments – increased by \$0.5 million for the quarter ended March 31, 2017 to (\$1.3) million compared to 2016. The increase was primarily due to favourable fair value adjustments on interest rate swaps used to hedge interest rate risks on loans held temporarily pending sale or securitization to third parties.
- Other – increased by \$1.4 million for the quarter ended March 31, 2017 to (\$0.3) million compared to 2016 primarily due to lower mortgage issuance and portfolio insurance costs.

EXPENSES

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was \$90.9 million for the first quarter of 2017, an increase of \$11.9 million from \$79.0 million in 2016. The

TABLE 10: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Total mortgage banking income | | | | | |
| Net interest income on securitized loans | | | | | |
| Interest income | \$ 49.5 | \$ 49.4 | \$ 46.4 | 0.2 % | 6.7 % |
| Interest expense | 33.2 | 32.8 | 31.5 | 1.2 | 5.4 |
| Net interest income | 16.3 | 16.6 | 14.9 | (1.8) | 9.4 |
| Gains on sales ⁽¹⁾ | 2.1 | 3.2 | 2.7 | (34.4) | (22.2) |
| Fair value adjustments | (1.3) | 2.1 | (1.8) | N/M | (27.8) |
| Other ⁽²⁾ | (0.3) | (2.5) | (1.7) | 88.0 | 82.4 |
| | \$ 16.8 | \$ 19.4 | \$ 14.1 | (13.4) % | 19.1 % |
| Average mortgages serviced | | | | | |
| Securitizations | \$ 7,525 | \$ 7,419 | \$ 6,872 | 1.4 % | 9.5 % |
| Other | 3,555 | 3,595 | 3,615 | (1.1) | (1.7) |
| | \$ 11,080 | \$ 11,014 | \$ 10,487 | 0.6 % | 5.7 % |
| Mortgage sales to:⁽³⁾ | | | | | |
| Securitizations | \$ 331 | \$ 717 | \$ 610 | (53.8) % | (45.7) % |
| Other ⁽¹⁾ | 298 | 253 | 217 | 17.8 | 37.3 |
| | \$ 629 | \$ 970 | \$ 827 | (35.2) % | (23.9) % |

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

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

(3) Represents principal amounts sold.

increase resulted primarily from compensation related to the distribution of other financial services and products.

Asset retention bonus and premium expense, which are based on the value of assets under management, increased by \$10.3 million for the first quarter ended March 31, 2017 to \$78.7 million compared to 2016. The increase was primarily due to the increase in assets under management.

Non-commission expenses incurred by Investors Group primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual fund assets under management. Non-commission expenses were \$147.7 million for the first quarter of 2017 compared to \$135.0 million in 2016, an increase of \$12.7 million or 9.4%. The increase in the period resulted largely from Consultant network support and other business development efforts.

Q1 2017 VS. Q4 2016

FEE INCOME

Management fee income increased by \$3.3 million or 1.0% to \$341.1 million in the first quarter of 2017 compared with the fourth quarter of 2016. The net increase in management fees in the first quarter was primarily due to the increase in average assets under management of 3.8% for the quarter, as shown in Table 8, and was offset in part by:

- A decrease in the average management fee rate in the first quarter of 2017, which was 166.1 basis points of average assets under management compared to 167.5 basis points in the prior quarter.
- A decrease of \$6.4 million due to two fewer calendar days in the first quarter compared to the fourth quarter of 2016.

Administration fees decreased to \$79.9 million in the first quarter of 2017 from \$80.6 million in the fourth quarter of 2016. The decrease was due to the impact of fee reductions totalling \$1.7 million, as well as two fewer calendar days in the first quarter compared to the prior quarter. These decreases were offset in part by the change in average mutual fund assets under management.

Distribution fee income of \$57.1 million in the first quarter of 2017 decreased by \$14.0 million from \$71.1 million in the fourth

quarter primarily due to a decrease in distribution fee income from insurance product sales.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$18.0 million in the first quarter of 2017 compared to \$20.1 million in the previous quarter, a decrease of \$2.1 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$16.8 million in the first quarter of 2017, a decrease of \$2.6 million from \$19.4 million in the previous quarter as shown in Table 10. The changes in mortgage banking income were due to:

- Gains realized on the sale of residential mortgages – decreased by \$1.1 million for the quarter ended March 31, 2017 to \$2.1 million compared to \$3.2 million in the previous quarter primarily due to lower margins.
- Fair value adjustments – decreased by \$3.4 million for the quarter ended March 31, 2017 to (\$1.3) million compared to \$2.1 million in the previous quarter primarily due to favourable fair value adjustments on certain securitization related financial instruments in the previous quarter.
- Other – increased by \$2.2 million for the quarter ended March 31, 2017 to (\$0.3) million, compared to (\$2.5) million in the previous quarter primarily due to lower mortgage issuance and portfolio insurance costs.

EXPENSES

Commission expense in the current quarter was \$90.9 million compared with \$96.0 million in the previous quarter. The decrease primarily related to lower compensation related to the distribution of other financial services and products. The asset retention bonus and premium expense increased by \$4.8 million to \$78.7 million in the first quarter of 2017 primarily due to the increase in assets under management.

Non-commission expenses were \$147.7 million in the current quarter, an increase of \$8.6 million or 6.2% from \$139.1 million in the fourth quarter of 2016. This increase resulted from Consultant network support and other business development efforts as well as the seasonal nature of certain expenses normally incurred in the first quarter.

MACKENZIE INVESTMENTS

REVIEW OF THE BUSINESS

MACKENZIE STRATEGY

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

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

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

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

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

Founded in 1967, Mackenzie will proudly celebrate its 50th anniversary in the Canadian financial services industry during 2017. Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to

Investors Group, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

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

SPONSORSHIP INITIATIVES

Building off the long-term agreement signed with the PGA TOUR in 2015, making Mackenzie the umbrella sponsor of the PGA TOUR Canada, Mackenzie announced during the quarter that it will serve as the title sponsor for the Mackenzie Investments Open, an official 72-hole event taking place in Montreal in July 2017. This grows Mackenzie's commitment to Canadian sport, as it invests in player development, local communities and charities from coast to coast.

Mackenzie also announced that it is the platinum sponsor of the True Patriot Love Scotiabank Mackenzie Expedition that will celebrate Sir Alexander Mackenzie's first crossing of North America in 1793. True Patriot Love Foundation is a national charity with the mission to inspire every Canadian to contribute to the resilience and wellbeing of military and Veteran families. This expedition will raise critical funds for programs and services that support Veterans and their families as they transition to civilian life.

ASSETS UNDER MANAGEMENT

The changes in investment fund assets under management are summarized in Table 11 and the changes in total assets under management are summarized in Table 12. At March 31, 2017, Mackenzie's investment fund and total assets under management were \$53.1 billion and \$66.3 billion, respectively.

TABLE 11: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – MACKENZIE

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|--|------------------|------------------|------------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Sales | \$ 2,861 | \$ 1,953 | \$ 1,841 | 46.5 % | 55.4 % |
| Redemptions | 2,785 | 1,977 | 2,039 | 40.9 | 36.6 |
| Mutual fund net sales (redemptions) ⁽¹⁾ | 76 | (24) | (198) | N/M | N/M |
| ETF net creations | 114 | 43 | – | 165.1 | N/M |
| Investment fund net sales (redemptions)⁽²⁾ | 139 | 19 | (198) | N/M | N/M |
| Investment returns | 1,536 | 1,085 | (620) | 41.6 | N/M |
| Net change in assets | 1,675 | 1,104 | (818) | 51.7 | N/M |
| Beginning assets | 51,427 | 50,323 | 48,445 | 2.2 | 6.2 |
| Ending assets | \$ 53,102 | \$ 51,427 | \$ 47,627 | 3.3 % | 11.5 % |
| Consists of: | | | | | |
| Mutual funds | \$ 52,937 | \$ 51,314 | \$ 47,627 | 3.2 % | 11.1 % |
| ETFs | 234 | 113 | – | 107.1 | N/M |
| Investment funds ⁽³⁾ | \$ 53,102 | \$ 51,427 | \$ 47,627 | 3.3 % | 11.5 % |
| Daily average investment fund assets | \$ 52,330 | \$ 50,596 | \$ 46,742 | 3.4 % | 12.0 % |

(1) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(2) Total investment fund net sales exclude Mackenzie mutual fund investments in ETFs of \$51 million for the first quarter of 2017.

(3) Excludes Mackenzie mutual fund investments in ETFs of \$69 million at March 31, 2017.

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

FUND PERFORMANCE

Long-term investment performance is a key measure of Mackenzie's ongoing success. At March 31, 2017, 55.2% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 40.0% for the three year time frame and 34.3% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar[†] fund ranking service. At March 31, 2017, 69.9% of Mackenzie mutual fund assets measured by Morningstar[†] had a rating of three stars or better and 42.7% had a rating of four or five stars. This compared to the Morningstar[†] universe of 77.1% for three stars or better and 37.9% for four and five star funds at March 31, 2017. These ratings exclude the Quadrus Group of Funds[†].

CHANGES TO PRODUCT OFFERINGS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. In 2017, Mackenzie

continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients through a number of product launches and the automatic switching into its lower fee Private Wealth Series.

Exchange Traded Funds

During 2016, Mackenzie entered the Exchange Traded Fund (ETF) business by launching nine ETFs. The addition of ETFs compliments Mackenzie's broad and innovative fund line-up and reflects its investor-focus vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios and include:

- Four unique fixed income actively managed ETFs managed by Mackenzie's Fixed Income Team
- Five Maximum Diversification Income Smart Beta ETFs in partnership with TOBAM, a global award-winning asset manager and index provider to some of the world's largest pension funds, to utilize their proprietary investment process. TOBAM's methodology seeks to protect portfolios from structural biases and unmanaged risks often found in market capitalization weighted indices. These ETFs seek to replicate,

TABLE 12: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|--|------------------|------------------|------------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Net sales (redemptions) | | | | | |
| Mutual funds ⁽¹⁾ | \$ 76 | \$ (24) | \$ (198) | N/M % | N/M % |
| ETF net creations | 114 | 43 | – | 165.1 | N/M |
| Investment funds ⁽²⁾ | 139 | 19 | (198) | N/M | N/M |
| Sub-advisory, institutional and other accounts | 289 | (1,516) | (189) | N/M | N/M |
| Total net sales | 428 | (1,497) | (387) | N/M | N/M |
| Investment returns | 1,847 | 1,259 | (576) | 46.7 | N/M |
| Net change in assets | 2,275 | (238) | (963) | N/M | N/M |
| Beginning assets | 64,035 | 64,273 | 61,653 | (0.4) | 3.9 |
| Ending assets | \$ 66,310 | \$ 64,035 | \$ 60,690 | 3.6 % | 9.3 % |
| Consists of: | | | | | |
| Mutual funds | \$ 52,937 | \$ 51,314 | \$ 47,627 | 3.2 % | 11.1 % |
| ETFs | 234 | 113 | – | 107.1 | N/M |
| Investment funds ⁽³⁾ | 53,102 | 51,427 | 47,627 | 3.3 | 11.5 |
| Sub-advisory, institutional and other accounts | 13,208 | 12,608 | 13,063 | 4.8 | 1.1 |
| Total assets under management | \$ 66,310 | \$ 64,035 | \$ 60,690 | 3.6 % | 9.3 % |
| Average total assets⁽⁴⁾ | \$ 65,182 | \$ 63,846 | \$ 59,778 | 2.1 % | 9.0 % |

(1) During the first quarter of 2017, certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in net redemptions of \$305 million.

(2) Total net sales exclude Mackenzie mutual fund investments in ETFs of \$51 million for the first quarter of 2017.

(3) Excludes Mackenzie mutual fund investments in ETFs of \$69 million at March 31, 2017.

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

to the extent possible, the performance of select rules-based indices from the TOBAM Maximum Diversification Index Series.

During 2017, Mackenzie launched two ETFs:

- January 23 – the Mackenzie Maximum Diversification Emerging Markets ETF that is traded on the Toronto Stock Exchange. This ETF provides investors with an innovative option to invest in emerging markets with enhanced diversification. This ETF seeks to replicate the performance of the TOBAM Maximum Diversification Emerging Markets Index and invests primarily in equity securities of emerging markets.
- April 26 – the Mackenzie Global High Yield Fixed Income ETF that is traded on the Aequitas NEO Exchange. This ETF seeks to provide a steady flow of income with the potential for long-term capital growth by investing primarily in higher yielding fixed-income securities and instruments of issuers anywhere in the world and in other fixed-income securities issued by companies or governments of any size, anywhere in the world.

Mutual Funds

During 2017, Mackenzie launched three mutual funds:

- January 25 – the Mackenzie High Diversification Emerging Markets Equity Fund. This fund is sub-advised by TOBAM as a core investment that invests directly into the Mackenzie Maximum Diversification Emerging Markets ETF and may also invest in other ETFs, or in securities directly, from time to time for active risk management purposes.
- April 26 – two mutual funds including:
 - The Mackenzie Global Credit Opportunities Fund which aims to provide investors with a high level of income and the potential for long-term capital growth potential. The fund has the ability to invest in investment grade and non investment grade corporate and government bonds including Emerging Market debt, loans and preferred shares.
 - The Mackenzie US Strategic Income Fund which aims to provide investors a balanced solution that satisfies their needs for income and capital growth. The fund invests primarily in US dividend paying equities and a diversified portfolio of fixed income securities, including high yield bonds and loans.

On January 18, 2017, Mackenzie enhanced its Registered Disability Savings Plan (RDSP) program with five new Funds: Mackenzie Canadian Growth Fund, Mackenzie Canadian Growth Balanced Fund, Mackenzie Ivy Canadian Balanced Fund, Mackenzie Ivy Global Balanced Fund and Mackenzie US Growth Class. With these additions, the number of funds available to RDSP investors with Mackenzie has expanded to more than 40 options.

Private Wealth Series

On March 8, 2017, Mackenzie announced that it is implementing automatic switching into its Private Wealth Series. Beginning April 13, 2017, qualified investors – investors with a minimum of \$100,000 per fund and households with a minimum of \$250,000 – will be automatically switched into the appropriate Private Wealth Series. These switches will occur such that investors will be invested in the lowest fee series for which they qualify.

CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q1 2016

Mackenzie's total assets under management at March 31, 2017 were \$66.3 billion, an increase of 9.3% from \$60.7 billion at March 31, 2016. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2017 were \$13.2 billion, an increase of 1.1% from \$13.1 billion last year.

Mackenzie's investment fund assets under management were \$53.1 billion at March 31, 2017, an increase of 11.5% from March 31, 2016. Mackenzie's mutual fund assets under management were \$52.9 billion at March 31, 2017, an increase of 11.1% from \$47.6 billion at March 31, 2016. Mackenzie's ETF assets were \$234 million at March 31, 2017, inclusive of a \$69 million investment from Mackenzie mutual funds.

In the three months ended March 31, 2017, Mackenzie's mutual fund gross sales were \$2.9 billion, an increase of 55.4% from \$1.8 billion in the comparative period last year. Mutual fund redemptions in the current period were \$2.8 billion, an increase of 36.6% from last year. Mutual fund net sales for the three months ended March 31, 2017 were \$76 million, as compared to net redemptions of \$198 million last year. In the three months ended March 31, 2017, ETF net creations were \$114 million, inclusive of \$51 million in investments from Mackenzie mutual funds. During the current quarter, investment returns resulted in investment fund assets increasing by \$1.5 billion as compared to a decrease of \$620 million last year.

During the first quarter of 2017, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million. Excluding these transactions, mutual fund gross sales increased 38.4% and

mutual fund redemptions increased 6.3% in the three months ended March 31, 2017 compared to last year and mutual fund net sales were \$381 million in the current quarter compared to mutual fund net redemptions of \$198 million last year.

Total net sales for the three months ended March 31, 2017 were \$428 million, as compared to net redemptions of \$387 million last year. During the current quarter, investment returns resulted in assets increasing by \$1.8 billion as compared to a decrease of \$576 million last year. Excluding the mutual fund allocation changes made by third party programs during the first quarter of 2017 discussed previously, total net sales were \$733 million in the current quarter compared to net redemptions of \$387 million last year.

Redemptions of long-term mutual funds in the three months ended March 31, 2017, were \$2.7 billion, as compared to \$2.0 billion last year. Redemptions of long-term mutual funds in the current quarter excluding the mutual fund allocation changes made by third party programs was \$2.1 billion. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 21.3% in the first quarter of 2017, compared to 16.9% in the first quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions, was 16.4% in the first quarter of 2017. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.2% at March 31, 2017, as compared to 16.4% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.9% at March 31, 2017 and 14.3% at March 31, 2016. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.7% at March 31, 2017. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

CHANGE IN ASSETS UNDER MANAGEMENT – Q1 2017 VS. Q4 2016

Mackenzie's total assets under management at March 31, 2017, were \$66.3 billion, an increase of 3.6% from \$64.0 billion at December 31, 2016. Mackenzie's sub-advisory, institutional and other accounts at March 31, 2017 were \$13.2 billion, an increase of 4.8% from \$12.6 billion at December 31, 2016.

Mackenzie's investment fund assets under management were \$53.1 billion at March 31, 2017, an increase of 3.3% from

\$51.4 billion at December 31, 2016. Mackenzie's mutual fund assets under management were \$52.9 billion at March 31, 2017, an increase of 3.2% from \$51.3 billion at December 31, 2016. Mackenzie's ETF assets were \$234 million at March 31, 2017, an increase of 107.1% from \$113 million at December 31, 2016. ETF assets include investments from Mackenzie mutual funds of \$69 million at March 31, 2017.

For the quarter ended March 31, 2017, Mackenzie mutual fund gross sales were \$2.9 billion, an increase of 46.5% from the fourth quarter of 2016. Mutual fund redemptions, which totalled \$2.8 billion for the first quarter, increased by 40.9% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were \$76 million compared with net redemptions of \$24 million in the previous quarter. Excluding the mutual fund allocation changes made by third party programs during the first quarter of 2017 discussed previously, mutual fund gross sales increased 30.5% and redemptions increased 9.6% in the three months ended March 31, 2017 compared to the previous quarter and net sales were \$381 million in the current quarter compared to net redemptions of \$24 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$2.7 billion, compared to \$1.9 billion in the fourth quarter of 2016. Redemptions of long-term mutual funds in the current quarter excluding the mutual fund allocation changes made by third party programs were \$2.1 billion. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 21.3% compared to 15.2% for the fourth quarter of 2016. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 16.4% in the first quarter of 2017. Net sales of long-term funds for the current quarter were \$50 million compared to net redemptions of \$78 million in the previous quarter. Net sales of long-term mutual funds for the current quarter excluding the mutual fund allocation changes made by third party programs were \$355 million.

For the quarter ended March 31, 2017, Mackenzie ETF net creations were \$114 million, an increase of \$71 million from the fourth quarter of 2016. In the current quarter, ETF net creations were inclusive of \$51 million in investments from Mackenzie mutual funds.

REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie's earnings before interest and taxes are presented in Table 13.

Q1 2017 VS. Q1 2016

REVENUES

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

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At March 31, 2017, these series had \$5.2 billion in assets, an increase of 41.3% from the prior year.

Management fees were \$171.8 million for the three months ended March 31, 2017, an increase of \$11.3 million or 7.0% from \$160.5 million last year. The net increase in management fees in the current quarter was due to an increase in average assets under management of 9.0%, offset by a 1.0% decline in the average management fee rate. Mackenzie's average

management fee rate in the first quarter of 2017 was 106.9 basis points compared to 108.0 basis points in 2016. The decrease in the average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. In addition, there was one less calendar day in the first quarter of 2017 than in the first quarter of 2016 which resulted in a decrease in management fees in the current quarter.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were \$24.4 million for the three months ended March 31, 2017, an increase of \$2.0 million or 8.9% from \$22.4 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended March 31, 2017 was \$2.3 million, compared to \$2.5 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.1 million for the three months ended March 31, 2017 compared to \$0.3 million last year.

TABLE 13: OPERATING RESULTS – MACKENZIE

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Revenues | | | | | |
| Management fees | \$ 171.8 | \$ 172.3 | \$ 160.5 | (0.3) % | 7.0 % |
| Administration fees | 24.4 | 23.8 | 22.4 | 2.5 | 8.9 |
| Distribution fees | 2.3 | 2.1 | 2.5 | 9.5 | (8.0) |
| | 198.5 | 198.2 | 185.4 | 0.2 | 7.1 |
| Net investment income and other | 0.1 | 0.7 | 0.3 | (85.7) | (66.7) |
| | 198.6 | 198.9 | 185.7 | (0.2) | 6.9 |
| Expenses | | | | | |
| Commission | 12.6 | 12.4 | 14.3 | 1.6 | (11.9) |
| Trailing commission | 62.0 | 61.4 | 57.4 | 1.0 | 8.0 |
| Non-commission | 82.5 | 76.3 | 77.6 | 8.1 | 6.3 |
| | 157.1 | 150.1 | 149.3 | 4.7 | 5.2 |
| Earnings before interest and taxes | \$ 41.5 | \$ 48.8 | \$ 36.4 | (15.0) % | 14.0 % |

EXPENSES

Mackenzie's expenses were \$157.1 million for the three months ended March 31, 2017, an increase of \$7.8 million or 5.2% from \$149.3 million in 2016.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was \$12.6 million in the three months ended March 31, 2017, as compared to \$14.3 million last year. This decline is consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$62.0 million in the three months ended March 31, 2017, an increase of \$4.6 million or 8.0% from \$57.4 million last year. The increase in trailing commission in the current quarter was due to an increase of 11.7% in daily average mutual fund assets under management offset by a 3.3% decline in effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 47.5 basis points in the current quarter compared to 49.1 basis points last year due to a change in composition of mutual fund assets towards series of mutual funds that do not pay trailing commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$82.5 million in the three months ended March 31, 2017, an increase of \$4.9 million or 6.3% from \$77.6 million in 2016.

Q1 2017 VS. Q4 2016

REVENUES

Mackenzie's revenues were \$198.6 million for the current quarter, a decrease of \$0.3 million or 0.2% from \$198.9 million in the fourth quarter of 2016.

Management fees were \$171.8 million for the current quarter, a decrease of \$0.5 million or 0.3% from \$172.3 million in the fourth quarter of 2016. Factors contributing to the net decrease in management fees are as follows:

- Average total assets under management were \$65.2 billion in the current quarter compared to \$63.8 billion in the prior quarter, an increase of 2.1%.
- Mackenzie's average management fee rate was 106.9 basis points in the current quarter as compared to 107.1 basis points in the fourth quarter of 2016 due to a change in the composition of assets under management.
- There were two fewer calendar days in the first quarter of 2017 compared to the fourth quarter of 2016, which resulted in a decrease of \$3.6 million.

Administration fees were \$24.4 million in the current quarter, an increase of \$0.6 million or 2.5% from \$23.8 million in the prior quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.1 million for the current quarter compared to \$0.7 million in the fourth quarter of 2016.

EXPENSES

Mackenzie's expenses were \$157.1 million for the current quarter, an increase of \$7.0 million or 4.7% from \$150.1 million in the fourth quarter of 2016.

Commission expense related to the amortization of selling commissions was \$12.6 million in the quarter ended March 31, 2017, an increase of 1.6% from the fourth quarter of 2016.

Trailing commissions were \$62.0 million in the current quarter, an increase of \$0.6 million or 1.0% from \$61.4 million in the fourth quarter of 2016. The change in trailing commissions reflects the 3.3% period over period increase in average mutual fund assets under management, offset by a decline in effective trailing commission rate. The effective trailing commission rate for the first quarter was 47.5 basis points, compared to 48.6 basis points in the fourth quarter.

Non-commission expenses were \$82.5 million in the current quarter, compared to \$76.3 million in the fourth quarter of 2016. The increase related primarily to the seasonal nature of certain expenses normally incurred in the first quarter.

CORPORATE AND OTHER

REVIEW OF SEGMENT OPERATING RESULTS

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

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

Corporate and other earnings before interest and taxes are presented in Table 14.

Q1 2017 VS. Q1 2016

The proportionate share of affiliate's earnings increased by \$0.2 million in the three months ended March 31, 2017 and

reflects equity earnings from Lifeco, which is discussed in the Consolidated Financial Position section of this MD&A. Net investment income and other decreased slightly to \$1.7 million in the first quarter of 2017 compared to \$1.8 million in 2016.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.7 million lower in the first quarter of 2017 compared to the same period in 2016.

Q1 2017 VS. Q4 2016

The proportionate share of Lifeco's earnings increased by \$1.5 million to \$28.0 million in the first quarter of 2017 compared to the fourth quarter of 2016. Net investment income and other increased to \$1.7 million in the first quarter of 2017 compared to \$1.4 million in the fourth quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.6 million lower in the first quarter of 2017 compared with the previous quarter.

TABLE 14: OPERATING RESULTS – CORPORATE AND OTHER

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 | % CHANGE | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | 2016 DEC. 31 | 2016 MAR. 31 |
| Revenues | | | | | |
| Fee income | \$ 65.3 | \$ 64.7 | \$ 62.0 | 0.9 % | 5.3 % |
| Net investment income and other | 1.7 | 1.4 | 1.8 | 21.4 | (5.6) |
| Proportionate share of affiliate's earnings | 28.0 | 26.5 | 27.8 | 5.7 | 0.7 |
| | 95.0 | 92.6 | 91.6 | 2.6 | 3.7 |
| Expenses | | | | | |
| Commission | 45.1 | 44.5 | 42.4 | 1.3 | 6.4 |
| Non-commission | 16.7 | 15.7 | 15.3 | 6.4 | 9.2 |
| | 61.8 | 60.2 | 57.7 | 2.7 | 7.1 |
| Earnings before interest and taxes | \$ 33.2 | \$ 32.4 | \$ 33.9 | 2.5 % | (2.1) % |

IGM FINANCIAL INC.

CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$16.2 billion at March 31, 2017, compared to \$15.6 billion at December 31, 2016.

SECURITIES

The composition of the Company's securities holdings is detailed in Table 15.

AVAILABLE FOR SALE SECURITIES

Securities classified as available for sale include corporate investments and investments in proprietary investment funds. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment, at which time they are reclassified to the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

Corporate Investments

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

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

In the fourth quarter of 2016, the Company invested a total of \$35 million in Wealthsimple and Portag3. In the second quarter of 2017, the Company has made a further investment of \$42.6 million in Wealthsimple. Wealthsimple is an online investment manager that provides financial investment guidance.

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

FAIR VALUE THROUGH PROFIT OR LOSS SECURITIES

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

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund as discussed in Note 2 of the Consolidated Financial Statements included in the 2016 IGM Financial Inc. Annual Report (Annual Financial Statements). The underlying securities of these funds are classified as held for trading and recognized at fair value through profit or loss.

OTHER INVESTMENTS

China Asset Management Co., Ltd.

On December 29, 2016 and January 5, 2017, the Company entered into agreements to acquire 10% and 3.9% interests, respectively, in China Asset Management Co., Ltd. (China AMC), a leading fund manager in China. The aggregate consideration for the investment is approximately \$647 million (RMB¥3.3 billion). As at March 31, 2017, Other assets included a deposit of \$193.2 million (RMB¥1.0 billion) related to the investment (December 31, 2016 – \$193.5 million). The transactions are expected to close subject to customary closing conditions, including Chinese regulatory approvals.

TABLE 15: SECURITIES

| (\$ millions) | MARCH 31, 2017 | | DECEMBER 31, 2016 | |
|--|-----------------|-----------------|-------------------|-----------------|
| | COST | FAIR VALUE | COST | FAIR VALUE |
| Available for sale | | | | |
| Corporate investments | \$ 142.1 | \$ 153.3 | \$ 141.6 | \$ 152.0 |
| Proprietary investment funds | 16.3 | 16.9 | 6.1 | 6.4 |
| | 158.4 | 170.2 | 147.7 | 158.4 |
| Fair value through profit or loss | | | | |
| Equity securities | 15.4 | 15.3 | 15.5 | 17.7 |
| Proprietary investment funds | 37.6 | 38.6 | 49.4 | 49.1 |
| | 53.0 | 53.9 | 64.9 | 66.8 |
| | \$ 211.4 | \$ 224.1 | \$ 212.6 | \$ 225.2 |

LOANS

The composition of the Company's loans is detailed in Table 16.

Loans consisted of residential mortgages and represented 48.8% of total assets at March 31, 2017, compared to 51.1% at December 31, 2016.

Loans classified as loans and receivables are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.7 billion at March 31, 2017, unchanged from December 31, 2016.

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

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

SECURITIZATION ARRANGEMENTS

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

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

In the first quarter of 2017, the Company securitized loans through its mortgage banking operations with cash proceeds of \$323.2 million compared to \$596.9 million in 2016. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 4 of the Interim Financial Statements.

TABLE 16: LOANS

| (\$ millions) | 2017 MARCH 31 | 2016 DECEMBER 31 |
|------------------------------|-------------------|---------------------|
| Loans and receivables | \$ 7,616.5 | \$ 7,644.5 |
| Less: Collective allowance | 0.7 | 0.7 |
| | 7,615.8 | 7,643.8 |
| Held for trading | 270.5 | 339.5 |
| | \$ 7,886.3 | \$ 7,983.3 |

INVESTMENT IN AFFILIATE

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

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence.

The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three months ended March 31, 2017 compared with 2016 are shown in Table 17.

TABLE 17: INVESTMENT IN AFFILIATE

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 MAR. 31 |
|--|-------------------|-------------------|
| Carrying value, beginning of period | \$ 888.9 | \$ 904.3 |
| Proportionate share of earnings | 28.0 | 27.8 |
| Dividends received | (14.6) | (13.7) |
| Proportionate share of other comprehensive income (loss) and other adjustments | 9.0 | 12.1 |
| Carrying value, end of period | \$ 911.3 | \$ 930.5 |
| Fair value, end of period | \$ 1,464.3 | \$ 1,417.0 |

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash and cash equivalents totalled \$1,202.9 million at March 31, 2017 compared with \$611.0 million at December 31, 2016.

Cash and cash equivalents related to the Company's deposit operations were \$2.3 million at March 31, 2017, compared to \$2.7 million at December 31, 2016, as shown in Table 18.

Working capital totalled \$1,021.8 million at March 31, 2017 compared with \$557.8 million at December 31, 2016 and \$841.8 million at March 31, 2016. Working capital excludes the Company's deposit operations.

Working capital is utilized to:

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

IGM Financial continues to generate significant cash flows from its operations. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) totalled

\$324.6 million in the first quarter of 2017 compared to \$304.2 million in the first quarter of 2016 and \$352.0 million in the fourth quarter of 2016. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$58.9 million in the first quarter of 2017 compared to \$59.8 million in the first quarter of 2016 and \$58.4 million in the fourth quarter of 2016. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

CASH FLOWS

Table 19 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the quarter ended March 31, 2017. Cash and cash equivalents increased by \$591.9 million in the first quarter of 2017 compared to a decrease of \$375.9 million in the first quarter of 2016.

Operating activities, before payment of commissions, generated \$198.1 million during the quarter ended March 31, 2017, as compared to \$104.3 million in 2016. Cash commissions paid were \$81.4 million in 2017 compared to \$73.8 million in 2016. Cash flows from operating activities, net of commissions paid, were \$116.7 million in 2017 as compared to \$30.5 million in 2016.

TABLE 18: DEPOSIT OPERATIONS – FINANCIAL POSITION

| (\$ millions) | 2017 MAR. 31 | 2016 DEC. 31 | 2016 MAR. 31 |
|---|-----------------|-----------------|-----------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2.3 | \$ 2.7 | \$ 3.2 |
| Client funds on deposit | 431.5 | 455.5 | 282.6 |
| Accounts and other receivables | 1.6 | 0.5 | 0.4 |
| Loans | 26.7 | 25.1 | 25.5 |
| Total assets | \$ 462.1 | \$ 483.8 | \$ 311.7 |
| Liabilities and shareholders' equity | | | |
| Deposit liabilities | \$ 451.3 | \$ 471.2 | \$ 300.9 |
| Other liabilities | 0.5 | 2.6 | 0.5 |
| Shareholders' equity | 10.3 | 10.0 | 10.3 |
| Total liabilities and shareholders' equity | \$ 462.1 | \$ 483.8 | \$ 311.7 |

TABLE 19: CASH FLOWS

| THREE MONTHS ENDED (\$ millions) | 2017 MAR. 31 | 2016 MAR. 31 | % CHANGE |
|---|-------------------|-----------------|---------------|
| Operating activities | | | |
| Before payment of commissions | \$ 198.1 | \$ 104.3 | 89.9 % |
| Commissions paid | (81.4) | (73.8) | (10.3) |
| Net of commissions paid | 116.7 | 30.5 | N/M |
| Financing activities | 391.1 | (178.7) | N/M |
| Investing activities | 84.1 | (227.7) | N/M |
| Increase (decrease) in cash and cash equivalents | 591.9 | (375.9) | N/M |
| Cash and cash equivalents, beginning of period | 611.0 | 983.0 | (37.8) |
| Cash and cash equivalents, end of period | \$ 1,202.9 | \$ 607.1 | 98.1 % |

Financing activities during the three months ended March 31, 2017 compared to 2016 related to:

- A net decrease of \$74.0 million in 2017 arising from obligations to securitization entities compared to a net increase of \$65.2 million in 2016.
- Issuance of debentures of \$600.0 million in the first quarter of 2017.
- There was no purchase of common shares in 2017 under IGM Financial's normal course issuer bid compared with the purchase of 2,991,900 common shares at a cost of \$104.3 million in 2016.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2017, unchanged from 2016.
- The payment of regular common share dividends which totalled \$135.3 million in 2017 compared to \$137.8 million in 2016.

Investing activities during the three months ended March 31, 2017 compared to 2016 primarily related to:

- The purchases of securities totalling \$27.0 million and sales of securities with proceeds of \$25.5 million in 2017 compared to \$24.9 million and \$10.8 million, respectively, in 2016.
- A net decrease in loans of \$99.6 million in 2017 compared to a net increase of \$183.5 million in 2016 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$7.9 million in 2017 compared to \$17.0 million in 2016.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is

capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$6.7 billion at March 31, 2017, compared to \$6.1 billion at December 31, 2016. The Company regularly assesses its capital management practices in response to changing economic conditions.

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

The total outstanding long-term debt was \$1,925.0 million at March 31, 2017, compared to \$1,325.0 million at December 31, 2016. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

On January 26, 2017, IGM Financial issued \$400 million of 10 year, 3.44% debentures priced to provide a yield to maturity of 3.448% and \$200 million of 30 year, 4.56% debentures priced to provide a yield to maturity of 4.560%. The offering was made pursuant to a prospectus supplement to IGM Financial's short form base shelf prospectus dated November 29, 2016. The net proceeds will be used by IGM Financial to finance a substantial

portion of the announced acquisitions of an equity interest in China AMC (refer to Note 7 to the Annual Financial Statements) and for general corporate purposes.

Perpetual preferred shares of \$150 million at March 31, 2017 remain unchanged from December 31, 2016.

The Company did not purchase any common shares during the three months ended March 31, 2017 under its normal course issuer bid (refer to Note 7 to the Interim Financial Statements). The Company commenced a normal course issuer bid on March 20, 2017 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in 2017 included the declaration of perpetual preferred share dividends of \$2.2 million or \$0.36875 per share and common share dividends of \$135.3 million or \$0.5625 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

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

In the fourth quarter of 2016, Standard & Poor's (S&P) increased the rating of the Company's senior unsecured debentures to "A+" from "A" with a stable outlook. Following the Company's announcement that it had entered into an agreement to acquire a 10% interest in China AMC, S&P changed the Company's rating outlook from stable to "CreditWatch negative". Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

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

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not

reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

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

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

FINANCIAL INSTRUMENTS

Table 20 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Securities and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

TABLE 20: FINANCIAL INSTRUMENTS

| (\$ millions) | MARCH 31, 2017 | | DECEMBER 31, 2016 | |
|---|----------------|------------|-------------------|------------|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Financial assets recorded at fair value | | | | |
| Securities | | | | |
| – Available for sale | \$ 170.2 | \$ 170.2 | \$ 158.4 | \$ 158.4 |
| – Held for trading | 53.9 | 53.9 | 66.8 | 66.8 |
| Loans | | | | |
| – Held for trading | 270.4 | 270.4 | 339.5 | 339.5 |
| Derivative financial instruments | 46.9 | 46.9 | 42.8 | 42.8 |
| Financial assets recorded at amortized cost | | | | |
| Loans | | | | |
| – Loans and receivables | 7,615.8 | 7,816.7 | 7,643.8 | 7,867.7 |
| Financial liabilities recorded at fair value | | | | |
| Derivative financial instruments | 30.5 | 30.5 | 38.2 | 38.2 |
| Other financial liabilities | 8.3 | 8.3 | 9.8 | 9.8 |
| Financial liabilities recorded at amortized cost | | | | |
| Deposits and certificates | 451.3 | 452.4 | 471.2 | 472.2 |
| Obligations to securitization entities | 7,650.5 | 7,790.5 | 7,721.0 | 7,873.1 |
| Long-term debt | 1,925.0 | 2,235.3 | 1,325.0 | 1,610.9 |

- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 12 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the three months ended March 31, 2017.

RISK MANAGEMENT

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

RISK MANAGEMENT FRAMEWORK

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

RISK GOVERNANCE

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

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

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

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

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

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

First Line of Defence

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

Second Line of Defence

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

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

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

Third Line of Defence

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

RISK APPETITE AND RISK PRINCIPLES

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

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

RISK MANAGEMENT PROCESS

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

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

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

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

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

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

RISK MANAGEMENT CULTURE

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

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

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

KEY RISKS OF THE BUSINESS

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

1) FINANCIAL RISK**LIQUIDITY AND FUNDING RISK**

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

The Company's liquidity management practices include:

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

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

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act

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

As part of ongoing liquidity management during 2017 and 2016, the Company:

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

The Company's contractual obligations are reflected in Table 21.

TABLE 21: CONTRACTUAL OBLIGATIONS

| AS AT MARCH 31, 2017 (\$ millions) | DEMAND | LESS THAN 1 YEAR | 1-5 YEARS | AFTER 5 YEARS | TOTAL |
|--|-----------------|---------------------|-------------------|-------------------|--------------------|
| Derivative financial instruments | \$ - | \$ 11.7 | \$ 18.4 | \$ 0.4 | \$ 30.5 |
| Deposits and certificates | 432.8 | 8.1 | 8.2 | 2.2 | 451.3 |
| Obligations to securitization entities | - | 1,270.3 | 6,363.2 | 17.0 | 7,650.5 |
| Long-term debt | - | 150.0 | 375.0 | 1,400.0 | 1,925.0 |
| Operating leases ⁽¹⁾ | - | 29.2 | 80.0 | 38.7 | 147.9 |
| Pension funding ⁽²⁾ | - | 34.4 | - | - | 34.4 |
| Total contractual obligations | \$ 432.8 | \$ 1,503.7 | \$ 6,844.8 | \$ 1,458.3 | \$ 10,239.6 |

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

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2016. Pension funding requirements beyond 2017 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million at March 31, 2017, unchanged from December 31, 2016. The lines of credit as at March 31, 2017 consisted of committed lines of \$650 million (December 31, 2016 – \$650 million) and uncommitted lines of \$175 million (December 31, 2016 – \$175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at March 31, 2017 and December 31, 2016, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2013, was completed in May 2014. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$23.4 million compared to \$106.3 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2012. The reduction in the solvency deficit resulted primarily from higher interest rates and market returns on the plan assets, and is required to be funded over five years. The Company has made contributions of \$3.1 million in 2017 (2016 – \$3.2 million). The Company expects to make contributions of approximately \$37.5 million in 2017. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy. An actuarial valuation for funding purposes based on a measurement date of December 31, 2016 is currently being performed and the outcome of this valuation may impact the total contributions required in 2017.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2016.

CREDIT RISK

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, securities holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

Cash and Cash Equivalents

At March 31, 2017, cash and cash equivalents of \$1,202.9 million (December 31, 2016 – \$611.0 million) consisted of cash balances of \$66.0 million (December 31, 2016 – \$84.5 million) on deposit with Canadian chartered banks and cash equivalents of \$1,136.9 million (December 31, 2016 – \$526.5 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$127.9 million (December 31, 2016 – \$44.1 million), provincial government treasury bills and promissory notes of \$528.2 million (December 31, 2016 – \$197.1 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$447.8 million (December 31, 2016 – \$246.8 million), and highly rated corporate commercial paper of \$33.0 million (December 31, 2016 – \$38.5 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.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2016.

Mortgage Portfolio

As at March 31, 2017, residential mortgages, recorded on the Company's balance sheet, of \$7.9 billion (December 31, 2016 – \$8.0 billion) consisted of \$7.6 billion sold to securitization programs (December 31, 2016 – \$7.6 billion), \$270.5 million held pending sale or securitization (December 31, 2016 – \$339.5 million) and \$30.5 million related to the Company's intermediary operations (December 31, 2016 – \$29.2 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and

- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

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

- Under the NHA MBS program totalling \$4.9 billion (December 31, 2016 – \$4.9 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.7 billion (December 31, 2016 – \$2.7 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$56.3 million (December 31, 2016 – \$54.7 million) and \$46.6 million (December 31, 2016 – \$45.0 million), respectively, at March 31, 2017. 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 26.5% of mortgages held in ABCP Trusts insured at March 31, 2017 (December 31, 2016 – 29.1%).

At March 31, 2017, residential mortgages recorded on balance sheet were 72.7% insured (December 31, 2016 – 73.9%). As at March 31, 2017, impaired mortgages on these portfolios were \$3.4 million, compared to \$2.6 million at December 31, 2016. Uninsured non-performing mortgages over 90 days on these portfolios were \$1.0 million at March 31, 2017, compared to \$0.9 million at December 31, 2016.

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

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

The Company's collective allowance for credit losses was \$0.7 million at March 31, 2017, unchanged from December 31, 2016, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based

on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2016.

Derivatives

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

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

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$45.9 million (December 31, 2016 – \$41.4 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$1.9 million at March 31, 2017 (December 31, 2016 – \$3.0 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at March 31, 2017. Management of credit risk related to derivatives has not changed materially since December 31, 2016.

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

MARKET RISK

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

Interest Rate Risk

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

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

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$22.4 million (December 31, 2016 – negative \$23.1 million) and an outstanding notional amount of \$1.1 billion at March 31, 2017 (December 31, 2016 – \$1.0 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 fair value of these swaps totalled \$28.3 million (December 31, 2016 – \$30.0 million), on an outstanding notional amount of \$2.2 billion at March 31, 2017 (December 31, 2016 – \$2.1 billion). The net fair value of these swaps of \$5.9 million at March 31, 2017 (December 31, 2016 – \$6.9 million) are recorded on balance sheet and have an outstanding notional amount of \$3.3 billion (December 31, 2016 – \$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. The fair value of these swaps was nil (December 31, 2016 – \$0.4 million) on an outstanding notional amount of \$67.0 million at March 31, 2017 (December 31, 2016 – \$123.0 million).

As at March 31, 2017, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$0.4 million (December 31, 2016 – an increase of \$0.2 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2016.

Equity Price Risk

The Company is exposed to equity price risk on its equity securities which are classified as either available for sale or fair value through profit or loss. The fair value of the equity securities was \$224.1 million at March 31, 2017 (December 31, 2016 – \$225.2 million), as shown in Table 15.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants

are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Foreign Exchange Risk

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

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At March 31, 2017, IGM Financial's total assets under management were \$147.1 billion compared to \$142.3 billion at December 31, 2016.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

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

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

2) OPERATIONAL RISK

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

TABLE 22: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

| AS AT MARCH 31, 2017 | INVESTMENT FUNDS | TOTAL |
|---------------------------------------|------------------|---------|
| Cash | 0.9 % | 1.3 % |
| Short-term fixed income and mortgages | 6.9 | 6.9 |
| Other fixed income | 22.6 | 22.5 |
| Domestic equity | 30.0 | 29.8 |
| Foreign equity | 36.3 | 36.3 |
| Real Property | 3.3 | 3.2 |
| | 100.0 % | 100.0 % |
| CAD | 62.3 % | 62.3 % |
| USD | 25.1 | 24.9 |
| Other | 12.6 | 12.8 |
| | 100.0 % | 100.0 % |

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

OPERATIONAL RISK

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

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

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

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

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

TECHNOLOGY AND CYBER RISK

Technology and cyber risk driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. To remain resilient to such threats, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented robust threat and vulnerability assessment and response capabilities.

MODEL RISK

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

LEGAL AND REGULATORY COMPLIANCE

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory

requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

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

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Senior Vice-President, Client and Regulatory Affairs. It also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

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

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate

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

CONTINGENCIES

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

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

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

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

Oversight of IGM Financial is performed by the Board of Directors directly and through its seven committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

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

ACQUISITION RISK

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost

and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

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

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

CLIENT RELATIONSHIP MODEL AND POINT OF SALE

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

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

BEST INTEREST STANDARD, TARGETED REFORMS AND MUTUAL FUND FEES

In April 2016, the CSA published Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients (the BIS Consultation Paper), which proposes a set of targeted reforms which all CSA jurisdictions are consulting on relating to the client-registrant relationship, including the regulation of conflicts of interest, the know-your-client and know-your-product requirements, the suitability obligation, the use by registrants of business titles and proficiency. All of the CSA jurisdictions except the British Columbia Securities Commission are also consulting on a regulatory best interest standard, accompanied by guidance, that would form both an over-arching standard and the governing principle against which all other client-related obligations would be interpreted. The Company's subsidiaries submitted comment letters on the BIS Consultation Paper. In November and December 2016, the Company participated in a series of roundtables hosted by certain jurisdictions to further explore the proposals in the BIS Consultation Paper. In March 2017, the Ontario Securities Commission published for comment its 2017-2018 Draft Statement of Priorities indicating its intention to proceed to publish regulatory reforms to create a best interest standard and targeted regulatory reforms and/or guidance under NI 31-103.

In January 2017, the CSA published CSA Staff Notice 81-408 Consultation on the Option of Discontinuing Embedded Commissions (the Fees Consultation Paper) which seeks input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. The Fees Consultation Paper was originally expected to be issued in the fall of 2016 and follows the publication of the CSA's initial consultation paper on mutual fund fee structures in December 2012. The comment period expires on June 9, 2017.

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

COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM

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

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

Of note, opposition from Quebec, Alberta and Manitoba remains strong and the Quebec government has now challenged the validity of the cooperative capital markets regulatory system directing a reference to the Quebec Court of Appeal. The remaining provinces and territories have also not chosen to join the cooperative system to date. Also noteworthy, in July 2016, the Government of Canada and participating provincial jurisdictions announced the Capital Markets Regulatory Authority's initial board of directors and set new times for implementation of the CMA and CMSA, from the previously publicized date of June 30, 2016, to June 30, 2018, at which time the Capital Markets Regulatory Authority (CMRA) will become operational. The Company is continuing to monitor this initiative and any impact it may have on its activities and those of its subsidiaries, particularly in the area of the regulation of mutual funds.

5) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

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

Global economic conditions, changes in equity markets, demographics and other factors including political and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of

IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

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

Redemption rates for long-term funds are summarized in Table 23 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

PRODUCT / SERVICE OFFERING

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

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for a further discussion.

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

TABLE 23: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

| | 2017 MAR. 31 | 2016 MAR. 31 |
|---------------------------|-----------------|-----------------|
| IGM Financial Inc. | | |
| Investors Group | 8.8 % | 8.7 % |
| Mackenzie | 16.2 % | 16.4 % |
| Counsel | 15.7 % | 14.7 % |

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

BUSINESS / CLIENT RELATIONSHIPS

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

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

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships.

Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

PEOPLE RISK

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

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

6) ENVIRONMENTAL RISK

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

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

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

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement as approved by the Board of Directors and also within the Company's Environmental Policy which commit us to responsibly manage our environmental footprint.

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

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

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

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

THE FINANCIAL SERVICES ENVIRONMENT

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

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

Approximately 42% of Canadian discretionary financial assets or \$1.6 trillion resided in investment funds at December 31, 2015, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$142 billion in investment fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

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

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 43% of total industry long-term mutual fund assets at March 31, 2017.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 69% of industry long-term mutual fund assets and 71% of total mutual fund assets under management at March 31, 2017. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

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

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

THE COMPETITIVE LANDSCAPE

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

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

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

The Company enjoys several competitive strengths, including:

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

BROAD AND DIVERSIFIED DISTRIBUTION

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

distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

BROAD PRODUCT CAPABILITIES

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

ENDURING RELATIONSHIPS

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

BENEFITS OF BEING PART OF THE POWER FINANCIAL GROUP OF COMPANIES

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

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes to the Company's assumptions related to critical accounting estimates from those reported at December 31, 2016.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies from those reported at December 31, 2016.

FUTURE ACCOUNTING CHANGES

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

IFRS 9 FINANCIAL INSTRUMENTS

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

- **Classification and measurement:** This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- **Impairment methodology:** This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- **Hedge accounting:** This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

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

reviewing the impact to its impairment models and assessing the use of hedge accounting under IFRS 9.

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

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

IFRS 16 LEASES

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

OTHER

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

During the first quarter of 2017, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OTHER INFORMATION

TRANSACTIONS WITH RELATED PARTIES

There were no changes to the types of related party transactions from those reported at December 31, 2016. For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Annual Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at March 31, 2017 totalled 240,583,923. Outstanding stock options as at March 31, 2017 totalled 9,252,963, of which 4,150,734 were

exercisable. As at May 2, 2017, outstanding common shares totalled 240,587,923 and outstanding stock options totalled 9,176,718, of which 4,085,281 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at March 31, 2017, unchanged at May 2, 2017.

SEDAR

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

| | THREE MONTHS ENDED MARCH 31 | |
|--|-----------------------------|-------------------|
| | 2017 | 2016 |
| <i>(unaudited)</i> | | |
| <i>(in thousands of Canadian dollars, except shares and per share amounts)</i> | | |
| Revenues | | |
| Management fees | \$ 527,701 | \$ 483,836 |
| Administration fees | 108,964 | 100,350 |
| Distribution fees | 105,260 | 94,968 |
| Net investment income and other | 19,757 | 15,877 |
| Proportionate share of affiliate's earnings | 28,019 | 27,808 |
| | 789,701 | 722,839 |
| Expenses | | |
| Commission | 289,307 | 261,515 |
| Non-commission | 246,901 | 227,867 |
| Interest | 26,787 | 22,913 |
| | 562,995 | 512,295 |
| Earnings before income taxes | 226,706 | 210,544 |
| Income taxes | 47,374 | 41,368 |
| Net earnings | 179,332 | 169,176 |
| Perpetual preferred share dividends | 2,213 | 2,213 |
| Net earnings available to common shareholders | \$ 177,119 | \$ 166,963 |
| Average number of common shares <i>(in thousands) (Note 13)</i> | | |
| – Basic | 240,542 | 243,127 |
| – Diluted | 240,817 | 243,211 |
| Earnings per share <i>(in dollars) (Note 13)</i> | | |
| – Basic | \$ 0.74 | \$ 0.69 |
| – Diluted | \$ 0.74 | \$ 0.69 |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (unaudited) (in thousands of Canadian dollars) | THREE MONTHS ENDED MARCH 31 | |
|---|-----------------------------|-------------------|
| | 2017 | 2016 |
| Net earnings | \$ 179,332 | \$ 169,176 |
| Other comprehensive income (loss), net of tax | | |
| Items that will not be reclassified to Net earnings | | |
| Employee benefits | | |
| Net actuarial gains (losses), net of tax of \$2,939 and \$8,198 | (7,948) | (22,168) |
| Investment in affiliate – employee benefits and other | | |
| Other comprehensive income (loss), net of tax of nil | 13,590 | 4,164 |
| Items that may be reclassified subsequently to Net earnings | | |
| Available for sale securities | | |
| Net unrealized gains (losses), net of tax of \$(193) and \$(193) | 1,007 | 520 |
| Reclassification of realized (gains) losses to net earnings, net of tax of \$7 and \$10 | (19) | (26) |
| | 988 | 494 |
| Investment in affiliate and other | | |
| Other comprehensive income (loss), net of tax of \$(1,663) and \$(756) | 6,333 | 9,411 |
| | 12,963 | (8,099) |
| Total comprehensive income | \$ 192,295 | \$ 161,077 |

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

CONSOLIDATED BALANCE SHEETS

(unaudited)
(in thousands of Canadian dollars)

MARCH 31 DECEMBER 31
2017 2016

Assets

| | | |
|----------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,202,873 | \$ 611,032 |
| Securities | 224,136 | 225,184 |
| Client funds on deposit | 431,532 | 455,474 |
| Accounts and other receivables | 262,967 | 287,071 |
| Income taxes recoverable | 27,232 | 13,627 |
| Loans (Note 3) | 7,886,301 | 7,983,269 |
| Derivative financial instruments | 46,946 | 42,821 |
| Other assets (Note 5) | 265,793 | 240,509 |
| Investment in affiliate | 911,343 | 888,851 |
| Capital assets | 161,529 | 161,337 |
| Deferred selling commissions | 749,098 | 726,608 |
| Deferred income taxes | 64,539 | 61,454 |
| Intangible assets | 1,271,569 | 1,267,789 |
| Goodwill | 2,660,267 | 2,660,267 |
| | \$ 16,166,125 | \$ 15,625,293 |

Liabilities

| | | |
|---|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 367,017 | \$ 431,049 |
| Income taxes payable | 2,249 | 3,393 |
| Derivative financial instruments | 30,515 | 38,163 |
| Deposits and certificates | 451,295 | 471,202 |
| Other liabilities | 474,278 | 447,943 |
| Obligations to securitization entities (Note 4) | 7,650,464 | 7,721,024 |
| Deferred income taxes | 461,111 | 440,759 |
| Long-term debt (Note 6) | 1,925,000 | 1,325,000 |
| | 11,361,929 | 10,878,533 |

Shareholders' Equity

| | | |
|---|----------------------|----------------------|
| Share capital | | |
| Perpetual preferred shares | 150,000 | 150,000 |
| Common shares | 1,599,169 | 1,597,208 |
| Contributed surplus | 40,354 | 39,552 |
| Retained earnings | 3,084,152 | 3,042,442 |
| Accumulated other comprehensive income (loss) | (69,479) | (82,442) |
| | 4,804,196 | 4,746,760 |
| | \$ 16,166,125 | \$ 15,625,293 |

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 5, 2017.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31

| (unaudited) (in thousands of Canadian dollars) | SHARE CAPITAL | | | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 10) | TOTAL SHAREHOLDERS' EQUITY |
|---|--|---------------------------|---------------------|-------------------|--|----------------------------|
| | PERPETUAL PREFERRED SHARES (Note 7) | COMMON SHARES (Note 7) | CONTRIBUTED SURPLUS | | | |
| 2017 | | | | | | |
| Balance, beginning of period | \$ 150,000 | \$ 1,597,208 | \$ 39,552 | \$ 3,042,442 | \$ (82,442) | \$ 4,746,760 |
| Net earnings | - | - | - | 179,332 | - | 179,332 |
| Other comprehensive income (loss), net of tax | - | - | - | - | 12,963 | 12,963 |
| Total comprehensive income | - | - | - | 179,332 | 12,963 | 192,295 |
| Common shares | | | | | | |
| Issued under stock option plan | - | 1,961 | - | - | - | 1,961 |
| Stock options | | | | | | |
| Current period expense | - | - | 906 | - | - | 906 |
| Exercised | - | - | (104) | - | - | (104) |
| Perpetual preferred share dividends | - | - | - | (2,213) | - | (2,213) |
| Common share dividends | - | - | - | (135,329) | - | (135,329) |
| Common share cancellation excess and other (Note 7) | - | - | - | (80) | - | (80) |
| Balance, end of period | \$ 150,000 | \$ 1,599,169 | \$ 40,354 | \$ 3,084,152 | \$ (69,479) | \$ 4,804,196 |
| 2016 | | | | | | |
| Balance, beginning of period | \$ 150,000 | \$ 1,623,948 | \$ 35,569 | \$ 2,949,182 | \$ (31,994) | \$ 4,726,705 |
| Net earnings | - | - | - | 169,176 | - | 169,176 |
| Other comprehensive income (loss), net of tax | - | - | - | - | (8,099) | (8,099) |
| Total comprehensive income | - | - | - | 169,176 | (8,099) | 161,077 |
| Common shares | | | | | | |
| Issued under stock option plan | - | 410 | - | - | - | 410 |
| Purchased for cancellation | - | (19,850) | - | - | - | (19,850) |
| Stock options | | | | | | |
| Current period expense | - | - | 1,026 | - | - | 1,026 |
| Exercised | - | - | (22) | - | - | (22) |
| Perpetual preferred share dividends | - | - | - | (2,213) | - | (2,213) |
| Common share dividends | - | - | - | (136,077) | - | (136,077) |
| Common share cancellation excess and other (Note 7) | - | - | - | (83,886) | - | (83,886) |
| Balance, end of period | \$ 150,000 | \$ 1,604,508 | \$ 36,573 | \$ 2,896,182 | \$ (40,093) | \$ 4,647,170 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(in thousands of Canadian dollars)

THREE MONTHS ENDED MARCH 31

| | 2017 | 2016 |
|---|---------------------|-------------------|
| Operating activities | | |
| Earnings before income taxes | \$ 226,706 | \$ 210,544 |
| Income taxes paid | (43,770) | (77,914) |
| Adjustments to determine net cash from operating activities | | |
| Deferred selling commission amortization | 58,893 | 59,791 |
| Amortization of capital and intangible assets | 11,630 | 10,526 |
| Changes in operating assets and liabilities and other | (55,405) | (98,648) |
| | 198,054 | 104,299 |
| Deferred selling commissions paid | (81,383) | (73,835) |
| | 116,671 | 30,464 |
| Financing activities | | |
| Net increase (decrease) in deposits and certificates | 718 | (39) |
| Net (decrease) increase in obligations to securitization entities | (74,004) | 65,244 |
| Issue of debentures | 600,000 | – |
| Issue of common shares | 1,857 | 388 |
| Common shares purchased for cancellation | – | (104,337) |
| Perpetual preferred share dividends paid | (2,213) | (2,213) |
| Common share dividends paid | (135,290) | (137,752) |
| | 391,068 | (178,709) |
| Investing activities | | |
| Purchase of securities | (27,034) | (24,896) |
| Proceeds from the sale of securities | 25,450 | 10,756 |
| Net decrease (increase) in loans | 99,618 | (183,455) |
| Net additions to capital assets | (5,989) | (13,078) |
| Net cash used in additions to intangible assets and acquisitions | (7,943) | (17,003) |
| | 84,102 | (227,676) |
| Increase (decrease) in cash and cash equivalents | 591,841 | (375,921) |
| Cash and cash equivalents, beginning of period | 611,032 | 983,005 |
| Cash and cash equivalents, end of period | \$ 1,202,873 | \$ 607,084 |
| Cash | \$ 65,945 | \$ 44,655 |
| Cash equivalents | 1,136,928 | 562,429 |
| | \$ 1,202,873 | \$ 607,084 |
| Supplemental disclosure of cash flow information related to operating activities | | |
| Interest and dividends received | \$ 67,227 | \$ 62,246 |
| Interest paid | \$ 48,348 | \$ 40,709 |

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

NOTE 1 CORPORATE INFORMATION

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2016. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2016 IGM Financial Inc. Annual Report.

FUTURE ACCOUNTING CHANGES

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

IFRS 9 FINANCIAL INSTRUMENTS

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

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

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

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

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 LEASES

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

NOTE 3 LOANS

| | CONTRACTUAL MATURITY | | | MARCH 31 2017 TOTAL | DECEMBER 31 2016 TOTAL |
|------------------------------|----------------------|----------------|-----------------|---------------------------|------------------------------|
| | 1 YEAR OR LESS | 1 - 5 YEARS | OVER 5 YEARS | | |
| Loans and receivables | | | | | |
| Residential mortgages | \$ 1,209,550 | \$ 6,405,909 | \$ 1,081 | \$ 7,616,540 | \$ 7,644,525 |
| Less: Collective allowance | | | | 713 | 722 |
| | | | | <u>7,615,827</u> | <u>7,643,803</u> |
| Held for trading | | | | <u>270,474</u> | <u>339,466</u> |
| | | | | <u>\$ 7,886,301</u> | <u>\$ 7,983,269</u> |

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

| | | |
|-------------------------------|--------|--------|
| Balance, beginning of year | \$ 722 | \$ 705 |
| Write-offs, net of recoveries | (171) | (502) |
| Provision for credit losses | 162 | 519 |
| Balance, end of period | \$ 713 | \$ 722 |

Total impaired loans as at March 31, 2017 were \$3,411 (December 31, 2016 – \$2,607).

Total interest income on loans classified as loans and receivables was \$49.8 million (2016 – \$46.6 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$33.2 million (2016 – \$31.5 million). Gains realized on the sale of residential mortgages totalled \$2.1 million (2016 – \$2.7 million). Fair value adjustments related to mortgage banking operations totalled negative \$1.3 million (2016 – negative \$1.8 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

NOTE 4 SECURITIZATIONS

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

NOTE 4 SECURITIZATIONS (continued)

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$22.4 million at March 31, 2017 (December 31, 2016 – negative \$23.1 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.

| | SECURITIZED MORTGAGES | OBLIGATIONS TO SECURITIZATION ENTITIES | NET |
|--------------------------|--------------------------|--|--------------|
| MARCH 31, 2017 | | | |
| Carrying value | | | |
| NHA MBS and CMB Program | \$ 4,880,162 | \$ 4,894,599 | \$ (14,437) |
| Bank sponsored ABCP | 2,705,883 | 2,755,865 | (49,982) |
| Total | \$ 7,586,045 | \$ 7,650,464 | \$ (64,419) |
| Fair value | \$ 7,786,038 | \$ 7,790,472 | \$ (4,434) |
| DECEMBER 31, 2016 | | | |
| Carrying value | | | |
| NHA MBS and CMB Program | \$ 4,942,474 | \$ 4,987,298 | \$ (44,824) |
| Bank sponsored ABCP | 2,672,817 | 2,733,726 | (60,909) |
| Total | \$ 7,615,291 | \$ 7,721,024 | \$ (105,733) |
| Fair value | \$ 7,838,295 | \$ 7,873,118 | \$ (34,823) |

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 5 OTHER ASSETS

| | MARCH 31 2017 | DECEMBER 31 2016 |
|----------------------------------|------------------|---------------------|
| China Asset Management Co., Ltd. | \$ 193,195 | \$ 193,463 |
| Deferred and prepaid expenses | 51,651 | 43,428 |
| Other | 20,947 | 3,618 |
| | \$ 265,793 | \$ 240,509 |

As at March 31, 2017, Other assets included a loan of \$15.0 million that was provided to Wealthsimple Financial Corporation during the quarter. Subsequent to March 31, 2017, the Company increased its investment in Wealthsimple by a total of \$42.6 million including the conversion of the \$15.0 million loan to equity.

NOTE 6 LONG-TERM DEBT

On January 26, 2017, the Company issued \$400 million of 10 year, 3.44% debentures and \$200 million of 30 year, 4.56% debentures. The net proceeds will be used by the Company to finance a substantial portion of the announced acquisition of an equity interest in China Asset Management Co. Ltd., and for general corporate purposes.

NOTE 7 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

| | MARCH 31, 2017 | | MARCH 31, 2016 | |
|--|----------------|--------------|----------------|--------------|
| | SHARES | STATED VALUE | SHARES | STATED VALUE |
| Perpetual preferred shares – classified as equity: | | | | |
| First preferred shares, Series B | 6,000,000 | \$ 150,000 | 6,000,000 | \$ 150,000 |
| Common shares: | | | | |
| Balance, beginning of period | 240,515,968 | \$ 1,597,208 | 244,788,138 | \$ 1,623,948 |
| Issued under Stock Option Plan | 67,955 | 1,961 | 14,526 | 410 |
| Purchased for cancellation | – | – | (2,991,900) | (19,850) |
| Balance, end of period | 240,583,923 | \$ 1,599,169 | 241,810,764 | \$ 1,604,508 |

NORMAL COURSE ISSUER BID

In the first quarter of 2017, there were no shares purchased (2016 – 2,991,900 shares purchased at a cost of \$104.3 million). Any premium paid to purchase the shares in excess of the stated value is charged to Retained earnings.

The Company commenced a normal course issuer bid on March 20, 2017 which is effective until March 19, 2018. Pursuant to this bid, the Company may purchase up to 12.0 million or 5% of its common shares outstanding as at February 28, 2017. On March 20, 2016, the Company commenced a normal course issuer bid, effective until March 19, 2017, which authorized it to purchase up to 12.1 million or 5% of its common shares outstanding as at March 10, 2016.

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

NOTE 8 CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the First Quarter 2017 Report to Shareholders and in Note 17 to the Consolidated Financial Statements in the 2016 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2016.

NOTE 9 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

| | MARCH 31 2017 | DECEMBER 31 2016 |
|----------------------|------------------|---------------------|
| Common share options | | |
| – Outstanding | 9,252,963 | 8,484,030 |
| – Exercisable | 4,150,734 | 3,858,518 |

In the first quarter of 2017, the Company granted 1,396,455 options to employees (2016 – 1,575,595). The weighted-average fair value of options granted during the three months ended March 31, 2017 has been estimated at \$2.53 per option (2016 – \$1.61) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$41.71. The assumptions used in these valuation models include:

| | THREE MONTHS ENDED MARCH 31 | |
|-------------------------|-----------------------------|----------|
| | 2017 | 2016 |
| Exercise price | \$ 41.74 | \$ 34.94 |
| Risk-free interest rate | 1.53% | 0.96% |
| Expected option life | 6 years | 6 years |
| Expected volatility | 17.00% | 18.00% |
| Expected dividend yield | 5.39% | 6.44% |

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date.

NOTE 10 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| | EMPLOYEE BENEFITS | AVAILABLE FOR SALE SECURITIES | INVESTMENT IN AFFILIATE AND OTHER | TOTAL |
|-----------------------------------|----------------------|-------------------------------------|---|-------------|
| MARCH 31, 2017 | | | | |
| Balance, beginning of period | \$ (110,913) | \$ 8,617 | \$ 19,854 | \$ (82,442) |
| Other comprehensive income (loss) | (7,948) | 988 | 19,923 | 12,963 |
| Balance, end of period | \$ (118,861) | \$ 9,605 | \$ 39,777 | \$ (69,479) |
| MARCH 31, 2016 | | | | |
| Balance, beginning of period | \$ (111,874) | \$ 2,658 | \$ 77,222 | \$ (31,994) |
| Other comprehensive income (loss) | (22,168) | 494 | 13,575 | (8,099) |
| Balance, end of period | \$ (134,042) | \$ 3,152 | \$ 90,797 | \$ (40,093) |

Amounts are recorded net of tax.

NOTE 11 RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the First Quarter 2017 Report to Shareholders and in Note 20 to the Consolidated Financial Statements in the 2016 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2016.

NOTE 12 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.

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

Fair value is determined using the following methods and assumptions:

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

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

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

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

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

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

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

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

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

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 assets and liabilities include securities with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

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

| | CARRYING VALUE | FAIR VALUE | | | TOTAL |
|---|----------------|------------|-----------|------------|------------|
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | |
| MARCH 31, 2017 | | | | | |
| Financial assets recorded at fair value | | | | | |
| Securities | | | | | |
| – Available for sale | \$ 170,228 | \$ 16,897 | \$ – | \$ 153,331 | \$ 170,228 |
| – Held for trading | 53,908 | 51,874 | 697 | 1,337 | 53,908 |
| Loans | | | | | |
| – Held for trading | 270,474 | – | 270,474 | – | 270,474 |
| Derivative financial instruments | 46,946 | – | 44,724 | 2,222 | 46,946 |
| Financial assets recorded at amortized cost | | | | | |
| Loans | | | | | |
| – Loans and receivables | 7,615,827 | – | 30,693 | 7,786,038 | 7,816,731 |
| Financial liabilities recorded at fair value | | | | | |
| Derivative financial instruments | 30,515 | – | 5,907 | 24,608 | 30,515 |
| Other financial liabilities | 8,348 | 8,291 | 57 | – | 8,348 |
| Financial liabilities recorded at amortized cost | | | | | |
| Deposits and certificates | 451,295 | – | 452,381 | – | 452,381 |
| Obligations to securitization entities | 7,650,464 | – | – | 7,790,472 | 7,790,472 |
| Long-term debt | 1,925,000 | – | 2,235,287 | – | 2,235,287 |
| DECEMBER 31, 2016 | | | | | |
| Financial assets recorded at fair value | | | | | |
| Securities | | | | | |
| – Available for sale | \$ 158,380 | \$ 6,431 | \$ – | \$ 151,949 | \$ 158,380 |
| – Held for trading | 66,804 | 63,049 | 2,317 | 1,438 | 66,804 |
| Loans | | | | | |
| – Held for trading | 339,466 | – | 339,466 | – | 339,466 |
| Derivative financial instruments | 42,821 | – | 39,976 | 2,845 | 42,821 |
| Financial assets recorded at amortized cost | | | | | |
| Loans | | | | | |
| – Loans and receivables | 7,643,803 | – | 29,452 | 7,838,295 | 7,867,747 |
| Financial liabilities recorded at fair value | | | | | |
| Derivative financial instruments | 38,163 | – | 12,263 | 25,900 | 38,163 |
| Other financial liabilities | 9,781 | 9,770 | 11 | – | 9,781 |
| Financial liabilities recorded at amortized cost | | | | | |
| Deposits and certificates | 471,202 | – | 472,219 | – | 472,219 |
| Obligations to securitization entities | 7,721,024 | – | – | 7,873,118 | 7,873,118 |
| Long-term debt | 1,325,000 | – | 1,610,942 | – | 1,610,942 |

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.

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

| | BALANCE JANUARY 1 | GAINS/ (LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾ | GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME ⁽²⁾ | PURCHASES AND ISSUANCES | SETTLEMENTS | BALANCE MARCH 31 |
|---------------------------------------|----------------------|--|--|-------------------------------|-------------|---------------------|
| MARCH 31, 2017 | | | | | | |
| Assets | | | | | | |
| Securities | | | | | | |
| – Available for sale | \$ 151,949 | \$ – | \$ 962 | \$ 420 | \$ – | \$ 153,331 |
| – Held for trading | 1,438 | (101) | – | – | – | 1,337 |
| Liabilities | | | | | | |
| Derivative financial instruments, net | 23,055 | (3,502) | – | 36 | 4,207 | 22,386 |
| MARCH 31, 2016 | | | | | | |
| Assets | | | | | | |
| Securities | | | | | | |
| – Available for sale | \$ 9,273 | \$ – | \$ – | \$ – | \$ – | \$ 9,273 |
| – Held for trading | 1,288 | (10) | – | – | – | 1,278 |
| Liabilities | | | | | | |
| Derivative financial instruments, net | 47,414 | (8,006) | – | 1,157 | 4,075 | 52,502 |

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

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

There were no transfers in or out of Level 3 in 2017 or 2016.

NOTE 13 EARNINGS PER COMMON SHARE

| | THREE MONTHS ENDED MARCH 31 | |
|---|-----------------------------|------------|
| | 2017 | 2016 |
| Earnings | | |
| Net earnings | \$ 179,332 | \$ 169,176 |
| Perpetual preferred share dividends | 2,213 | 2,213 |
| Net earnings available to common shareholders | \$ 177,119 | \$ 166,963 |
| Number of common shares (in thousands) | | |
| Average number of common shares outstanding | 240,542 | 243,127 |
| Add: Potential exercise of outstanding stock options ⁽¹⁾ | 275 | 84 |
| Average number of common shares outstanding – Diluted basis | 240,817 | 243,211 |
| Earnings per common share (in dollars) | | |
| Basic | \$ 0.74 | \$ 0.69 |
| Diluted | \$ 0.74 | \$ 0.69 |

(1) Excludes 962 thousand shares in 2017 related to outstanding stock options that were anti-dilutive (2016 – 2,291 thousand).

NOTE 14 SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

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

Investors Group earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, Investors Group earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

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

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

2017

| THREE MONTHS ENDED MARCH 31 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|--------------------|--------------|------------------------|--------------|
| Revenues | | | | |
| Management fees | \$ 341,071 | \$ 171,761 | \$ 14,869 | \$ 527,701 |
| Administration fees | 79,868 | 24,400 | 4,696 | 108,964 |
| Distribution fees | 57,108 | 2,339 | 45,813 | 105,260 |
| Net investment income and other | 18,026 | 80 | 29,670 | 47,776 |
| | 496,073 | 198,580 | 95,048 | 789,701 |
| Expenses | | | | |
| Commission | 169,556 | 74,585 | 45,166 | 289,307 |
| Non-commission | 147,759 | 82,526 | 16,616 | 246,901 |
| | 317,315 | 157,111 | 61,782 | 536,208 |
| Earnings before undernoted | \$ 178,758 | \$ 41,469 | \$ 33,266 | 253,493 |
| Interest expense | | | | 26,787 |
| Earnings before income taxes | | | | 226,706 |
| Income taxes | | | | 47,374 |
| Net earnings | | | | 179,332 |
| Perpetual preferred share dividends | | | | 2,213 |
| Net earnings available to common shareholders | | | | \$ 177,119 |
| Identifiable assets | | | | |
| Goodwill | \$ 9,491,761 | \$ 1,300,493 | \$ 2,713,604 | \$13,505,858 |
| | 1,347,781 | 1,168,580 | 143,906 | 2,660,267 |
| Total assets | \$10,839,542 | \$ 2,469,073 | \$ 2,857,510 | \$16,166,125 |

NOTE 14 SEGMENTED INFORMATION (continued)

2016

| THREE MONTHS ENDED MARCH 31 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|--------------------|--------------|------------------------|---------------|
| Revenues | | | | |
| Management fees | \$ 308,218 | \$ 160,491 | \$ 15,127 | \$ 483,836 |
| Administration fees | 73,618 | 22,384 | 4,348 | 100,350 |
| Distribution fees | 49,878 | 2,563 | 42,527 | 94,968 |
| Net investment income and other | 13,777 | 318 | 29,590 | 43,685 |
| | 445,491 | 185,756 | 91,592 | 722,839 |
| Expenses | | | | |
| Commission | 147,388 | 71,675 | 42,452 | 261,515 |
| Non-commission | 135,029 | 77,627 | 15,211 | 227,867 |
| | 282,417 | 149,302 | 57,663 | 489,382 |
| Earnings before undernoted | \$ 163,074 | \$ 36,454 | \$ 33,929 | 233,457 |
| Interest expense | | | | 22,913 |
| Earnings before income taxes | | | | 210,544 |
| Income taxes | | | | 41,368 |
| Net earnings | | | | 169,176 |
| Perpetual preferred share dividends | | | | 2,213 |
| Net earnings available to common shareholders | | | | \$ 166,963 |
| Identifiable assets | \$ 9,033,130 | \$ 1,304,134 | \$ 1,794,122 | \$ 12,131,386 |
| Goodwill | 1,347,781 | 1,168,580 | 143,906 | 2,660,267 |
| Total assets | \$ 10,380,911 | \$ 2,472,714 | \$ 1,938,028 | \$ 14,791,653 |

PARGESA HOLDING SA

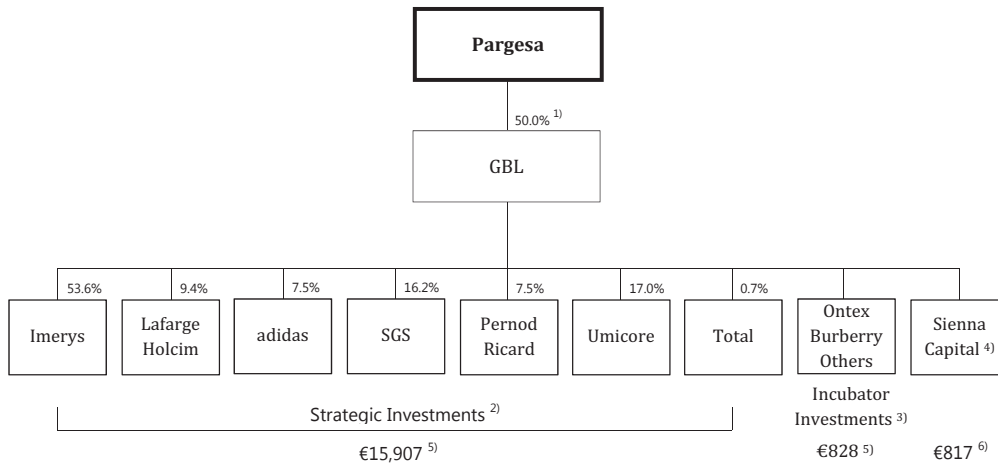
PART D

The attached document discloses information relating to the financial results of Pargesa Holding SA as issued by Pargesa Holding SA.

PARGESA HOLDING SA

Power Financial Corporation and the Frère Group of Charleroi, Belgium, each hold a 50.0% interest in Parjointco N.V., a Netherlands-based company that, as at March 31, 2017, held a 55.5% interest in Pargesa Holding SA (Pargesa), the Pargesa group's parent company, representing 75.4% of the voting rights in the Company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SIX: PARG). The Pargesa group holds interests in a limited number of large European companies.

The organization chart below shows the Group's structure at March 31, 2017, which was primarily composed of seven strategic main shareholdings.



¹⁾ 51.9% of voting rights, taking into account the suspended voting rights relating to treasury shares.

²⁾ Investments generally larger than €1 billion, primarily in listed companies, in which the Group can exercise clear influence. These represent the bulk of the adjusted net assets.

³⁾ Comprising a selection of listed or unlisted shareholdings that range in size from €250 million to €1 billion, having the potential to eventually become strategic.

⁴⁾ Comprising significant investments in private equity, debt or specific thematic funds.

⁵⁾ Market value in millions of euros of the investments held by GBL at March 31, 2017.

⁶⁾ Estimated value in millions of euros at March 31, 2017.

As at March 31, 2017, Pargesa held an interest in Groupe Bruxelles Lambert (GBL), a holding company whose head office is in Brussels, Belgium, and which is listed on the Euronext Exchange (EBR: GBLB). At the same date, GBL held an interest in the following companies: Imerys (mineral-based specialty solutions for industry), LafargeHolcim (cement, aggregates and concrete), adidas (design and distribution of sportswear), SGS (testing, inspection and certification), Pernod Ricard (wines and spirits), Umicore (materials technology and recycling) and Total (oil, gas and chemical industries). SGS is listed on the Swiss Exchange; LafargeHolcim is listed on the Swiss Exchange and on the Paris Exchange; adidas is listed on the XETRA Stock Exchange; Umicore is listed on the Euronext Exchange; and all the other companies are listed on the Paris Exchange.

HIGHLIGHTS

- ▶ As already reported, GBL sold since the beginning of the year 11.9 million shares of Engie (0.5% of the company's share capital), for net proceeds of €145 million and generating an accounting gain of €1 million for GBL. GBL's residual ownership in Engie, which is no longer considered a strategic investment since the end of 2016, was of 0.1% of the share capital on March 31, 2017.

Furthermore, the remaining balance (€306 million) of the bonds exchangeable for Engie shares which were issued by GBL in 2013 was redeemed in cash at maturity, on February 7, 2017.

- ▶ "Incubator" portfolio:

- As already reported, Burberry announced in February 2017 that GBL had crossed the 3% threshold of the voting rights of the company. The investment in Burberry is part of GBL's portfolio diversification strategy. As at March 31, 2017, GBL held 3.0% of Burberry's share capital, worth €266 million;
- In March 2017, GBL participated in the capital increase realized by Ontex, with the objective to refinance the company following the acquisition of the "hygienic consumables" activity of Hypermarches. Following this operation, GBL's ownership remains unchanged at 19.98%. Furthermore, the appointment of a GBL representative to the board of directors will be proposed to the general shareholders' meeting of Ontex of May 24;
- GBL announced on April 12, 2017 the acquisition of a 15.0% interest in the capital of Parques Reunidos Servicios Centrales, S.A. (Parques), representing an investment of €208 million. Parques, whose shares are listed on the Madrid Stock Exchange, is a leading global operator of leisure parks across Europe, North America and Asia. The company generated €584 million in sales during its financial year ended September 30, 2016. On April 25, 2017, Parques co-opted a GBL representative on its board of directors.

- ▶ Sienna Capital (GBL's "financial pillar"):

- As already reported in March 2017, ECP III sold its majority stake in Golden Goose, an Italian designer of shoes, clothing and contemporary accessories. This transaction generated in the first quarter of 2017 a gain of €112 million for GBL, or SF62.0 million at the level of Pargesa;
- Also already reported was the acquisition by Sagard 3 in February 2017 of a majority stake in Ipackchem, a leading global manufacturer of "barrier" packaging whose products are mainly used in the transport and storage of aromas, fragrances and agrochemical products, for which permeability, contamination and evaporation constraints are critical;
- It is also reminded that at the end of 2016, Kartesia launched a new investment fund, in which Sienna Capital made a commitment for €150 million. The first closing of the fund took place on February 22, 2017, and as of March 31, 2017 total commitments amounted to €457 million. Kartesia's objective is to raise an aggregate amount of €750 million by July 2017.

At March 31, 2017, GBL's commitments under its financial pillar amounted to €577 million (€601 million at December 31, 2016).

ECONOMIC PRESENTATION OF PARGESA'S FINANCIAL RESULTS

In addition to the accounts drawn up in accordance with IFRS, Pargesa continues to publish an economic presentation of its results, in order to provide continuous information over the long term about the contribution of each of its major shareholdings to its results. IFRS require different accounting treatments depending on the group's percentage holding in each of its investments (full integration for Imerys, with other major group holdings being booked as financial investments), so this continuous view would be interrupted without this additional economic presentation of the group's results.

The economic presentation shows, in terms of Pargesa's share of results, the operating contribution of the main shareholdings to Pargesa's consolidated income, together with the operating income from the holding companies (Pargesa and GBL), which highlight in particular the income from private equity activities and other investment funds (combined under Sienna Capital at GBL) and the impact of net financial income. The analysis also draws a distinction between the operating and non-operating items in the income, the non-operating part being composed of net capital gains and losses in connection with disposals and any restructuring costs and impairments or reversals of previous impairments.

According to this approach, the economic results at March 31, 2017 can be analyzed as follows:

| [in millions of Swiss francs] [unaudited] | MARCH 31, 2017 | MARCH 31, 2016 | |
|--|---------------------------|-------------------|----------------|
| Operating contribution of the main shareholdings | | | |
| Consolidated | | | |
| Imerys | share of operating income | 25.7 | 25.6 |
| Non-consolidated: | | | |
| SGS | net dividend | 45.9 | 41.5 |
| Total | net dividend | - | (8.7) |
| Operating contribution of the main shareholdings | | | |
| <i>per share [SF]</i> | | | |
| Contribution from private equity activities and other investment funds | | 56.6 | (1.6) |
| Net financial income and expenses | | (2.8) | 26.3 |
| General expenses and taxes | | (7.6) | (6.3) |
| Economic operating income | | 117.8 | 76.8 |
| <i>per share [SF]</i> | | | |
| Non-operating loss from consolidated shareholdings | | (2.0) | (3.2) |
| Non-operating income (loss) from holding company activities | | 8.8 | (444.9) |
| Net income (loss) | | 124.6 | (371.3) |
| <i>per share [SF]</i> | | | |
| | | (1.47) | (4.39) |
| Average number of shares in circulation [in thousands] | | 84,659 | 84,659 |
| €/SF average exchange rate | | 1.069 | 1.096 |

Most income comes from GBL, whose results are denominated in euros. In the first quarter of 2017, the average €/SF exchange rate was 1.069, compared with 1.096 in the first quarter of 2016, a decrease of 2.4%.

CONSOLIDATED AND EQUITY-ACCOUNTED HOLDINGS

Imerys

Pargesa's share of Imerys's net income from current operations, in Swiss franc terms, was SF25.7 million in the first quarter of 2017, compared with SF25.6 million in the first quarter of 2016. The stability of Imerys's contribution primarily reflects the decrease in the average €/SF exchange rate in 2017 compared with the first quarter of 2016.

Imerys reported net income from current operations of €85.3 million in the first quarter of 2017, an increase of 3.1% over the corresponding period in 2016 (€82.7 million). After taking into account non-recurring items of -€6.5 million¹ net of taxes, net income was €78.8 million in the first quarter of 2017, compared with €72.4 million in the first quarter of 2016 (which included non-recurring items net of taxes for -€10.3 million).

NON-CONSOLIDATED HOLDINGS

The non-consolidated holdings contribute to operating income through the net dividends recorded by GBL. Usually, the only contribution to operating income recorded in the first quarter of the financial year comes from SGS, as dividends from other shareholdings are recorded from the second quarter on.

It is reminded that, as a result of the disposals of Total and Engie shares realized by GBL in 2016 and early 2017, and given the high dividend yield on these shareholdings, these transactions will have a significant impact on the contribution of non-consolidated holdings to Pargesa's economic operating income. However, the proceeds from the sales will be used over time to make investments that will gradually contribute to income, depending on when the proceeds are reinvested and the level of return on the new investments.

SGS

In the first quarter of 2017, Pargesa's share of the contribution from SGS was SF45.9 million, compared with SF41.5 million in the first quarter of 2016. The year-over-year variance in the contribution results primarily from the increased dividend per share paid by SGS (SF70, versus SF68 in 2016), as well as from the increase of GBL's ownership in the company.

Total

The negative contribution from Total in the first quarter of 2016 reflected the impact of GBL's sale of Total shares during the period. Under accounting rules, interim dividends are recorded on the date they are announced by the board of directors and not on the effective payment date. In the fourth quarter of 2015, GBL recorded the third interim dividend related to 2015 (which was announced in October 2015 but payable in 2016), on the basis of the number of shares held at December 31, 2015, i.e. before the first quarter of 2016 sales.

¹ In the economic presentation of results, Pargesa's share of non-recurring items recorded by Imerys appears under "non-operating income (loss) from consolidated shareholdings".

CONTRIBUTIONS FROM PRIVATE EQUITY ACTIVITIES AND OTHER FUNDS

The contribution from private equity activities and other investment funds comes primarily from investments held by GBL through Sienna Capital, and also includes general expenses and management fees. In the first quarter of 2017, the net contribution from these activities came in at SF56.6 million, and includes Pargesa's share of the gain recorded by ECP III on the sale of its investment in Golden Goose (€112 million for GBL, or SF62.0 million at the level of Pargesa).

NET FINANCIAL INCOME AND EXPENSES

Net financial income and expenses includes interest income and expenses as well as other financial income and expenses. This line item amounted to -SF2.8 million in the first quarter of 2017, compared with SF26.3 million in the first quarter of 2016, and includes:

- ▶ The impact of the marking to market, at the end of each period, of the derivative instruments implicitly embedded in the outstanding exchangeable and convertible bonds issued by GBL. Pargesa's share of this impact, which in the first quarter of 2017 relates only to GBL's convertible bonds, was -SF1.9 million. In the first quarter of 2016, the corresponding figure was SF38.0 million, including SF25.8 million related to the bonds exchangeable for Engie shares, reflecting in particular the evolution in the price of the underlying shares over the period;
- ▶ The net -SF4.3 million impact resulting from the cancellation of the derivatives embedded in the bonds exchangeable for Engie shares redeemed at maturity by GBL in February 2017;
- ▶ Pargesa's share of the realized and unrealized results recorded by GBL from trading activities (including dividends) and derivatives used by GBL in managing its portfolio. Pargesa's share of results from these activities was SF9.3 million in the first quarter of 2017, compared with -SF4.3 million in the first quarter of 2016.

OTHER OPERATING INCOME FROM HOLDING COMPANY ACTIVITIES

Other operating income from holding company activities represents Pargesa's share of net dividends recorded by GBL on its incubator-type investments. Dividends from these investments are usually paid later in the year.

GENERAL EXPENSES AND TAXES

The general expenses and taxes line item represents Pargesa's own general expenses and taxes as well as its share of those of GBL.

NON-OPERATING INCOME (LOSS)

Non-operating income (loss) from consolidated shareholdings represents Pargesa's share of Imerys' non-operating items.

The net non-operating income from holding company activities was SF8.8 million in the first quarter of 2017, and included in particular the impact of the redemption by GBL of the outstanding balance of the bonds exchangeable for Engie shares.

In the first quarter of 2016, the net non-operating loss from holding company activities of -SF444.9 million included primarily:

- ▶ Pargesa's -SF818.3 million share of the €1,443 million impairment charge recorded by GBL on its holding in LafargeHolcim, in accordance with IFRS. As a reminder, this impairment charge was calculated on the basis of LafargeHolcim's share price at March 31, 2016 (€41.28);
- ▶ Pargesa's SF398.8 million share of the capital gain recorded by GBL on the sale of 1.1% of Total's share capital in the first quarter of 2016, including an historical exchange-rate gain of SF155.2 million at the level of Pargesa;
- ▶ A further impairment charge of -SF25.2 million on GBL's holding in Engie.

PRESENTATION OF RESULTS IN ACCORDANCE WITH IFRS

The simplified income statement in accordance with IFRS is as follows:

| [in millions of Swiss francs] [unaudited] | MARCH 31, 2017 | MARCH 31, 2016 |
|---|-------------------|-------------------|
| Operating income | 1,280.9 | 1,243.8 |
| Operating expenses | (1,152.9) | (1,122.4) |
| Other income and expenses | 139.4 | (859.1) |
| Operating profit (loss) | 267.4 | (737.7) |
| Dividends and interest from long-term investments | 88.5 | 63.1 |
| Other financial income and expenses | (28.9) | 33.2 |
| Taxes | (38.1) | (40.0) |
| Income from associates and joint ventures | 1.4 | 7.5 |
| Consolidated net profit (loss) [including minority interests] | 290.3 | (673.9) |
| Attributable to minority interests | (165.7) | 302.6 |
| Attributable to Pargesa shareholders [group share] | 124.6 | (371.3) |
| <i>Basic earnings per share attributable to Pargesa shareholders [SF]</i> | <i>1.47</i> | <i>(4.39)</i> |
| Average number of shares in circulation [in thousands] | 84,659 | 84,659 |
| €/SF average exchange rate | 1.069 | 1.096 |

Operating income and expenses are primarily the revenues and operating expenses of Imerys, whose accounts are fully consolidated.

Other income and expenses includes net capital gains and losses as well as impairments and reversals of previous impairments on group shareholdings and operations. In the first quarter of 2017, this figure mainly comprised the gain realized on the sale by ECP III of its investment in Golden Goose (SF132.8 million). In the first quarter of 2016, this item included primarily the impairment charge recorded as of March 31, 2016 by GBL on its investment in LafargeHolcim (SF1,575 million), and the gain recorded by GBL on the sale of 1.1% of Total's share capital (SF770 million).

The dividends and interest from long-term investments item comprises the net dividends recorded by the group from its non-consolidated investments, and in particular the dividends from SGS recorded in the period.

The other financial income and expenses and taxes items provide consolidated figures for Pargesa, GBL and Imerys. Other financial income and expenses includes the non-cash impact of GBL's derivative financial instruments being marked to market.

Income from associates and joint ventures represents the share of the consolidated net profit contributed by shareholdings accounted for in the Pargesa financial statements using the equity method. These shareholdings are primarily held within Sienna Capital's portfolio ("financial pillar") or by Imerys.

The item minority interests mainly relates to the share of income due to the minority shareholders of GBL and Imerys, these two companies being fully consolidated into the Pargesa group financial statements.

ADJUSTED NET ASSET VALUE

Pargesa's flow-through adjusted net asset value per share was SF114.2 at March 31, 2017 (SF104.9 at December 31, 2016). Adjusted net asset value is calculated on the basis of the current market values and exchange rates for the listed shareholdings, and on the book value of consolidated shareholders' equity (or fair value for private equity and other funds) and current exchange rates for unlisted investments. It is broken down as follows:

Pargesa's flow-through adjusted net asset value

As at March 31, 2017

| [in millions of Swiss francs] [unaudited] | % OF CAPITAL | % OF ECONOMIC INTEREST | SHARE PRICE & CURRENCY | FLOW- THROUGH VALUE | WEIGHTING AS A % OF TOTAL |
|--|-----------------|------------------------------|---------------------------|---------------------------|---------------------------------|
| Imerys | 53.6 | 26.8 | 79.6 € | 1,824 | 19 |
| LafargeHolcim | 9.4 | 4.7 | 55.5 € | 1,699 | 18 |
| adidas | 7.5 | 3.8 | 178.3 € | 1,496 | 15 |
| SGS | 16.2 | 8.1 | 2,137 SF | 1,354 | 14 |
| Pernod Ricard | 7.5 | 3.8 | 110.9 € | 1,180 | 12 |
| Umicore | 17.0 | 8.5 | 53.4 € | 544 | 6 |
| Total | 0.7 | 0.4 | 47.4 € | 411 | 4 |
| Incubator | | | | | |
| Ontex | 19.98 | 10.0 | 30.1 € | 265 | 3 |
| Burberry | 3.0 | 1.5 | 17.2 £ | 142 | 1 |
| Others | | | | 36 | – |
| Financial pillar | | | | 437 | 5 |
| Other Pargesa | | | | 25 | – |
| Total portfolio | | | | 9,413 | 97 |
| GBL treasury assets | | | | 262 | 3 |
| Net cash (debt) ⁽¹⁾ | | | | (10) | – |
| Adjusted net asset value | | | | 9,665 | 100 |
| <i>per Pargesa share</i> | | | 70.8 SF | 114.2 | |
| €/SF exchange rate | | | | 1.070 | |

⁽¹⁾ This item notably includes Pargesa's share in the market value of GBL's trading portfolio. At March 31, 2017, it also includes Pargesa's share of the value of the remaining 0.1% stake in Engie (2 million shares).

The flow-through adjusted net asset value of Pargesa is published on a weekly basis on the company's website. It was SF116.0 per share on April 28, 2017.