

## TO THE SHAREHOLDERS

Power Corporation of Canada's net earnings attributable to participating shareholders were \$350 million or \$0.75 per share, compared with \$272 million or \$0.59 per share in 2016.

Adjusted net earnings attributable to participating shareholders (a non-IFRS financial measure)<sup>1</sup> were \$401 million or \$0.86 per share, compared with \$306 million or \$0.66 per share in 2016.

Other items, not included in adjusted net earnings, were a net charge of \$51 million. Other items consisted mainly of the Corporation's share of Great-West Lifeco's (Lifeco) restructuring charges to realign its Canadian operations and of IGM Financial Inc.'s (IGM) favourable revaluation of its registered pension plan obligation, partially offset by restructuring charges.

## SIX-MONTH RESULTS

Net earnings attributable to participating shareholders were \$608 million or \$1.31 per share, compared with \$320 million or \$0.69 per share in 2016.

Adjusted net earnings attributable to participating shareholders were \$670 million or \$1.44 per share, compared with \$497 million or \$1.07 per share in 2016.

Other items, not included in adjusted net earnings, resulted in a net charge of \$62 million. In addition to the items discussed above, other items in the first quarter included the Corporation's share of Lifeco's restructuring charges related to its health and retail business in Ireland and the completion of integration activities at Empower Retirement in the United States.

## RESULTS OF POWER FINANCIAL CORPORATION

FOR THE PERIOD ENDED JUNE 30

### SECOND QUARTER RESULTS

Power Financial reported net earnings attributable to common shareholders of \$545 million or \$0.76 per share, compared with \$505 million or \$0.71 per share in 2016.

Adjusted net earnings attributable to common shareholders were \$622 million or \$0.87 per share, compared with \$557 million or \$0.78 per share in 2016.

Other items, not included in adjusted net earnings, were a net charge of \$77 million representing Power Financial's share of the other items discussed above.

<sup>1</sup> 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 Corporation of Canada for further disclosure concerning non-IFRS financial measures.

## SIX-MONTH RESULTS

Power Financial reported net earnings attributable to common shareholders of \$1,029 million or \$1.44 per share, compared with \$764 million or \$1.07 per share in 2016.

Adjusted net earnings attributable to common shareholders were \$1,123 million or \$1.57 per share, compared with \$1,033 million or \$1.45 per share in 2016.

Other items, not included in adjusted net earnings, resulted in a net charge of \$94 million.

At June 30, 2017, Power Corporation held a 65.6% economic interest in Power Financial. Power Financial's contribution to Power Corporation's adjusted net earnings was \$407 million for the quarter, compared with \$365 million in 2016. For the six-month period, Power Financial contributed \$736 million to Power Corporation's adjusted net earnings, compared with \$678 million in 2016.

## SAGARD INVESTMENT FUNDS AND OTHER INVESTMENTS

### FOR THE PERIOD ENDED JUNE 30

#### SECOND QUARTER RESULTS

Income from investments was \$66 million, comprised of gains of \$73 million from the Corporation's other investments and losses of \$7 million in the Sagard Investment Funds. In 2016, these investment activities resulted in a loss of \$3 million. The fair value of investments decreased from \$2,690 million at December 31, 2016 to \$2,601 million at June 30, 2017.

#### SIX-MONTH RESULTS

Income from investments was \$87 million, compared with a loss of \$49 million in 2016.

On behalf of the Board of Directors,

Signed,  
Paul Desmarais, Jr., o.c., o.q.  
Chairman and Co-Chief Executive Officer

Signed,  
André Desmarais, o.c., o.q.  
Deputy Chairman, President and  
Co-Chief Executive Officer

August 4, 2017

# Power Corporation of Canada

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This document contains management's discussion and analysis of the financial condition and financial performance of Power Corporation of Canada (the Corporation) for the three months and six months ended June 30, 2017 and the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months and six months ended June 30, 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.

### Power Corporation of Canada

PART A

### Power Financial Corporation

PART B

### Great-West Lifeco Inc.

PART C

### IGM Financial Inc.

PART D

### Pargesa Holding SA

PART E

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# Power Corporation of Canada

PART A

## Management's Discussion and Analysis

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## Financial Statements and Notes

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# POWER CORPORATION OF CANADA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 4, 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 Corporation of Canada (Power Corporation or the Corporation) (TSX: POW), a public corporation, for the six-month and three-month periods ended June 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Corporation and notes thereto for the six-month and three-month periods ended June 30, 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 Corporation, including its Annual Information Form, may be found on the Corporation's website at [www.powercorporation.com](http://www.powercorporation.com) and on SEDAR at [www.sedar.com](http://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](http://www.sedar.com).

The following abbreviations are used throughout this report: adidas AG (adidas); China Asset Management Co., Ltd. (China AMC); Eagle Creek Renewable Energy, LLC (Eagle Creek); 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); IntegraMed America, Inc. (IntegraMed); International Financial Reporting Standards (IFRS); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); LafargeHolcim Ltd (LafargeHolcim); La Presse, ltée (La Presse); London Life Insurance Company (London Life); Lumenpulse Group Inc. (Lumenpulse); Mackenzie Financial Corporation (Mackenzie or Mackenzie Investments); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Peak Achievement Athletics Inc. (Peak); Portag3 Ventures Limited Partnership (Portag3); Potentia Renewables Inc. (Potentia or Potentia Renewables); Power Energy Corporation (Power Energy); Power Energy Eagle Creek LLP (Power Energy Eagle Creek); Power Financial Corporation (Power Financial); Putnam Investments, LLC (Putnam); Sagard Europe, Sagard Holdings and Sagard China (Sagard Investment Funds); Sagard Holdings ULC (Sagard Holdings); SGS SA (SGS); Square Victoria Communications Group Inc. (Square Victoria Communications Group or SVCG); 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); Vein Clinics of America (Vein Clinics); Wealthsimple Financial Corp. (Wealthsimple); XETRA Stock Exchange (XETR).

**ORGANIZATION OF THE INTERIM MD&A**

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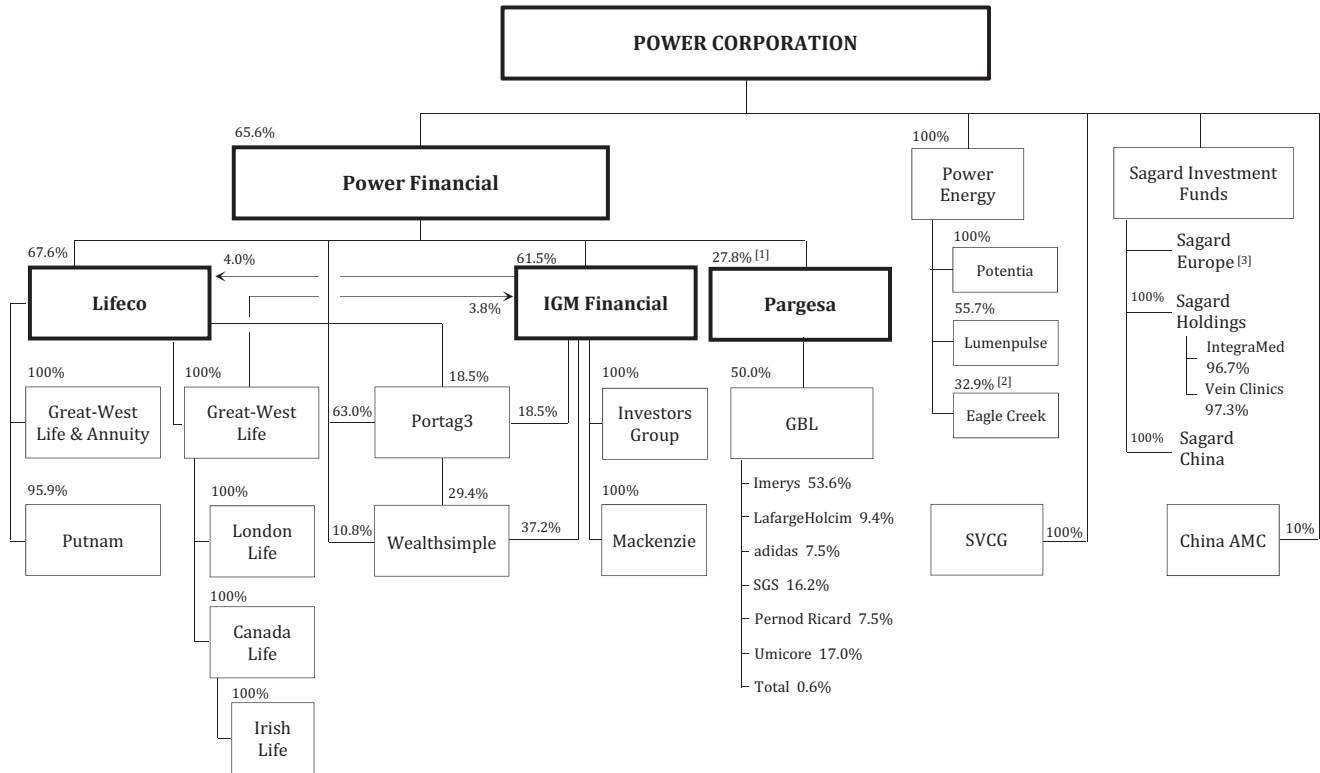
**OVERVIEW**

Power Corporation is a diversified international management and holding company with interests in companies in the financial services, renewable energy, communications and other business sectors. Its principal asset is a controlling interest in Power Financial, which in turn controls Lifeco and IGM. Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa. Power Financial (TSX: PWF), 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 five parts:

- Part A – Power Corporation, presented on a consolidated and non-consolidated basis;
- Part B – Power Financial's interim MD&A, presented on a consolidated and non-consolidated basis, as prepared and disclosed by Power Financial in accordance with applicable securities legislation, and which is also available either directly from SEDAR ([www.sedar.com](http://www.sedar.com)) or from Power Financial's website ([www.powerfinancial.com](http://www.powerfinancial.com));
- Part C – 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](http://www.sedar.com)) or from Lifeco's website ([www.greatwestlifeco.com](http://www.greatwestlifeco.com));
- Part D – 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](http://www.sedar.com)) or from IGM's website ([www.igmfinancial.com](http://www.igmfinancial.com));
- Part E – 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](http://www.pargesa.ch)).

The following chart reflects the economic interest held by the Corporation in entities at June 30, 2017, which include Power Financial’s operating companies (Lifeco and IGM, and jointly controlled Pargesa), Power Energy, SVCG and the Sagard Investment Funds. The Sagard Investment Funds hold in their portfolios controlling interests in IntegraMed and Vein Clinics (both held by Sagard Holdings).



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

[2] Power Energy held a 60% interest in Power Energy Eagle Creek, which held a 54.8% interest in Eagle Creek.

[3] See page 7 for the Corporation’s interest in the Sagard Europe funds.

**□** Principal publically listed holdings

**POWER FINANCIAL**

Power Financial 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 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. At August 4, 2017, Power Corporation held 65.6% of the equity and voting interests in Power Financial.

**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 June 30, 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 voting 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 connection with this realignment, Lifeco incurred a \$215 million pre-tax restructuring charge allocated between Lifeco's participating accounts and Lifeco's common shareholders. During the second quarter of 2017, this restructuring charge reduced net earnings attributable to Lifeco's common shareholders by \$126 million (\$59 million attributable to Power Corporation's participating shareholders) and net earnings attributable to Lifeco's participating accounts by \$32 million. Lifeco announced it expected to achieve \$200 million pre-tax of annual expense reductions by the end of the first quarter of 2019.

See Part C 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 June 30, 2017, Power Financial and Great-West Life, a subsidiary of Lifeco, held 61.5% and 3.8%, respectively, of IGM's common shares.

See Part D 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 June 30, 2017, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa is a holding company, which, at June 30, 2017, held a 50% interest in GBL, which represents 51.8% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

At June 30, 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 88% of GBL's portfolio based on market value. In addition, GBL invests in:

- "Incubator" investments, comprised 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 potentially hold a majority stake; and
- The "financial pillar", comprising major stakes in private equity funds, debt funds and thematic funds.

At June 30, 2017, Pargesa's net asset value was SF9,690 million, compared with SF8,884 million at December 31, 2016.

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

### **Portag3 and Wealthsimple**

Power Financial (with each of its subsidiaries Lifeco and IGM) controls Portag3, an investment fund dedicated to backing early-stage technology-driven financial services companies. Portag3 holds a 29.4% equity interest in Wealthsimple, a technology-driven investment manager with assets under administration of more than \$1 billion at June 30, 2017. In addition to the interest held indirectly through Portag3, Power Financial and IGM also held, at June 30, 2017, equity interests in Wealthsimple of 10.8% and 37.2%, respectively.

In the first and second quarters of 2017, Power Financial and IGM directly invested \$20 million and \$42.6 million, respectively, in Wealthsimple. Power Financial also transferred in the second quarter of 2017 the equity interest in Wealthsimple it had acquired prior to 2017 to Portag3.

### **OTHER SUBSIDIARIES**

Other subsidiaries are comprised of Power Energy, SVCG and controlled portfolio investments.

#### **Power Energy**

Power Energy, a wholly owned subsidiary of the Corporation, actively manages investments in the sustainable and renewable energy sector. Currently, investments are as follows:

- Potentia Renewables: Potentia is a renewable energy generation company, active in the solar and wind sector in North America and the Caribbean.
- Lumenpulse: On June 21, 2017, as part of a going-private transaction by Lumenpulse, Power Energy acquired 55.7% of the company for a consideration of \$267 million. Lumenpulse is a leading manufacturer of high-performance, specification-grade LED lighting solutions.
- Eagle Creek: Eagle Creek owns and operates 75 hydroelectric facilities that produce over 814 million kilowatt-hours of clean electricity annually in the United States.

Power Energy has invested \$605 million to date in these three companies.

#### **Square Victoria Communications Group**

Square Victoria Communications Group, through its subsidiary La Presse, publishes LaPresse+, a digital edition for iPad and Android tablets, and *La Presse*, a newspaper. It also operates the related website LaPresse.ca.

#### **Controlled Portfolio Investments**

At June 30, 2017, Sagard Holdings held a controlling interest in IntegraMed (96.7%) and in Vein Clinics (97.3%), private healthcare services companies.

## SAGARD INVESTMENT FUNDS

The Corporation has invested in equity investment funds in three geographies: Sagard Europe, Sagard Holdings (North America), and Sagard China. Each of the Sagard Investment Funds operates with their own dedicated teams. Power Corporation's investment fund activities: (i) leverage its extensive global network and business relationships; (ii) seek to achieve long-term capital appreciation through fundamental investment analysis; and (iii) seek opportunities to acquire controlling interests in its most promising investments.

### Sagard Europe

Sagard Europe, headquartered in Paris, is managed by Sagard SAS, a wholly owned subsidiary of the Corporation. Sagard Europe operates Sagard I, Sagard II and Sagard 3. These funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland. Sagard Private Equity Partners (Sagard I) disposed of its last investment in June 2017 and liquidation and final distribution are expected to occur in the third quarter of 2017.

The Corporation's interest in these three funds is classified as available for sale investments.

#### Sagard Europe funds:

June 30, 2017 (in millions; in Canadian dollars except as otherwise noted)	Sagard I	Sagard II	Sagard 3
Fund size	€535	€748	€808
Corporation's commitment <sup>[1]</sup>	€100	€148	€302
Interest (%)	18.7	19.8	37.4
Corporation's outstanding commitment at June 30, 2017	–	€28	€160
Corporation's investments to date	174	207	270
Corporation's share of distributions to date	406	143	74
Fair value of the Corporation's investment at June 30, 2017	7	114	267

[1] Excludes commitments of Pargesa (€37 million in Sagard II), and GBL (€50 million in Sagard I, €113 million in Sagard II, and €218 million in Sagard 3).

The Corporation has invested \$651 million to date in the Sagard Europe funds and received distributions of \$623 million. At June 30, 2017, the fair value of the Corporation's investments in the Sagard Europe funds, excluding the Corporation's share of such investments held indirectly through Pargesa and GBL, was \$388 million, compared with \$281 million at December 31, 2016.

### Sagard Holdings

Sagard Holdings (previously known as Sagard Capital), a wholly owned investment vehicle of the Corporation, invests in the equity and debt capital of middle market companies in the U.S. and Canada and holds a 96.7% interest in IntegraMed and a 97.3% interest in Vein Clinics, both private companies (see "Other subsidiaries").

On February 27, 2017, Peak Achievement Athletics Inc. (Peak), an acquisition vehicle jointly controlled by Sagard Holdings and Fairfax Financial Holdings Limited, completed the acquisition of the assets of Performance Sports Group, Ltd. for total consideration of US\$575 million. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. At June 30, 2017, the Corporation had invested \$204 million (US\$154 million) in Peak. Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. The Corporation's investment is accounted for using the equity method.

To date, the Corporation has invested \$616 million in Sagard Holdings and has received distributions of \$64 million. At June 30, 2017, the fair value of Sagard Holdings' investments, including cash, was \$836 million, compared with \$888 million at December 31, 2016.

**Sagard China**

Power Corporation operates as a Qualified Foreign Institutional Investor (QFII) in the Chinese “A” shares market. In addition, the Corporation invests in Chinese companies listed on the Hong Kong Stock Exchange (“H” shares) and the Shenzhen or Shanghai Stock Exchange (“B” shares). Collectively, the Chinese “A”, “B” and “H” share investment activities operate as Sagard China.

To date, the Corporation has invested \$314 million in the Sagard China funds and has received distributions of \$19 million.

	June 30, 2017	December 31, 2016
Fair value		
Investments		
Money market funds	42	41
A, B and H equities	401	275
Cash	248	331
Total portfolio	691	647

**CHINA AMC**

The Corporation holds a 10% interest in China AMC, one of the first asset management companies approved by the China Securities Regulatory Commission and established in 1998. China AMC is recognized as a leader in the Chinese asset management sector. At June 30, 2017, the fair value of this private investment was \$459 million, compared with \$463 million at December 31, 2016.

On January 5, 2017, the Corporation entered into an agreement to acquire an additional 3.9% interest in China AMC for \$179 million (RMB¥936 million). On December 28, 2016, the Corporation made a deposit of \$54 million (RMB¥280 million) in accordance with the terms of the share purchase agreement. Mackenzie Investments, a subsidiary of IGM, also entered into agreements to acquire, in two separate transactions, a 13.9% interest in China AMC for an aggregate consideration of approximately \$647 million (RMB¥3.3 billion). The transactions are subject to customary closing conditions, including Chinese regulatory approvals. Upon closing, Power Corporation and Mackenzie Investments will hold a combined 27.8% interest in the company.

## 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 subsidiaries. The consolidated financial statements present the financial results of Power Corporation (parent), its subsidiaries, and other controlled entities after the elimination of intercompany balances and transactions.

The financial statements of Power Financial are consolidated with those of the Corporation. Lifeco and IGM are controlled by Power Financial and their financial statements are consolidated with those of Power Financial.

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 June 30, 2017, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
<b>Power Financial</b>	65.6	Controlling interest	Consolidation
Lifeco <sup>[1]</sup>	67.6	Controlling interest	Consolidation
IGM <sup>[2]</sup>	61.5	Controlling interest	Consolidation
Pargesa <sup>[3]</sup>	27.8	Joint control	Equity method
Wealthsimple <sup>[4]</sup>	10.8	Controlling interest	Consolidation
<b>Power Energy</b>	100.0	Controlling interest	Consolidation
Potentia	100.0	Controlling interest	Consolidation
Lumenpulse	55.7	Controlling interest	Consolidation
Power Energy Eagle Creek	60.0	Controlling interest	Consolidation
Eagle Creek	54.8	Joint control	Equity method
<b>Square Victoria Communications Group</b>	100.0	Controlling interest	Consolidation

[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] Portag3 and IGM also hold equity interests of 29.4% and 37.2%, respectively, in Wealthsimple.

At June 30, 2017, Pargesa's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
<b>GBL</b>	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	0.6	Portfolio investment	Available for sale

At June 30, 2017, the holdings of the Sagard Investment Funds were as follows:

Sagard Investment Funds	% economic interest	Nature of investment	Accounting method
<b>Sagard Europe</b>			
Sagard 2	19.8	Portfolio investment	Available for sale
Sagard 3	37.4	Portfolio investment	Available for sale
<b>Sagard Holdings</b>	100.0		
IntegraMed	96.7	Controlling interest	Consolidation
Vein Clinics	97.3	Controlling interest	Consolidation
Peak	42.6	Joint control	Equity method
Investments	< 50.0	Significant influence or portfolio investments	Equity method or available for sale
<b>Sagard China</b>	100.0		
Investments	< 5.0	Portfolio investments	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 participating shareholders are comprised of:

- **adjusted net earnings** attributable to participating 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 Corporation, 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 participating 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 Corporation of Canada – 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 Corporation's interests in Power Financial and other subsidiaries 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 CORPORATION OF CANADA****CONSOLIDATED NET EARNINGS**

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

	Lifeco	IGM	Pargesa	Power Financial		Other <sup>[2]</sup>	Power Corporation		
				Corporate <sup>[1]</sup>	Sub-total		Consolidated net earnings		
Three months ended							June 30, 2017	March 31, 2017	June 30, 2016
<b>Revenues</b>									
Premium income, net	7,772	-	-	-	7,772	-	<b>7,772</b>	9,365	6,871
Net investment income	1,894	45	-	(32)	1,907	86	<b>1,993</b>	2,226	4,737
Fee income	1,381	753	-	(33)	2,101	-	<b>2,101</b>	2,006	1,878
Other revenues	-	-	-	-	-	214	<b>214</b>	180	393
<b>Total revenues</b>	<b>11,047</b>	<b>798</b>	<b>-</b>	<b>(65)</b>	<b>11,780</b>	<b>300</b>	<b>12,080</b>	<b>13,777</b>	<b>13,879</b>
<b>Expenses</b>									
Total paid or credited to policyholders	8,227	-	-	-	8,227	-	<b>8,227</b>	9,862	10,035
Commissions	549	285	-	(18)	816	-	<b>816</b>	1,017	829
Operating and administrative expenses	1,555	219	-	14	1,788	263	<b>2,051</b>	1,934	1,960
Financing charges	79	28	-	5	112	19	<b>131</b>	126	123
<b>Total expenses</b>	<b>10,410</b>	<b>532</b>	<b>-</b>	<b>1</b>	<b>10,943</b>	<b>282</b>	<b>11,225</b>	<b>12,939</b>	<b>12,947</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	637	266	-	(66)	837	18	<b>855</b>	838	932
Share of earnings (losses) of investments in jointly controlled corporations and associates	1	-	48	49	98	(8)	<b>90</b>	53	(3)
Earnings before income taxes	638	266	48	(17)	935	10	<b>945</b>	891	929
Income taxes	51	63	-	4	118	8	<b>126</b>	137	139
<b>Net earnings</b>	<b>587</b>	<b>203</b>	<b>48</b>	<b>(21)</b>	<b>817</b>	<b>2</b>	<b>819</b>	<b>754</b>	<b>790</b>
<b>Attributable to</b>									
Non-controlling interests	327	121	17	(4)	461	(5)	<b>456</b>	483	505
Non-participating shareholders	-	-	-	-	-	13	<b>13</b>	13	13
Participating shareholders	260	82	31	(17)	356	(6)	<b>350</b>	258	272
	<b>587</b>	<b>203</b>	<b>48</b>	<b>(21)</b>	<b>817</b>	<b>2</b>	<b>819</b>	<b>754</b>	<b>790</b>

[1] "Corporate" is comprised of corporate operations and investment activities of Power Financial, Portage3 and Wealthsimple, as well as elimination entries and reclassifications.

[2] "Other" is comprised of corporate operations and investment activities of Power Corporation, other subsidiaries, and eliminations entries and reclassifications.

Six months ended	Lifeco	IGM	Pargesa	Power Financial		Other <sup>[2]</sup>	Power Corporation	
				Corporate <sup>[1]</sup>	Sub-total		Consolidated net earnings	
							June 30, 2017	June 30, 2016
<b>Revenues</b>								
Premium income, net	17,137	-	-	-	17,137	-	<b>17,137</b>	13,886
Net investment income	4,080	93	-	(68)	4,105	114	<b>4,219</b>	8,773
Fee income	2,686	1,495	-	(74)	4,107	-	<b>4,107</b>	3,760
Other revenues	-	-	-	-	-	394	<b>394</b>	740
<b>Total revenues</b>	<b>23,903</b>	<b>1,588</b>	<b>-</b>	<b>(142)</b>	<b>25,349</b>	<b>508</b>	<b>25,857</b>	<b>27,159</b>
<b>Expenses</b>								
Total paid or credited to policyholders	18,089	-	-	-	18,089	-	<b>18,089</b>	19,713
Commissions	1,302	575	-	(44)	1,833	-	<b>1,833</b>	1,621
Operating and administrative expenses	2,993	466	-	18	3,477	508	<b>3,985</b>	3,948
Financing charges	155	55	-	9	219	38	<b>257</b>	246
<b>Total expenses</b>	<b>22,539</b>	<b>1,096</b>	<b>-</b>	<b>(17)</b>	<b>23,618</b>	<b>546</b>	<b>24,164</b>	<b>25,528</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,364	492	-	(125)	1,731	(38)	<b>1,693</b>	1,631
Share of earnings (losses) of investments in jointly controlled corporations and associates	19	-	94	34	147	(4)	<b>143</b>	(185)
Earnings before income taxes	1,383	492	94	(91)	1,878	(42)	<b>1,836</b>	1,446
Income taxes	147	110	-	4	261	2	<b>263</b>	204
<b>Net earnings</b>	<b>1,236</b>	<b>382</b>	<b>94</b>	<b>(95)</b>	<b>1,617</b>	<b>(44)</b>	<b>1,573</b>	<b>1,242</b>
<b>Attributable to</b>								
Non-controlling interests	714	232	33	(36)	943	(4)	<b>939</b>	896
Non-participating shareholders	-	-	-	-	-	26	<b>26</b>	26
Participating shareholders	522	150	61	(59)	674	(66)	<b>608</b>	320
	<b>1,236</b>	<b>382</b>	<b>94</b>	<b>(95)</b>	<b>1,617</b>	<b>(44)</b>	<b>1,573</b>	<b>1,242</b>

[1] "Corporate" is comprised of corporate operations and investment activities of Power Financial, Portag3 and Wealthsimple, as well as elimination entries and reclassifications.

[2] "Other" is comprised of corporate operations and investment activities of Power Corporation, other subsidiaries, and eliminations entries and reclassifications.

The Corporation evaluates its performance based on each segment's contribution to earnings. A discussion of the results of Power Financial is provided in the "Contribution to adjusted net earnings" 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 Power Financial and other subsidiaries to the net earnings attributable to participating shareholders of Power Corporation are accounted for using the equity method.

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
<b>Adjusted net earnings</b> <sup>[1]</sup>					
Power Financial					
Lifeco	591	572	316	275	297
IGM	144	136	76	68	70
Pargesa	60	56	32	28	37
Corporate	(59)	(86)	(17)	(42)	(39)
	736	678	407	329	365
Other subsidiaries <sup>[2]</sup>	(55)	(38)	(26)	(29)	(11)
	681	640	381	300	354
Corporate operations					
Income – Sagard Investment Funds and Other Investments <sup>[3]</sup>	87	(49)	66	21	(3)
Operating and other expenses	(72)	(68)	(33)	(39)	(32)
Dividends on non-participating shares	(26)	(26)	(13)	(13)	(13)
<b>Adjusted net earnings</b> <sup>[4]</sup>	670	497	401	269	306
<b>Other items</b> <sup>[5]</sup>					
Power Financial					
Lifeco	(69)	-	(56)	(13)	-
IGM	6	-	6	-	-
Pargesa	1	(177)	(1)	2	(34)
	(62)	(177)	(51)	(11)	(34)
<b>Net earnings</b> <sup>[4]</sup>	608	320	350	258	272
<b>Earnings per share – basic</b> <sup>[4]</sup>					
Adjusted net earnings	1.44	1.07	0.86	0.58	0.66
Other items	(0.13)	(0.38)	(0.11)	(0.02)	(0.07)
Net earnings	1.31	0.69	0.75	0.56	0.59

[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] Other subsidiaries include controlled portfolio investments.

[3] Includes income from the Sagard Investment Funds (excluding income from controlled portfolio investments), China AMC and from Other investments.

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

**NET EARNINGS** (ATTRIBUTABLE TO PARTICIPATING SHAREHOLDERS)

Net earnings attributable to participating shareholders for the six-month period ended June 30, 2017 were \$608 million or \$1.31 per share, compared with \$320 million or \$0.69 per share in the corresponding period in 2016, an increase of 89.9% on a per share basis.

Net earnings attributable to participating shareholders for the three-month period ended June 30, 2017 were \$350 million or \$0.75 per share, compared with \$272 million or \$0.59 per share in the corresponding period in 2016, and \$258 million or \$0.56 per share in the first quarter of 2017.

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 PARTICIPATING SHAREHOLDERS)

Adjusted net earnings attributable to participating shareholders for the six-month period ended June 30, 2017 were \$670 million or \$1.44 per share, compared with \$497 million or \$1.07 per share in the corresponding period in 2016, an increase of 34.6% on a per share basis.

Adjusted net earnings attributable to participating shareholders for the three-month period ended June 30, 2017 were \$401 million or \$0.86 per share, compared with \$306 million or \$0.66 per share in the corresponding period in 2016, an increase of 30.3% on a per share basis, and \$269 million or \$0.58 per share in the first quarter of 2017.

**CONTRIBUTION TO ADJUSTED NET EARNINGS**

Power Corporation’s share of adjusted net earnings from Power Financial and other subsidiaries increased by 6.4% for the six-month period ended June 30, 2017, compared with the same period in 2016, from \$640 million to \$681 million.

Power Corporation’s share of adjusted net earnings from Power Financial and other subsidiaries for the three-month period ended June 30, 2017 was \$381 million, compared with \$354 million in the corresponding period in 2016, and \$300 million in the first quarter of 2017.

**Power Financial**

Power Financial reported adjusted net earnings attributable to common shareholders of \$1,123 million or \$1.57 per share for the six-month period ended June 30, 2017, compared with \$1,033 million or \$1.45 per share for the corresponding period in 2016.

Power Financial's adjusted net earnings attributable to common shareholders were \$622 million or \$0.87 per share for the three-month period ended June 30, 2017, compared with \$557 million or \$0.78 per share for the corresponding period in 2016, and \$501 million or \$0.70 per share in the first quarter of 2017.

Power Financial's adjusted and net earnings attributable to common shareholders are summarized below:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
<b>Adjusted net earnings</b>					
Lifeco	900	872	481	419	453
IGM	220	208	116	104	108
Pargesa	92	85	49	43	56
	1,212	1,165	646	566	617
Corporate operations of Power Financial	(27)	(70)	7	(34)	(29)
Dividends on perpetual preferred shares	(62)	(62)	(31)	(31)	(31)
<b>Adjusted net earnings</b> <sup>[1]</sup>	<b>1,123</b>	<b>1,033</b>	<b>622</b>	<b>501</b>	<b>557</b>
<b>Other items</b>					
Lifeco	(104)	-	(84)	(20)	-
IGM	8	-	8	-	-
Pargesa	2	(269)	(1)	3	(52)
	(94)	(269)	(77)	(17)	(52)
<b>Net earnings</b> <sup>[1]</sup>	<b>1,029</b>	<b>764</b>	<b>545</b>	<b>484</b>	<b>505</b>

[1] Attributable to Power Financial common shareholders.

**Power Financial's contribution to Power Corporation:**

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average direct ownership (%)	65.6	65.6	65.6	65.6	65.6
Contribution to Power Corporation's:					
Adjusted net earnings	736	678	407	329	365
Other items	(62)	(177)	(51)	(11)	(34)
	674	501	356	318	331

For more information on Power Financial's results, see Part B of this MD&A.

The operating segments of Power Financial and Power Corporation are Lifeco, IGM and Pargesa.

## LIFECO

Lifeco's contribution to Power Financial's adjusted net earnings for the six-month period ended June 30, 2017 was \$900 million, compared with \$872 million for the corresponding period in 2016. For the three-month period ended June 30, 2017, Lifeco's contribution to Power Financial's adjusted net earnings was \$481 million, compared with \$453 million in the corresponding period in 2016, and \$419 million in the first quarter of 2017.

- Lifeco's adjusted net earnings attributable to Lifeco common shareholders were \$1,331 million or \$1.345 per share for the six-month period ended June 30, 2017, compared with \$1,291 million or \$1.300 per share in the corresponding period in 2016, an increase of 3.5% on a per share basis. For the three-month period ended June 30, 2017, Lifeco reported adjusted net earnings attributable to Lifeco common shareholders of \$712 million or \$0.719 per share, compared with \$671 million or \$0.675 per share in the corresponding period in 2016, and \$619 million or \$0.627 per share in the first quarter of 2017.
- Summary of Lifeco's adjusted and net earnings by segment:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
<b>Canada</b>					
Individual Customer <sup>[1]</sup>	286	302	140	146	147
Group Customer <sup>[1]</sup>	293	267	189	104	162
Canada Corporate	(13)	34	(18)	5	18
	566	603	311	255	327
<b>United States</b>					
Financial Services	173	164	88	85	74
Asset Management	(22)	(43)	(6)	(16)	(18)
U.S. Corporate	(2)	(5)	-	(2)	(3)
	149	116	82	67	53
<b>Europe</b>					
Insurance and Annuities	464	451	239	225	225
Reinsurance	164	137	83	81	74
Europe Corporate	-	(8)	-	-	(6)
	628	580	322	306	293
<b>Lifeco Corporate</b>	(12)	(8)	(3)	(9)	(2)
Adjusted net earnings <sup>[2]</sup>	1,331	1,291	712	619	671
Other items	(155)	-	(127)	(28)	-
<b>Net earnings<sup>[2]</sup></b>	<b>1,176</b>	<b>1,291</b>	<b>585</b>	<b>591</b>	<b>671</b>

[1] Comparative figures have been reclassified to reflect the realignment of the Canada segment operations into the individual and group business units.

[2] Attributable to Lifeco common shareholders.

## Lifeco's contribution to Power Financial and Power Corporation:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average Power Financial direct ownership (%)	67.7	67.4	67.6	67.8	67.4
Contribution to Power Financial's:					
Adjusted net earnings	900	872	481	419	453
Other items	(104)	–	(84)	(20)	–
	796	872	397	399	453
Average Power Corporation ownership of Power Financial (%)	65.6	65.6	65.6	65.6	65.6
Contribution to Power Corporation's:					
Adjusted net earnings	591	572	316	275	297
Other items	(69)	–	(56)	(13)	–
	522	572	260	262	297

## Canada

Adjusted net earnings for the six-month period ended June 30, 2017 were \$566 million, compared with \$603 million for the corresponding period in 2016. The decrease was primarily due to lower contributions from investment experience and higher taxes as a result of lower tax benefits, partially offset by favourable morbidity experience and higher net fee income.

Adjusted net earnings for the three-month period ended June 30, 2017 were \$311 million, compared with \$327 million for the corresponding period in 2016. The decrease of \$16 million was primarily due to lower contributions from investment experience and higher taxes as a result of lower tax benefits, partially offset by higher net fee income and improved mortality and morbidity experience.

## United States

Adjusted net earnings for the six-month period ended June 30, 2017 were US\$112 million (C\$149 million), compared with US\$87 million (C\$116 million) for the corresponding period in 2016. The increase was primarily due 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 three-month period ended June 30, 2017 were US\$62 million (C\$82 million), compared with US\$40 million (C\$53 million) for the corresponding period in 2016. The increase in adjusted net earnings was primarily due to lower expenses in the Asset Management segment as discussed above, as well as higher net fee income partially offset by lower contributions from investment experience.

## Europe

Adjusted net earnings for the six-month period ended June 30, 2017 were \$628 million, compared with \$580 million for the corresponding period in 2016. Adjusted net earnings for the three-month period ended June 30, 2017 were \$322 million, compared with \$293 million for the corresponding period in 2016. Increases for the six-month and three-month periods were primarily due to higher contributions from investment experience and favourable mortality experience, partially offset by lower contributions from insurance contract liability basis changes and the impact of currency movement. The results for the six-month period also increased due to a gain on the sale of Lifeco's holdings of Allianz Ireland.

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

## IGM FINANCIAL

IGM's contribution to Power Financial's adjusted net earnings was \$220 million for the six-month period ended June 30, 2017, compared with \$208 million for the corresponding period in 2016. For the three-month period ended June 30, 2017, IGM's contribution to Power Financial's adjusted net earnings was \$116 million, compared with \$108 million for the corresponding period in 2016, and \$104 million in the first quarter of 2017.

- IGM's adjusted net earnings available to IGM common shareholders were \$363 million or \$1.51 per share for the six-month period ended June 30, 2017, compared with \$340 million or \$1.40 per share in the corresponding period in 2016, an increase of 7.9% on a per share basis due to an increase in contributions from Investors Group and Mackenzie. For the three-month period ended June 30, 2017, IGM reported adjusted net earnings available to common shareholders of \$186 million or \$0.77 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2016, and \$177 million or \$0.74 per share in the first quarter of 2017.
- Adjusted net earnings before interest and taxes of IGM's segments and adjusted net earnings (non-IFRS measures described in Part D of this MD&A), and net earnings available to IGM common shareholders were as follows:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Investors Group	373	337	194	179	174
Mackenzie	85	77	44	41	41
Corporate and other	68	65	35	33	31
Adjusted net earnings (before interest, income taxes, preferred share dividends and other)	526	479	273	253	246
Interest expense, income taxes, preferred share dividends and other	(163)	(139)	(87)	(76)	(73)
Adjusted net earnings <sup>[1]</sup>	363	340	186	177	173
Other items	15	-	15	-	-
<b>Net earnings <sup>[1]</sup></b>	<b>378</b>	<b>340</b>	<b>201</b>	<b>177</b>	<b>173</b>

[1] Available to IGM common shareholders.

## IGM's contribution to Power Financial and Power Corporation:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average Power Financial direct ownership (%)	61.5	61.1	61.5	61.5	61.4
Contribution to Power Financial's:					
Adjusted net earnings	220	208	116	104	108
Other items	8	-	8	-	-
	228	208	124	104	108
Average Power Corporation ownership of Power Financial (%)	65.6	65.6	65.6	65.6	65.6
Contribution to Power Corporation's:					
Adjusted net earnings	144	136	76	68	70
Other items	6	-	6	-	-
	150	136	82	68	70

## Investors Group

Adjusted net earnings increased in the six-month and three-month periods ended June 30, 2017, compared with the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from an increase in average assets under management of 12.4% in the six-month period ended June 30, 2017, and 12.3% in the second quarter of 2017;
- Partially offset by an increase in commission expenses, primarily due to the increase in average assets under management, an increase in non-commission expenses resulting largely from Consultant network support and other business development efforts, as well as sub-advisory fees related to increased assets under management.

## Mackenzie

Adjusted net earnings increased in the six-month and three-month periods ended June 30, 2017, compared with the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from an increase in average assets under management of 10.3% in the six-month period ended June 30, 2017, and 11.4% in the second quarter of 2017, offset by a decline in the average management fee rate;
- Partially offset by an increase in commission expenses, primarily due to the increase in average assets under management, and an increase in non-commission expenses.

Total assets under management were as follows:

(In billions of dollars)	June 30, 2017	March 31, 2017	June 30, 2016	March 31, 2016
Investors Group	84.9	84.4	76.6	75.7
Mackenzie	68.6	66.3	61.7	60.7
Corporate and other <sup>[1]</sup>	(5.3)	(3.6)	(3.2)	(3.0)
<b>Total</b>	<b>148.2</b>	<b>147.1</b>	<b>135.1</b>	<b>133.4</b>

[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		2016			
	Q2	Q1	Q4	Q3	Q2	Q1
Investors Group	85.0	82.8	79.7	78.1	75.8	73.5
Mackenzie	54.2	52.3	50.6	49.6	47.8	46.7
Corporate and other <sup>[1]</sup>	4.7	4.5	4.5	4.5	4.3	4.2
<b>Total</b>	<b>143.9</b>	<b>139.6</b>	<b>134.8</b>	<b>132.2</b>	<b>127.9</b>	<b>124.4</b>

[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 D of this MD&A for more information on IGM's results.

## PARGESA

Pargesa's contribution to Power Financial's adjusted net earnings was \$92 million for the six-month period ended June 30, 2017, compared with \$85 million in the corresponding period in 2016. For the three-month period ended June 30, 2017, Pargesa's contribution to Power Financial's adjusted net earnings was \$49 million, compared with \$56 million in the corresponding period in 2016, and \$43 million in the first quarter of 2017.

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

(In millions of Swiss francs)	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Contribution from principal holdings					
Share of earnings of:					
Imerys	57	57	31	26	31
Dividends from:					
LafargeHolcim	60	44	60	-	44
SGS	46	41	-	46	-
adidas	15	11	15	-	11
Pernod Ricard	11	10	11	-	10
Umicore	7	8	7	-	8
Total	10	13	10	-	22
Engie	-	13	-	-	13
	206	197	134	72	139
Contribution from private equity activities and other investment funds	60	25	3	57	27
Net financing charges	(8)	16	(5)	(3)	(10)
Other operating income from holding company activities	8	3	8	-	3
General expenses and taxes	(16)	(13)	(8)	(8)	(8)
Adjusted net earnings	250	228	132	118	151
Other items	3	(589)	(4)	7	(141)
<b>Net earnings (loss)</b>	<b>253</b>	<b>(361)</b>	<b>128</b>	<b>125</b>	<b>10</b>

## Pargesa's contribution to Power Financial and Power Corporation:

(In millions of Canadian dollars)	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average Power Financial indirect ownership (%)	27.8	27.8	27.8	27.8	27.8
Contribution to Power Financial's:					
Adjusted net earnings	92	85	49	43	56
Other items	2	(269)	(1)	3	(52)
	94	(184)	48	46	4
Average Power Corporation ownership of Power Financial (%)	65.6	65.6	65.6	65.6	65.6
Contribution to Power Corporation's:					
Adjusted net earnings	60	56	32	28	37
Other items	1	(177)	(1)	2	(34)
	61	(121)	31	30	3

The average exchange rates for the six-month and three-month periods ended June 30, 2017 and 2016 were as follows:

	Six months ended			Three months ended		
	June 30, 2017	June 30, 2016	Change %	June 30, 2017	June 30, 2016	Change %
Euro/SF	<b>1.0769</b>	1.0957	(1.7)	<b>1.0839</b>	1.0957	(1.1)
SF/CAD	<b>1.3428</b>	1.3546	(0.9)	<b>1.3663</b>	1.3281	2.9

A significant portion of Pargesa's adjusted net earnings is composed of dividends from its non-consolidated investments, which are declared as follows:

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

Adjusted net earnings increased in the six-month period ended June 30, 2017, compared with the corresponding period in 2016, mainly due to:

- An increase in the dividends from its principal holdings of SF9 million;
- An increase in the contribution from private equity activities and other investment funds of SF35 million;
- Non-cash charges of SF7 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 SF32 million in the corresponding period in 2016; and
- Income of SF13 million from trading and derivative activities of GBL in managing its portfolio, compared with SF1 million in 2016.

Adjusted net earnings decreased in the three-month period ended June 30, 2017, compared with the corresponding period in 2016, mainly due to a decrease in the contributions from private equity activities and other investment funds of SF24 million.

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

#### Other subsidiaries

The contribution from other subsidiaries (Power Energy, SVCG, IntegraMed and Vein Clinics) to the Corporation's adjusted net earnings was a loss of \$55 million for the six-month period ended June 30, 2017, compared with a loss of \$38 million in the corresponding period in 2016.

The contribution from other subsidiaries to the Corporation's adjusted net earnings was a loss of \$26 million for the three-month period ended June 30, 2017, compared with a loss of \$11 million in the corresponding period in 2016, and a loss of \$29 million in the first quarter of 2017.

**CORPORATE OPERATIONS**

Corporate operations include income from the Sagard Investment Funds and Other Investments, operating expenses, financing charges, depreciation and income taxes.

**Income from Sagard Investment Funds and Other Investments**

Summary of income from Sagard Investment Funds and Other Investments:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Sagard Investment Funds <sup>[1]</sup>					
Sagard Europe	(5)	(4)	(2)	(3)	(1)
Sagard Holdings <sup>[2, 3]</sup>	(2)	(46)	(11)	9	(12)
Sagard China	18	(9)	6	12	(5)
Other Investments					
Investment and hedge funds	78	12	76	2	7
China AMC	-	6	-	-	6
Other <sup>[4]</sup>	(2)	(8)	(3)	1	2
	<b>87</b>	<b>(49)</b>	<b>66</b>	<b>21</b>	<b>(3)</b>

[1] Income from investments for the Sagard Investment Funds is presented net of expenses of their separate dedicated teams.

[2] Excludes the Corporation's share of the results of IntegraMed and Vein Clinics, presented in the section "Other subsidiaries".

[3] Includes share of earnings (loss) from investments in a jointly controlled corporation and an associate.

[4] Consisting mainly of foreign exchange gains or losses and interest on cash and cash equivalents.

Income from investment and hedge funds for the six-month period ended June 30, 2017 was \$78 million, representing essentially a gain on the disposition of a fund during this period.

Earnings from Sagard Investment Funds, as well as from Other Investments, are volatile in nature as they depend on many factors, including the timing of disposals.

Impairment charges included in income from Sagard Investment Funds and Other Investments were as follows:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Sagard Holdings	9	46	2	7	4
Sagard China	8	18	-	8	14
Investment and hedge funds	-	4	-	-	3
	<b>17</b>	<b>68</b>	<b>2</b>	<b>15</b>	<b>21</b>

**Operating and other expenses**

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Operating expenses <sup>[1]</sup>	41	46	15	26	21
Financing charges	21	16	11	10	8
Depreciation	5	5	2	3	2
Income taxes <sup>[2]</sup>	5	1	5	-	1
Operating and other expenses	<b>72</b>	<b>68</b>	<b>33</b>	<b>39</b>	<b>32</b>

[1] Includes a gain on disposal of a capital asset of \$6 million.

[2] Represents deferred income tax expenses related to an investment in an associate.

**OTHER ITEMS** (NOT INCLUDED IN ADJUSTED EARNINGS)

The following table presents the Corporation's share of Other items:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Power Financial					
Lifeco					
Restructuring charges	(69)	-	(56)	(13)	-
	(69)	-	(56)	(13)	-
IGM					
Restructuring charges	(6)	-	(6)	-	-
Pension plan	15	-	15	-	-
Share of Lifeco's other items	(3)	-	(3)	-	-
	6	-	6	-	-
Pargesa					
Total - Gains on partial disposal	-	67	-	-	-
LafargeHolcim - Impairment charges	-	(237)	-	-	(34)
Engie - Impairment charges	-	(6)	-	-	-
Other (charge) income	1	(1)	(1)	2	-
	1	(177)	(1)	2	(34)
	(62)	(177)	(51)	(11)	(34)

Other items in the first and second quarters of 2017 were mainly comprised of the following:

## FIRST QUARTER

- Lifeco - Restructuring charges of \$13 million: primarily related to Lifeco's health and retail business in Ireland and the completion of integration activities at Empower Retirement.

## SECOND QUARTER

- Lifeco - Restructuring charges of \$59 million: mainly relating to Lifeco's realignment of its Canadian operations (see "Overview" section).
- IGM - Restructuring charges of \$6 million: severance and termination costs largely associated with the reduction of IGM's region office footprint.
- IGM - Change related to Pension plan of \$15 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy introduced which limits the possibility of certain benefits increases in the future.

Other items in the first and second quarters of 2016 were mainly comprised of the following:

## FIRST QUARTER

- Total - Gain on partial disposal of \$67 million: GBL disposed of a 1.1% equity interest in Total.
- LafargeHolcim - Impairment charge of \$203 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 \$6 million: a non-cash charge at GBL.

## SECOND QUARTER

- LafargeHolcim - Impairment charge of \$34 million: a non-cash charge of €239 million at GBL as a result of a further decline in the share price of LafargeHolcim, from €41.28 at March 31, 2016 to €37.10 at June 30, 2016.

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

The condensed balance sheet of Lifeco, IGM and other subsidiaries, as well as Power Corporation's and Power Financial's non-consolidated balance sheets 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 June 30, 2017.

	Power Corporation	Power Financial	Lifeco	IGM	Other subsidiaries	Consolidation adjustments and other <sup>[1]</sup>	Power Corporation Consolidated balance sheets	
							June 30, 2017	December 31, 2016
<b>Assets</b>								
Cash and cash equivalents	750	1,087	3,398	1,069	272	(605)	<b>5,971</b>	5,182
Investments	1,951	160	161,623	8,076	-	87	<b>171,897</b>	169,527
Investments in Power Financial, Lifeco and IGM	11,438	16,579	364	914	-	(29,295)	-	-
Investments in Other subsidiaries	552	-	-	-	-	(552)	-	-
Investment in Parjointco	-	3,132	-	-	-	-	<b>3,132</b>	2,811
Investments in other jointly controlled corporations and associates	-	-	66	-	142	299	<b>507</b>	742
Funds held by ceding insurers	-	-	10,317	-	-	-	<b>10,317</b>	10,781
Reinsurance assets	-	-	5,416	-	-	-	<b>5,416</b>	5,627
Other assets	450	120	10,161	1,353	651	(237)	<b>12,498</b>	12,073
Intangible assets	-	-	3,900	2,031	608	65	<b>6,604</b>	6,258
Goodwill	-	-	5,992	2,660	518	761	<b>9,931</b>	9,499
Interest on account of segregated fund policyholders	-	-	208,536	-	-	-	<b>208,536</b>	200,403
<b>Total assets</b>	<b>15,141</b>	<b>21,078</b>	<b>409,773</b>	<b>16,103</b>	<b>2,191</b>	<b>(29,477)</b>	<b>434,809</b>	<b>422,903</b>
<b>Liabilities</b>								
Insurance and investment contract liabilities	-	-	159,750	-	-	-	<b>159,750</b>	157,949
Obligations to securitization entities	-	-	-	7,535	-	-	<b>7,535</b>	7,721
Debentures and other debt instruments	648	250	5,531	1,925	704	(42)	<b>9,016</b>	8,418
Other liabilities	271	559	10,528	1,796	677	(209)	<b>13,622</b>	13,351
Insurance and investment contracts on account of segregated fund policyholders	-	-	208,536	-	-	-	<b>208,536</b>	200,403
<b>Total liabilities</b>	<b>919</b>	<b>809</b>	<b>384,345</b>	<b>11,256</b>	<b>1,381</b>	<b>(251)</b>	<b>398,459</b>	<b>387,842</b>
<b>Equity</b>								
Non-participating shares	966	2,830	2,714	150	-	(5,694)	<b>966</b>	966
Participating shareholders' equity	13,256	17,439	19,749	4,697	563	(42,448)	<b>13,256</b>	12,898
Non-controlling interests <sup>[2, 3]</sup>	-	-	2,965	-	247	18,916	<b>22,128</b>	21,197
<b>Total equity</b>	<b>14,222</b>	<b>20,269</b>	<b>25,428</b>	<b>4,847</b>	<b>810</b>	<b>(29,226)</b>	<b>36,350</b>	<b>35,061</b>
<b>Total liabilities and equity</b>	<b>15,141</b>	<b>21,078</b>	<b>409,773</b>	<b>16,103</b>	<b>2,191</b>	<b>(29,477)</b>	<b>434,809</b>	<b>422,903</b>

[1] Consolidation adjustments and other includes Portag3 and Wealthsimple, as well as elimination entries and reclassifications.

[2] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[3] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Power Financial and Other subsidiaries.

Total assets of the Corporation increased to \$434.8 billion at June 30, 2017, compared with \$422.9 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 \$398.5 billion at June 30, 2017, compared with \$387.8 billion at December 31, 2016, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by \$1.8 billion, primarily due to the impact of new business, partially offset by the impact of changes in assumptions, restructured reinsurance treaties and the strengthening of the Canadian dollar against the U.S. dollar.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by \$8.1 billion, primarily due to the combined impact of market value gains and investment income of \$5.9 billion, the impact of currency movement of \$2.1 billion and net deposits of \$0.9 billion.

Part B of this MD&A includes a discussion of the consolidated and non-consolidated balance sheet of Power Financial and Parts C and D 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, investments in subsidiaries 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 Corporation's non-consolidated balance sheets, which include its investments in subsidiaries accounted for using the equity method.

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents <sup>[1]</sup>	750	827
Investments <sup>[2]</sup>	1,951	1,900
Investment in Power Financial	11,438	11,085
Investments in Other subsidiaries <sup>[3]</sup>	552	325
Other assets	450	442
<b>Total assets</b>	<b>15,141</b>	<b>14,579</b>
<b>Liabilities</b>		
Debentures and other debt instruments	648	455
Other liabilities	271	260
<b>Total liabilities</b>	<b>919</b>	<b>715</b>
<b>Equity</b>		
Non-participating shares	966	966
Participating shareholders' equity	13,256	12,898
<b>Total equity</b>	<b>14,222</b>	<b>13,864</b>
<b>Total liabilities and equity</b>	<b>15,141</b>	<b>14,579</b>

[1] Cash equivalents include \$352 million (\$204 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 also include cash held with Sagard Investment Funds (see below).

[2] Includes Sagard Holdings' investments in a jointly controlled corporation and an associate.

[3] Includes controlled portfolio investments.

### Cash and cash equivalents

Cash and cash equivalents amounted to \$750 million at June 30, 2017, compared with \$827 million at the end of December 2016 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, \$291 million (\$456 million at December 31, 2016) was held by the Sagard Investment Funds.

**Investments**

Non-controlled portfolio investments amounted to \$1,951 million at June 30, 2017, compared with \$1,900 million at December 31, 2016. These include investments classified as available for sale and Sagard Holdings' investments in a jointly controlled corporation and an associate. Including cash, the fair value of controlled portfolio investments, and the adjustment for the fair value of investments in a jointly controlled corporation and an associate, the total fair value of the Corporation's other investments amounted to \$2,601 million at June 30, 2017, compared with \$2,690 million at December 31, 2016.

June 30, 2017	Cost	Unrealized gain (loss)	Fair value of non-controlled portfolio investments <sup>[1]</sup>	Cash	Fair value of controlled portfolio investments and other	Total fair value
<b>Sagard Investment Funds</b>						
Sagard Europe	244	144	<b>388</b>	–	–	388
Sagard Holdings	409	25	<b>434</b>	43	359	836
Sagard China	405	38	<b>443</b>	248	–	691
	1,058	207	<b>1,265</b>	291	359	1,915
<b>Other Investments</b>						
China AMC	282	177	<b>459</b>	–	–	459
Investment and hedge funds and other	124	103	<b>227</b>	–	–	227
<b>Total<sup>[2]</sup></b>	<b>1,464</b>	<b>487</b>	<b>1,951</b>	<b>291</b>	<b>359</b>	<b>2,601</b>

December 31, 2016	Cost	Unrealized gain (loss)	Fair value of non-controlled portfolio investments <sup>[1]</sup>	Cash	Fair value of controlled portfolio investments and other	Total fair value
<b>Sagard Investment Funds</b>						
Sagard Europe	211	70	<b>281</b>	–	–	281
Sagard Holdings	388	41	<b>429</b>	125	334	888
Sagard China	306	10	<b>316</b>	331	–	647
	905	121	<b>1,026</b>	456	334	1,816
<b>Other Investments</b>						
China AMC	282	181	<b>463</b>	–	–	463
Investment and hedge funds and other	270	141	<b>411</b>	–	–	411
<b>Total<sup>[2]</sup></b>	<b>1,457</b>	<b>443</b>	<b>1,900</b>	<b>456</b>	<b>334</b>	<b>2,690</b>

[1] As reported in the Corporation's non-consolidated balance sheets.

[2] Fair value of non-controlled portfolio investments includes \$546 million of investments at June 30, 2017 (\$428 million at December 31, 2016) valued using quoted prices in active markets.

At June 30, 2017, the fair value of investments in private investment funds included above in "Investment and hedge funds and other" (excluding the Sagard Investment Funds) was \$163 million, compared with \$351 million at December 31, 2016, and the Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of \$64 million. The Corporation expects that future distributions from these funds will be sufficient to meet outstanding commitments. In the second quarter of 2017, the Corporation sold an investment in a private investment fund for proceeds of \$203 million.

The Corporation has also invested in a select number of hedge funds and other investments. At June 30, 2017, the fair value of these investments in hedge funds and other investments was \$64 million.

### Investments in Power Financial and Other subsidiaries

The carrying value of Power Corporation's investments in Power Financial and in Other subsidiaries (including controlled portfolio investments), accounted for using the equity method, increased to \$11,990 million at June 30, 2017, compared with \$11,410 million at December 31, 2016:

	Power Financial	Other subsidiaries	Total
Carrying value, at the beginning of the year	11,085	325	11,410
Investments in subsidiaries	-	323	323
Share of adjusted net earnings (losses)	736	(55)	681
Share of other items	(62)	-	(62)
Share of other comprehensive income (loss)	59	(33)	26
Dividends	(386)	(8)	(394)
Other, mainly related to effects of changes in ownership	6	-	6
Carrying value, at June 30, 2017	11,438	552	11,990

### EQUITY

#### Non-participating shares

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of \$966 million at June 30, 2017 (same as at December 31, 2016), of which \$950 million are non-cumulative (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..

#### Participating shareholders' equity

Participating shareholders' equity was \$13,256 million at June 30, 2017, compared with \$12,898 million at December 31, 2016:

Six months ended June 30	2017	2016
Participating shareholders' equity, at the beginning of the year	<b>12,898</b>	13,008
Changes in retained earnings		
Net earnings before dividends on non-participating shares	<b>634</b>	346
Dividends declared	<b>(348)</b>	(325)
Effects of changes in ownership in subsidiaries and other	<b>14</b>	(96)
	<b>300</b>	(75)
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	<b>(224)</b>	(754)
Investment revaluation and cash flow hedges	<b>172</b>	76
Actuarial gains (losses) on defined benefit plans	<b>(91)</b>	(241)
Share of Pargesa and other jointly controlled corporations and associates	<b>194</b>	127
Share-based compensation	<b>(8)</b>	2
	<b>43</b>	(790)
Issuance of subordinate voting shares (483,038 shares in 2017 and 800 shares in 2016) under the Corporation's Executive Stock Option Plan <sup>[1]</sup>	<b>15</b>	-
Participating shareholders' equity at June 30	<b>13,256</b>	12,143

[1] Issued for \$13 million in 2017 and including an amount of \$2 million representing the cumulative expenses related to these options.

The book value per participating share of the Corporation was \$28.58 at June 30, 2017, compared with \$27.84 at the end of 2016.

**Outstanding number of participating shares**

As of the date of this MD&A, there were 48,854,772 Participating Preferred Shares of the Corporation outstanding, the same as at December 31, 2016, and 414,944,574 Subordinate Voting Shares of the Corporation outstanding, compared with 414,461,536 at December 31, 2016. As of the date of this MD&A, options were outstanding to purchase up to an aggregate of 18,229,671 Subordinate Voting Shares of the Corporation under the Corporation's Executive 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 \$2 billion of First Preferred Shares, Subordinate Voting 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, IGM and other subsidiaries, as well as Power Corporation's 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 six-month period ended June 30, 2017.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Sub-total	Power Corporation	Other subsidiaries	Consolidation adjustments	Power Corporation Consolidated cash flows	
									2017	2016
Six months ended June 30										
Cash flows from:										
Operating activities	694	2,769	220	(713)	2,970	300	(85)	(384)	<b>2,801</b>	3,317
Financing activities	(391)	(936)	134	697	(496)	(142)	570	61	<b>(7)</b>	(880)
Investing activities	(58)	(1,689)	104	79	(1,564)	(232)	(373)	174	<b>(1,995)</b>	(2,445)
Effect of changes in exchange rates on cash and cash equivalents	-	(5)	-	-	(5)	(3)	(2)	-	<b>(10)</b>	(217)
Increase (decrease) in cash and cash equivalents	245	139	458	63	905	(77)	110	(149)	<b>789</b>	(225)
Cash and cash equivalents, at the beginning of the year	842	3,259	611	(316)	4,396	827	162	(203)	<b>5,182</b>	5,085
Cash and cash equivalents, at June 30	1,087	3,398	1,069	(253)	5,301	750	272	(352)	<b>5,971</b>	4,860

Consolidated cash and cash equivalents increased by \$789 million in the six-month period ended June 30, 2017, compared with a decrease of \$225 million in the corresponding period of 2016.

Operating activities produced a net inflow of \$2,801 million in the six-month period ended June 30, 2017, compared with a net inflow of \$3,317 million in the corresponding period of 2016.

Cash flows from financing activities, which include dividends paid on the participating and non-participating shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$7 million in the six-month period ended June 30, 2017, compared with a net outflow of \$880 million in the corresponding period of 2016.

Cash flows from investing activities resulted in a net outflow of \$1,995 million in the six-month period ended June 30, 2017, compared with a net outflow of \$2,445 million in the corresponding period of 2016.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of \$148 million in the six-month period ended June 30, 2017, compared with a net outflow of \$72 million in the corresponding period of 2016.

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

### NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received and income from investments, less operating expenses, financing charges, income taxes, and non-participating and participating share dividends. Dividends received from Power Financial, which is also a holding company, represent a significant component of the Corporation's corporate cash flows.

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

Six months ended June 30	2017	2016
<b>Operating activities</b>		
Net earnings before dividends on non-participating shares	634	346
Adjusting items		
Earnings from subsidiaries not received in cash	(235)	(105)
Impairment charges	17	68
Net gains on disposal of investments	(124)	(38)
Other	8	(13)
	300	258
<b>Financing activities</b>		
Dividends paid on non-participating shares	(26)	(26)
Dividends paid on participating shares	(322)	(299)
Issuance of subordinate voting shares	13	-
Repurchase of non-participating shares for cancellation	-	(1)
Issuance of debentures	250	-
Change in other debt instruments	(55)	-
Other	(2)	-
	(142)	(326)
<b>Investing activities</b>		
Proceeds from disposal of investments	409	528
Purchase of investments	(314)	(373)
Investment in other subsidiaries	(323)	(212)
Other (including acquisition of capital assets)	(4)	(12)
	(232)	(69)
Effect of changes in exchange rates on cash and cash equivalents	(3)	(9)
Increase (decrease) in cash and cash equivalents	(77)	(146)
Cash and cash equivalents, at the beginning of the year	827	831
<b>Cash and cash equivalents, at June 30</b>	<b>750</b>	<b>685</b>
<b>Cash and cash equivalents:</b>		
Corporate	459	229
Sagard Investment Funds	291	456
	750	685

On a non-consolidated basis, cash and cash equivalents decreased by \$77 million in the six-month period ended June 30, 2017, compared with a decrease of \$146 million in the corresponding period in 2016.

Operating activities resulted in a net inflow of \$300 million in the six-month period ended June 30, 2017, compared with a net inflow of \$258 million in the corresponding period in 2016.

- Dividends paid by Power Financial on its common shares during the six-month period ended June 30, 2017 were \$0.805 per share, compared with \$0.765 per share in the corresponding period of 2016. Power Corporation received dividends of \$376 million from Power Financial in the six-month period ended June 30, 2017, compared with \$358 million in the corresponding period of 2016.

The Corporation's financing activities during the six-month period ended June 30, 2017 were a net outflow of \$142 million, compared with a net outflow of \$326 million in the corresponding period in 2016, and included:

- Dividends paid on non-participating and participating shares by the Corporation of \$348 million, compared with \$325 million in the corresponding period of 2016. In the six-month period ended June 30, 2017, dividends paid on the Corporation's participating shares were \$0.6935 per share, compared with \$0.64625 per share in the corresponding period of 2016.
- Issuance of Subordinate Voting Shares of the Corporation for \$13 million pursuant to the Corporation's Executive Stock Option Plan, compared with no issuance in the corresponding period of 2016.
- Issuance of debentures for \$250 million, compared with no issuance in the corresponding period of 2016.
- Reimbursement of revolving credit facility for an amount of \$55 million.

The Corporation's investing activities during the six-month period ended June 30, 2017 represented a net outflow of \$232 million, compared with a net outflow of \$69 million in the corresponding period of 2016.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Sagard Investment Funds and Other investments.

## CAPITAL MANAGEMENT

As a holding company, Power Corporation'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 participating shares, non-participating 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 non-participating shares, debentures, participating shareholders' equity, and non-controlling interests. The Corporation views non-participating 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, including those of its controlled portfolio investments. Debentures and other debt instruments issued by Power Financial, Lifeco, IGM and Other subsidiaries are non-recourse to the Corporation. Non-participating shares and total equity accounted for 80% of consolidated capitalization at June 30, 2017.

	June 30, 2017	December 31, 2016
<b>Debentures and other debt instruments</b>		
Power Corporation	648	455
Power Financial	250	250
Lifeco	5,531	5,980
IGM	1,925	1,325
Other subsidiaries <sup>[1]</sup>	704	450
Consolidation adjustments	(42)	(42)
	<b>9,016</b>	<b>8,418</b>
<b>Non-participating shares</b>		
Power Corporation	966	966
Power Financial	2,830	2,580
Lifeco	2,714	2,514
IGM	150	150
	<b>6,660</b>	<b>6,210</b>
<b>Equity</b>		
Participating shareholders' equity	13,256	12,898
Non-controlling interests <sup>[2]</sup>	16,434	15,953
	<b>29,690</b>	<b>28,851</b>
	<b>45,366</b>	<b>43,479</b>

[1] Other subsidiaries include controlled portfolio investments. Increase due to Potentia (\$145 million) and Lumenpulse (\$125 million).

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

#### Power Corporation

- On January 31, 2017, the Corporation issued \$250 million of 30-year 4.81% debentures. The net proceeds will be used by the Corporation to finance the acquisition of an additional 3.9% interest in China AMC and for general corporate purposes.

**Power Financial**

- On May 26, 2017, Power Financial issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of \$250 million.

**Lifeco**

- On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debentures at their principal amount together with accrued interest.
- On May 18, 2017, Lifeco issued 8,000,000 5.15% Non-Cumulative First Preferred Shares Series T for gross proceeds of \$200 million.
- On May 26, 2017, Great-West Lifeco & Finance (Delaware) LP issued US\$700 million principal amount of 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, due in 2047.
- On June 21, 2017, Great-West Lifeco & Finance (Delaware) LP redeemed all of the \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067, 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.

**IGM Financial**

- On January 26, 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 AMC and for general corporate purposes.

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, C and D of this MD&A further describe the capital management activities of Power Financial, 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" 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 sixth 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" rating assigned to the Corporation's debentures by DBRS is the sixth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A" 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.

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## RISK MANAGEMENT

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Power Corporation is a holding company whose principal asset is its controlling interest in Power Financial. Power Financial 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 Power Financial, 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, C and D of this MD&A further describe risks related to Power Financial, Lifeco and IGM, respectively.

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 for approval 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 Corporation, Power Financial and its subsidiaries may be volatile and subject to fluctuations in response to numerous factors beyond Power Corporation's and such subsidiaries' control. Economic conditions may adversely affect Power Corporation 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, Europe and Asia. 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 Corporation's subsidiaries' operations could be adversely impacted and the trading price of Power Corporation'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 of information systems or breaches of security could result in a negative impact on the Corporation's financial results or result in reputational damage.

**PRIVATE COMPANIES AND ILLIQUID SECURITIES**

The Corporation makes certain investments through funds in the securities of private companies and illiquid securities. Such investments may offer relatively high potential returns, but may also be subject to a relatively higher degree of risk. From time to time, it may be in the best interests of the Corporation to exit such investments. However, securities of private companies and illiquid securities may not have a ready market and the Corporation may be unable to sell such securities at acceptable prices on a timely basis or at all. Such illiquidity may limit the Corporation's ability to realize a return or to vary components of its investment portfolio promptly in response to changing conditions. In some cases, the Corporation may also be restricted by contract or by applicable laws from selling such securities for a period of time. The valuation of private companies is inherently difficult because there is a certain level of uncertainty in the assumptions used to determine the fair value of these investments.

## FINANCIAL INSTRUMENTS RISK

Power Corporation 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 Corporation'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 Corporation'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, C and D of this MD&A describe respectively Power Financial's, Lifeco's and IGM's management of financial instruments risk.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

### FAIR VALUE MEASUREMENT

At June 30, 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 18 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 six-month period ended June 30, 2017. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	June 30, 2017			December 31, 2016		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	183	2	2	39	1	-
Power Financial	17	2	2	14	1	1
Lifeco	20,056	463	(1,056)	17,229	528	(1,484)
IGM	3,497	41	15	4,094	43	5
Other subsidiaries	101	-	(1)	50	-	(1)
	<b>23,854</b>	<b>508</b>	<b>(1,038)</b>	<b>21,426</b>	<b>573</b>	<b>(1,479)</b>

During the six-month period ended June 30, 2017, there was an increase of \$2.4 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward setting to-be-announced security transactions and regular hedging activities by Lifeco, partially offset by the expiration and settlement of foreign exchange contracts that were cash flow hedges for \$1 billion of Lifeco's subordinated debentures, redeemed on June 21, 2017. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to \$508 million at June 30, 2017, from \$573 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, C and D of this MD&A provide information on the types of derivative financial instruments used by Power Financial, 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 C 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.

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## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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At June 30, 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.

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## INCOME TAXES (NON-CONSOLIDATED BASIS)

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The Corporation had, at June 30, 2017, non-capital losses of \$237 million available to reduce future taxable income (including capital gains). These losses expire from 2026 to 2037.

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## TRANSACTIONS WITH RELATED PARTIES

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Power Corporation 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 Corporation 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 Corporation, 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.

See Note 29 to the Corporation's 2016 Consolidated Financial Statements for more information.

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## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries 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 six-month period ended June 30, 2017.

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## CHANGES IN ACCOUNTING POLICIES

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

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## **FUTURE ACCOUNTING CHANGES**

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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 17 – INSURANCE CONTRACTS (IFRS 17)**

In May 2017, the IASB issued IFRS 17, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. The new standard is effective for periods beginning on or after January 1, 2021. Lifeco is evaluating the impact of the adoption of this standard and expects it to have a significant impact on insurers.

### **IFRS 9 – FINANCIAL INSTRUMENTS (IFRS 9)**

The Corporation qualifies for the temporary exemption to defer application of IFRS 9 in accordance with the 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.

### **IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)**

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this interpretation.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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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 June 30, 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			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues <sup>[1]</sup>	<b>12,080</b>	13,777	9,088	14,503	13,879	13,280	9,379	9,839	5,415	13,632
Adjusted net earnings (attributable to participating shareholders) <sup>[2]</sup>	<b>401</b>	269	411	304	306	191	317	484	423	349
per share – basic <sup>[2]</sup>	<b>0.86</b>	0.58	0.89	0.65	0.66	0.41	0.69	1.04	0.91	0.76
Other items <sup>[2, 3]</sup>	<b>(51)</b>	(11)	48	(1)	(34)	(143)	(8)	24	192	5
per share – basic <sup>[2]</sup>	<b>(0.11)</b>	(0.02)	0.10	-	(0.07)	(0.31)	(0.02)	0.05	0.42	0.01
Net earnings (attributable to participating shareholders)	<b>350</b>	258	459	303	272	48	309	508	615	354
per share – basic	<b>0.75</b>	0.56	0.99	0.65	0.59	0.10	0.67	1.09	1.33	0.77
per share – diluted	<b>0.75</b>	0.55	0.99	0.65	0.59	0.10	0.66	1.09	1.32	0.76

[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 participating 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] Other items:

	2017		2016				2015			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Power Financial										
Lifeco	<b>(56)</b>	(13)	(9)	-	-	-	-	-	-	-
IGM	<b>6</b>	-	14	-	-	-	(10)	-	-	-
Pargesa	<b>(1)</b>	2	43	(1)	(34)	(143)	15	4	37	5
	<b>(51)</b>	(11)	48	(1)	(34)	(143)	5	4	37	5
Other subsidiaries	-	-	-	-	-	-	(13)	20	(28)	-
Corporate operations	-	-	-	-	-	-	-	-	183	-
	<b>(51)</b>	(11)	48	(1)	(34)	(143)	(8)	24	192	5

# Power Financial Corporation

PART B

## Management's Discussion and Analysis

PAGE B 2

## Financial Statements and Notes

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The attached documents concerning Power Financial Corporation 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.

# POWER FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 4, 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 six-month and three-month periods ended June 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Financial and notes thereto for the six-month and three-month periods ended June 30, 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](http://www.powerfinancial.com) and on SEDAR at [www.sedar.com](http://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](http://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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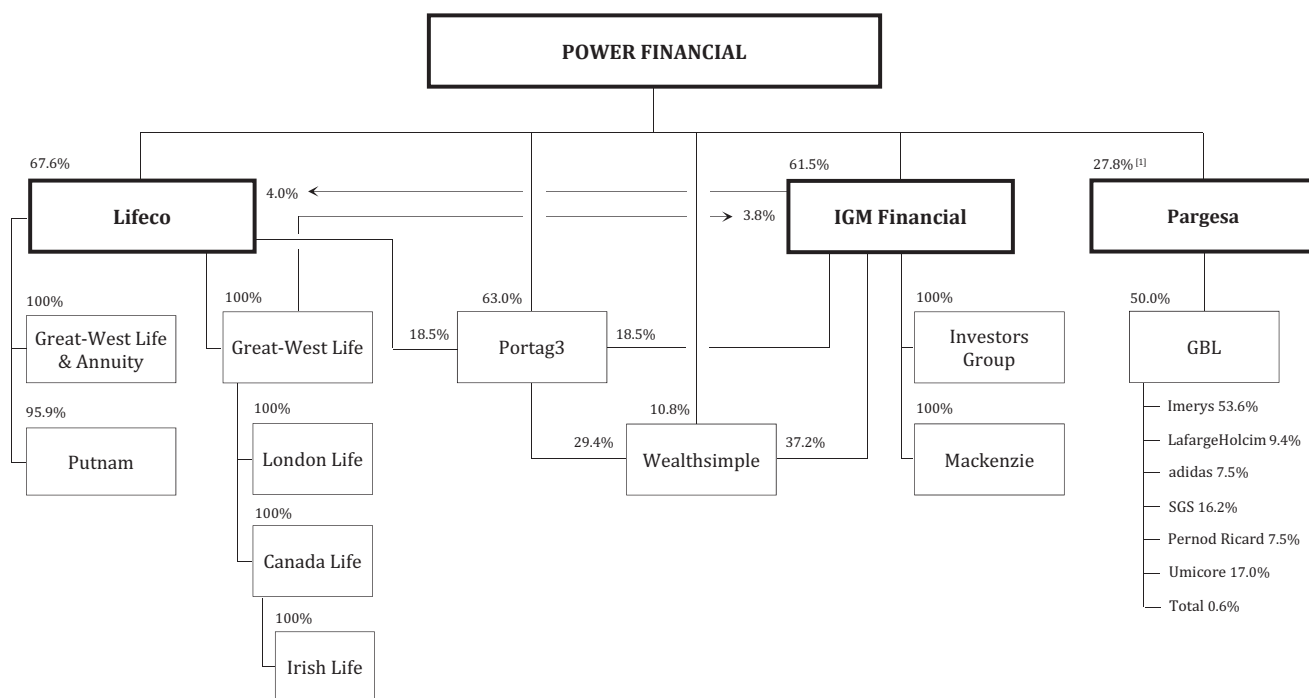
**OVERVIEW**

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 investments, 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 B — Power Financial, presented on a consolidated and non-consolidated basis;
- Part C — 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](http://www.sedar.com)) or from Lifeco's website ([www.greatwestlifeco.com](http://www.greatwestlifeco.com));
- Part D — 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](http://www.sedar.com)) or from IGM's website ([www.igmfinancial.com](http://www.igmfinancial.com));
- Part E — 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](http://www.pargesa.ch)).

The following chart shows the economic interest held by the Corporation in its operating subsidiaries and certain other investments at June 30, 2017.



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

 Principal publically listed holdings

## 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 June 30, 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 voting 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 connection with this realignment, Lifeco incurred a \$215 million pre-tax restructuring charge allocated between Lifeco's participating accounts and Lifeco's common shareholders. During the second quarter of 2017, this restructuring charge reduced net earnings attributable to Lifeco's common shareholders by \$126 million (\$88 million attributable to Power Financial's common shareholders) and net earnings attributable to Lifeco's participating accounts by \$32 million. Lifeco announced it expected to achieve \$200 million pre-tax of annual expense reductions by the end of the first quarter of 2019.

See Part C 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 June 30, 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 D 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 June 30, 2017, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa is a holding company, which, at June 30, 2017, held a 50% interest in GBL, which represents 51.8% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

At June 30, 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 88% of GBL's portfolio based on market value. In addition, GBL invests in:

- “Incubator” investments, comprised 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 potentially hold a majority stake; and
- The “financial pillar”, comprising major stakes in private equity funds, debt funds and thematic funds.

At June 30, 2017, Pargesa's net asset value was SF9,690 million, compared with SF8,884 million at December 31, 2016.

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

**PORTAG3 AND WEALTHSIMPLE**

Power Financial (with each of its subsidiaries Lifeco and IGM) controls Portag3, an investment fund dedicated to backing early-stage technology-driven financial services companies. Portag3 holds a 29.4% equity interest in Wealthsimple, a technology-driven investment manager with assets under administration of more than \$1 billion at June 30, 2017. In addition to the interest held indirectly through Portag3, Power Financial and IGM also held, at June 30, 2017, equity interests in Wealthsimple of 10.8% and 37.2%, respectively.

In the first and second quarters of 2017, Power Financial and IGM invested \$20 million and \$42.6 million, respectively, in Wealthsimple. Power Financial also transferred in the second quarter of 2017, the equity interest in Wealthsimple it had acquired prior to 2017 to Portag3.

## 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 June 30, 2017, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco <sup>[1]</sup>	67.6	Controlling interest	Consolidation
IGM <sup>[2]</sup>	61.5	Controlling interest	Consolidation
Pargesa <sup>[3]</sup>	27.8	Joint control	Equity method
Wealthsimple <sup>[4]</sup>	10.8	Controlling interest	Consolidation

[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] Portag3 and IGM also hold equity interests of 29.4% and 37.2%, respectively, in Wealthsimple.

At June 30, 2017, Pargesa's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
<b>GBL</b>	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	0.6	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, IGM, Portag3 and Wealthsimple 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 operating 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 <sup>[1]</sup>	Power Financial		
					Consolidated net earnings		
Three months ended					June 30, 2017	March 31, 2017	June 30, 2016
<b>Revenues</b>							
Premium income, net	7,772	-	-	-	7,772	9,365	6,871
Net investment income	1,894	45	-	(32)	1,907	2,198	4,721
Fee income	1,381	753	-	(33)	2,101	2,006	1,878
<b>Total revenues</b>	<b>11,047</b>	<b>798</b>	<b>-</b>	<b>(65)</b>	<b>11,780</b>	<b>13,569</b>	<b>13,470</b>
<b>Expenses</b>							
Total paid or credited to policyholders	8,227	-	-	-	8,227	9,862	10,035
Commissions	549	285	-	(18)	816	1,017	829
Operating and administrative expenses	1,555	219	-	14	1,788	1,689	1,543
Financing charges	79	28	-	5	112	107	103
<b>Total expenses</b>	<b>10,410</b>	<b>532</b>	<b>-</b>	<b>1</b>	<b>10,943</b>	<b>12,675</b>	<b>12,510</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	637	266	-	(66)	837	894	960
Share of earnings (losses) of investments in jointly controlled corporations and associates	1	-	48	49	98	49	1
Earnings before income taxes	638	266	48	(17)	935	943	961
Income taxes	51	63	-	4	118	143	127
<b>Net earnings</b>	<b>587</b>	<b>203</b>	<b>48</b>	<b>(21)</b>	<b>817</b>	<b>800</b>	<b>834</b>
<b>Attributable to</b>							
Non-controlling interests	190	79	-	(28)	241	285	298
Perpetual preferred shareholders	-	-	-	31	31	31	31
Common shareholders	397	124	48	(24)	545	484	505
	587	203	48	(21)	817	800	834

[1] "Corporate" is comprised of corporate operations and investment activities of Power Financial, Portag3 and Wealthsimple, as well as elimination entries and reclassifications.

## POWER FINANCIAL CORPORATION

Six months ended	Lifeco	IGM	Pargesa	Corporate <sup>[1]</sup>	Power Financial	
					Consolidated net earnings	
					June 30, 2017	June 30, 2016
<b>Revenues</b>						
Premium income, net	17,137	-	-	-	<b>17,137</b>	13,886
Net investment income	4,080	93	-	(68)	<b>4,105</b>	8,794
Fee income	2,686	1,495	-	(74)	<b>4,107</b>	3,760
Total revenues	23,903	1,588	-	(142)	<b>25,349</b>	26,440
<b>Expenses</b>						
Total paid or credited to policyholders	18,089	-	-	-	<b>18,089</b>	19,713
Commissions	1,302	575	-	(44)	<b>1,833</b>	1,621
Operating and administrative expenses	2,993	466	-	18	<b>3,477</b>	3,124
Financing charges	155	55	-	9	<b>219</b>	208
Total expenses	22,539	1,096	-	(17)	<b>23,618</b>	24,666
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,364	492	-	(125)	<b>1,731</b>	1,774
Share of earnings (losses) of investments in jointly controlled corporations and associates	19	-	94	34	<b>147</b>	(179)
Earnings before income taxes	1,383	492	94	(91)	<b>1,878</b>	1,595
Income taxes	147	110	-	4	<b>261</b>	197
<b>Net earnings</b>	<b>1,236</b>	<b>382</b>	<b>94</b>	<b>(95)</b>	<b>1,617</b>	<b>1,398</b>
<b>Attributable to</b>						
Non-controlling interests	440	154	-	(68)	<b>526</b>	572
Perpetual preferred shareholders	-	-	-	62	<b>62</b>	62
Common shareholders	796	228	94	(89)	<b>1,029</b>	764
	1,236	382	94	(95)	<b>1,617</b>	1,398

[1] "Corporate" is comprised of corporate operations and investment activities of Power Financial, Portage3 and Wealthsimple, as well as elimination entries and reclassifications.

The Corporation evaluates its performance based on each segment's contribution 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.

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
<b>Adjusted net earnings</b> <sup>[1]</sup>					
Lifeco	900	872	481	419	453
IGM	220	208	116	104	108
Pargesa	92	85	49	43	56
	<b>1,212</b>	1,165	<b>646</b>	566	617
Corporate operations	(27)	(70)	7	(34)	(29)
Dividends on perpetual preferred shares	(62)	(62)	(31)	(31)	(31)
<b>Adjusted net earnings</b> <sup>[2]</sup>	<b>1,123</b>	1,033	<b>622</b>	501	557
<b>Other items</b> <sup>[3]</sup>					
Lifeco	(104)	-	(84)	(20)	-
IGM	8	-	8	-	-
Pargesa	2	(269)	(1)	3	(52)
	<b>(94)</b>	(269)	<b>(77)</b>	(17)	(52)
<b>Net earnings</b> <sup>[2]</sup>	<b>1,029</b>	764	<b>545</b>	484	505
<b>Earnings per share – basic</b> <sup>[2]</sup>					
Adjusted net earnings	1.57	1.45	0.87	0.70	0.78
Other items	(0.13)	(0.38)	(0.11)	(0.02)	(0.07)
Net earnings	<b>1.44</b>	1.07	<b>0.76</b>	0.68	0.71

[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.

**NET EARNINGS** (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Net earnings attributable to common shareholders for the six-month period ended June 30, 2017 were \$1,029 million or \$1.44 per share, compared with \$764 million or \$1.07 per share in the corresponding period in 2016, an increase of 34.6% on a per share basis.

Net earnings attributable to common shareholders for the three-month period ended June 30, 2017, were \$545 million or \$0.76 per share, compared with \$505 million or \$0.71 per share in the corresponding period in 2016, an increase of 7.0% on a per share basis, and \$484 million or \$0.68 per share in the first quarter of 2017.

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 six-month period ended June 30, 2017 were \$1,123 million or \$1.57 per share, compared with \$1,033 million or \$1.45 per share in the corresponding period in 2016, an increase of 8.3% on a per share basis.

Adjusted net earnings attributable to common shareholders for the three-month period ended June 30, 2017 were \$622 million or \$0.87 per share, compared with \$557 million or \$0.78 per share in the corresponding period in 2016, an increase of 11.5% on a per share basis, and \$501 million or \$0.70 per share in the first quarter of 2017.

**CONTRIBUTION TO ADJUSTED NET EARNINGS — LIFECO, IGM AND PARGESA**

Power Financial's share of adjusted net earnings from Lifeco, IGM and Pargesa increased by 4% for the six-month period ended June 30, 2017, compared with the same period in 2016, from \$1,165 million to \$1,212 million.

Power Financial's share of adjusted net earnings from Lifeco, IGM and Pargesa for the three-month period ended June 30, 2017 was \$646 million, compared with \$617 million in the corresponding period in 2016, and \$566 million in the first quarter of 2017.

**Lifeco**

Lifeco's contribution to Power Financial's adjusted net earnings for the six-month period ended June 30, 2017 was \$900 million, compared with \$872 million for the corresponding period in 2016. For the three-month period ended June 30, 2017, Lifeco's contribution to Power Financial's adjusted net earnings was \$481 million, compared with \$453 million in the corresponding period in 2016, and \$419 million in the first quarter of 2017.

- Lifeco's adjusted net earnings attributable to Lifeco common shareholders were \$1,331 million or \$1.345 per share for the six-month period ended June 30, 2017, compared with \$1,291 million or \$1.300 per share in the corresponding period in 2016, an increase of 3.5% on a per share basis. For the three-month period ended June 30, 2017, Lifeco reported adjusted net earnings attributable to Lifeco common shareholders of \$712 million or \$0.719 per share, compared with \$619 million or \$0.675 per share in the corresponding period in 2016, and \$591 million or \$0.627 per share in the first quarter of 2017.
- Summary of Lifeco's adjusted and net earnings by segment:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
<b>Canada</b>					
Individual Customer <sup>[1]</sup>	286	302	140	146	147
Group Customer <sup>[1]</sup>	293	267	189	104	162
Canada Corporate	(13)	34	(18)	5	18
	566	603	311	255	327
<b>United States</b>					
Financial Services	173	164	88	85	74
Asset Management	(22)	(43)	(6)	(16)	(18)
U.S. Corporate	(2)	(5)	-	(2)	(3)
	149	116	82	67	53
<b>Europe</b>					
Insurance and Annuities	464	451	239	225	225
Reinsurance	164	137	83	81	74
Europe Corporate	-	(8)	-	-	(6)
	628	580	322	306	293
<b>Lifeco Corporate</b>	(12)	(8)	(3)	(9)	(2)
Adjusted net earnings <sup>[2]</sup>	1,331	1,291	712	619	671
Other items	(155)	-	(127)	(28)	-
<b>Net earnings <sup>[2]</sup></b>	<b>1,176</b>	<b>1,291</b>	<b>585</b>	<b>591</b>	<b>671</b>

[1] Comparative figures have been reclassified to reflect the realignment of the Canada segment operations into the individual and group business units.

[2] Attributable to Lifeco common shareholders.

## Lifeco's contribution to Power Financial:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average direct ownership (%)	67.7	67.4	67.6	67.8	67.4
Contribution to Power Financial's:					
Adjusted net earnings	900	872	481	419	453
Other items	(104)	-	(84)	(20)	-
	796	872	397	399	453

## CANADA

Adjusted net earnings for the six-month period ended June 30, 2017 were \$566 million, compared with \$603 million for the corresponding period in 2016. The decrease was primarily due to lower contributions from investment experience and higher taxes as a result of lower tax benefits, partially offset by favourable morbidity experience and higher net fee income.

Adjusted net earnings for the three-month period ended June 30, 2017 were \$311 million, compared with \$327 million for the corresponding period in 2016. The decrease of \$16 million was primarily due to lower contributions from investment experience and higher taxes as a result of lower tax benefits, partially offset by higher net fee income and improved mortality and morbidity experience.

## UNITED STATES

Adjusted net earnings for the six-month period ended June 30, 2017 were US\$112 million (C\$149 million), compared with US\$87 million (C\$116 million) for the corresponding period in 2016. The increase was primarily due 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 three-month period ended June 30, 2017 were US\$62 million (C\$82 million), compared with US\$40 million (C\$53 million) for the corresponding period in 2016. The increase in adjusted net earnings was primarily due to lower expenses in the Asset Management segment as discussed above, as well as higher net fee income partially offset by lower contributions from investment experience.

## EUROPE

Adjusted net earnings for the six-month period ended June 30, 2017 were \$628 million, compared with \$580 million for the corresponding period in 2016. Adjusted net earnings for the three-month period ended June 30, 2017 were \$322 million, compared with \$293 million for the corresponding period in 2016. Increases for the six-month and three-month periods were primarily due to higher contributions from investment experience and favourable mortality experience, partially offset by lower contributions from insurance contract liability basis changes and the impact of currency movement. The results for the six-month period also increased due to a gain on the sale of Lifeco's holdings of Allianz Ireland.

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

**IGM Financial**

IGM's contribution to Power Financial's adjusted net earnings was \$220 million for the six-month period ended June 30, 2017, compared with \$208 million for the corresponding period in 2016. For the three-month period ended June 30, 2017, IGM's contribution to Power Financial's adjusted net earnings was \$116 million, compared with \$108 million for the corresponding period in 2016, and \$104 million in the first quarter of 2017.

- IGM's adjusted net earnings available to IGM common shareholders were \$363 million or \$1.51 per share for the six-month period ended June 30, 2017, compared with \$340 million or \$1.40 per share in the corresponding period in 2016, an increase of 7.9% on a per share basis due to an increase in contributions from Investors Group and Mackenzie. For the three-month period ended June 30, 2017, IGM reported adjusted net earnings available to common shareholders of \$186 million or \$0.77 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2016, and \$177 million or \$0.74 per share in the first quarter of 2017.
- Adjusted net earnings before interest and taxes of IGM's segments and adjusted net earnings (non-IFRS measures described in Part D of this MD&A), and net earnings available to IGM common shareholders were as follows:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Investors Group	373	337	194	179	174
Mackenzie	85	77	44	41	41
Corporate and other	68	65	35	33	31
Adjusted net earnings (before interest, income taxes, preferred share dividends and other)	526	479	273	253	246
Interest expense, income taxes, preferred share dividends and other	(163)	(139)	(87)	(76)	(73)
Adjusted net earnings <sup>[1]</sup>	363	340	186	177	173
Other items	15	-	15	-	-
<b>Net earnings <sup>[1]</sup></b>	<b>378</b>	<b>340</b>	<b>201</b>	<b>177</b>	<b>173</b>

[1] Available to IGM common shareholders.

**IGM's contribution to Power Financial:**

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average direct ownership (%)	61.5	61.1	61.5	61.5	61.4
Contribution to Power Financial's:					
Adjusted net earnings	220	208	116	104	108
Other items	8	-	8	-	-
	<b>228</b>	<b>208</b>	<b>124</b>	<b>104</b>	<b>108</b>

## INVESTORS GROUP

Adjusted net earnings increased in the six-month and three-month periods ended June 30, 2017, compared with the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from an increase in average assets under management of 12.4% in the six-month period ended June 30, 2017, and 12.3% in the second quarter of 2017;
- Partially offset by an increase in commission expenses, primarily due to the increase in average assets under management, an increase in non-commission expenses resulting largely from Consultant network support and other business development efforts, as well as sub-advisory fees related to increased assets under management.

## MACKENZIE

Adjusted net earnings increased in the six-month and three-month periods ended June 30, 2017, compared with the corresponding period in 2016, due to:

- An increase in fee revenue primarily resulting from an increase in average assets under management of 10.3% in the six-month period ended June 30, 2017, and 11.4% in the second quarter of 2017, offset by a decline in the average management fee rate;
- Partially offset by an increase in commission expenses, primarily due to the increase in average assets under management, and an increase in non-commission expenses.

Total assets under management were as follows:

(In billions of dollars)	June 30, 2017	March 31, 2017	June 30, 2016	March 31, 2016
Investors Group	84.9	84.4	76.6	75.7
Mackenzie	68.6	66.3	61.7	60.7
Corporate and other <sup>[1]</sup>	(5.3)	(3.6)	(3.2)	(3.0)
<b>Total</b>	<b>148.2</b>	147.1	135.1	133.4

[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.

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

(In billions of dollars)	2017		2016			
	Q2	Q1	Q4	Q3	Q2	Q1
Investors Group	85.0	82.8	79.7	78.1	75.8	73.5
Mackenzie	54.2	52.3	50.6	49.6	47.8	46.7
Corporate and other <sup>[1]</sup>	4.7	4.5	4.5	4.5	4.3	4.2
<b>Total</b>	<b>143.9</b>	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 D of this MD&A for more information on IGM's results.

**Pargesa**

Pargesa's contribution to Power Financial's adjusted net earnings was \$92 million for the six-month period ended June 30, 2017, compared with \$85 million in the corresponding period in 2016. For the three-month period ended June 30, 2017, Pargesa's contribution to Power Financial's adjusted net earnings was \$49 million, compared with \$56 million in the corresponding period in 2016, and \$43 million in the first quarter of 2017.

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

(In millions of Swiss francs)	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Contribution from principal holdings					
Share of earnings of:					
Imerys	57	57	31	26	31
Dividends from:					
LafargeHolcim	60	44	60	-	44
SGS	46	41	-	46	-
adidas	15	11	15	-	11
Pernod Ricard	11	10	11	-	10
Umicore	7	8	7	-	8
Total	10	13	10	-	22
Engie	-	13	-	-	13
	206	197	134	72	139
Contribution from private equity activities and other investment funds	60	25	3	57	27
Net financing charges	(8)	16	(5)	(3)	(10)
Other operating income from holding company activities	8	3	8	-	3
General expenses and taxes	(16)	(13)	(8)	(8)	(8)
Adjusted net earnings	250	228	132	118	151
Other items	3	(589)	(4)	7	(141)
<b>Net earnings (loss)</b>	<b>253</b>	<b>(361)</b>	<b>128</b>	<b>125</b>	<b>10</b>

**Pargesa's contribution to Power Financial:**

(In millions of Canadian dollars)	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Average indirect ownership (%)	27.8	27.8	27.8	27.8	27.8
Contribution to Power Financial's:					
Adjusted net earnings	92	85	49	43	56
Other items	2	(269)	(1)	3	(52)
	94	(184)	48	46	4

The average exchange rates for the six-month and three-month periods ended June 30, 2017 and 2016 were as follows:

	Six months ended			Three months ended		
	June 30, 2017	June 30, 2016	Change %	June 30, 2017	June 30, 2016	Change %
Euro/SF	1.0769	1.0957	(1.7)	1.0839	1.0957	(1.1)
SF/CAD	1.3428	1.3546	(0.9)	1.3663	1.3281	2.9

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

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

Adjusted net earnings increased in the six-month period ended June 30, 2017, compared with the corresponding period in 2016, mainly due to:

- An increase in the dividends from its principal holdings of SF9 million;
- An increase in the contribution from private equity activities and other investment funds of SF35 million;
- Non-cash charges of SF7 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 SF32 million in the corresponding period in 2016; and
- Income of SF13 million from trading and derivative activities of GBL in managing its portfolio, compared with SF1 million in 2016.

Adjusted net earnings decreased in the three-month period ended June 30, 2017, compared with the corresponding period in 2016, mainly due to a decrease in the contributions from private equity activities and other investment funds of SF24 million.

See Part E 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.

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Income (loss) from investments <sup>[1]</sup>	27	(14)	36	(9)	(2)
Operating and other expenses					
Operating expenses	(41)	(37)	(21)	(20)	(17)
Financing charges	(9)	(9)	(5)	(4)	(5)
Depreciation	(1)	(1)	-	(1)	-
Income taxes <sup>[2]</sup>	(3)	(9)	(3)	-	(5)
	<b>(54)</b>	<b>(56)</b>	<b>(29)</b>	<b>(25)</b>	<b>(27)</b>
Corporate operations	<b>(27)</b>	<b>(70)</b>	<b>7</b>	<b>(34)</b>	<b>(29)</b>

[1] In the second quarter of 2017, Power Financial attained control of WealtheSimple. A gain was recognized as a result, reflecting the Corporation's investment in WealtheSimple at fair value.

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

**OTHER ITEMS** (NOT INCLUDED IN ADJUSTED EARNINGS)

The following table presents the Corporation's share of Other items:

	Six months ended		Three months ended		
	June 30, 2017	June 30, 2016	June 30, 2017	March 31, 2017	June 30, 2016
Lifeco					
Restructuring charges	(104)	-	(84)	(20)	-
	(104)	-	(84)	(20)	-
IGM					
Restructuring charges	(10)	-	(10)	-	-
Pension plan	22	-	22	-	-
Share of Lifeco's other items	(4)	-	(4)	-	-
	8	-	8	-	-
Pargesa					
Total - Gains on partial disposal	-	101	-	-	-
LafargeHolcim - Impairment charges	-	(360)	-	-	(52)
Engie - Impairment charges	-	(9)	-	-	-
Other (charge) income	2	(1)	(1)	3	-
	2	(269)	(1)	3	(52)
	(94)	(269)	(77)	(17)	(52)

Other items in the first and second quarters of 2017 were mainly comprised of the following:

**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 at Empower Retirement.

## SECOND QUARTER

- Restructuring charges of \$84 million: mainly relating to Lifeco's realignment of its Canadian operations (see "Overview" section).

**IGM Financial**

## SECOND QUARTER

- Restructuring charges of \$10 million: severance and termination costs largely associated with the reduction of IGM's region office footprint.
- Change related to pension plan of \$22 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy introduced which limits the possibility of certain benefits increases in the future.

Other items in the first and second quarters of 2016 were mainly comprised of the following:

**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.

## SECOND QUARTER

- LafargeHolcim - Impairment charge of \$52 million: a non-cash charge of €239 million at GBL as a result of a further decline in the share price of LafargeHolcim, from €41.28 at March 31, 2016 to €37.10 at June 30, 2016.

## 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 June 30, 2017.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other <sup>[1]</sup>	Power Financial Consolidated balance sheets	
					June 30, 2017	December 31, 2016
<b>Assets</b>						
Cash and cash equivalents	1,087	3,398	1,069	(253)	<b>5,301</b>	4,396
Investments	160	161,623	8,076	34	<b>169,893</b>	167,744
Investment in Lifeco	13,667	-	914	(14,581)	-	-
Investment in IGM	2,912	364	-	(3,276)	-	-
Investment in Parjointco	3,132	-	-	-	<b>3,132</b>	2,811
Investments in other jointly controlled corporations and associates	-	66	-	-	<b>66</b>	292
Funds held by ceding insurers	-	10,317	-	-	<b>10,317</b>	10,781
Reinsurance assets	-	5,416	-	-	<b>5,416</b>	5,627
Other assets	120	10,161	1,353	(38)	<b>11,596</b>	11,292
Intangible assets	-	3,900	2,031	65	<b>5,996</b>	5,966
Goodwill	-	5,992	2,660	761	<b>9,413</b>	9,274
Interest on account of segregated fund policyholders	-	208,536	-	-	<b>208,536</b>	200,403
<b>Total assets</b>	<b>21,078</b>	<b>409,773</b>	<b>16,103</b>	<b>(17,288)</b>	<b>429,666</b>	<b>418,586</b>
<b>Liabilities</b>						
Insurance and investment contract liabilities	-	159,750	-	-	<b>159,750</b>	157,949
Obligations to securitization entities	-	-	7,535	-	<b>7,535</b>	7,721
Debentures and other debt instruments	250	5,531	1,925	(42)	<b>7,664</b>	7,513
Other liabilities	559	10,528	1,796	(17)	<b>12,866</b>	12,784
Insurance and investment contracts on account of segregated fund policyholders	-	208,536	-	-	<b>208,536</b>	200,403
<b>Total liabilities</b>	<b>809</b>	<b>384,345</b>	<b>11,256</b>	<b>(59)</b>	<b>396,351</b>	<b>386,370</b>
<b>Equity</b>						
Perpetual preferred shares	2,830	2,714	150	(2,864)	<b>2,830</b>	2,580
Common shareholders' equity	17,439	19,749	4,697	(24,446)	<b>17,439</b>	16,901
Non-controlling interests <sup>[2, 3]</sup>	-	2,965	-	10,081	<b>13,046</b>	12,735
<b>Total equity</b>	<b>20,269</b>	<b>25,428</b>	<b>4,847</b>	<b>(17,229)</b>	<b>33,315</b>	<b>32,216</b>
<b>Total liabilities and equity</b>	<b>21,078</b>	<b>409,773</b>	<b>16,103</b>	<b>(17,288)</b>	<b>429,666</b>	<b>418,586</b>

[1] Consolidation adjustments and other includes Portag3 and Wealthsimple, as well as elimination entries and reclassifications.

[2] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

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

Total assets of the Corporation increased to \$429.7 billion at June 30, 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 \$396.4 billion at June 30, 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 \$1.8 billion, primarily due to the impact of new business, partially offset by the impact of changes in assumptions, restructured reinsurance treaties and the strengthening of the Canadian dollar against the U.S. dollar.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by \$8.1 billion, primarily due to the combined impact of market value gains and investment income of \$5.9 billion, the impact of currency movement of \$2.1 billion and net deposits of \$0.9 billion.

Parts C and D 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.

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents <sup>[1]</sup>	1,087	842
Investment in Lifeco	13,667	13,536
Investment in IGM	2,912	2,866
Investment in Parjointco	3,132	2,811
Investments (including investments in Portag3 and Wealthsimple)	160	76
Other assets	120	122
<b>Total assets</b>	<b>21,078</b>	<b>20,253</b>
<b>Liabilities</b>		
Debentures	250	250
Other liabilities	559	522
<b>Total liabilities</b>	<b>809</b>	<b>772</b>
<b>Equity</b>		
Perpetual preferred shares	2,830	2,580
Common shareholders' equity	17,439	16,901
<b>Total equity</b>	<b>20,269</b>	<b>19,481</b>
<b>Total liabilities and equity</b>	<b>21,078</b>	<b>20,253</b>

[1] Cash equivalents include \$297 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 \$1,087 million at June 30, 2017, compared with \$842 million at the end of December 2016. The second quarter dividends declared by the Corporation and paid on August 1, 2017 are included in other liabilities and amounted to \$325 million. Dividends declared in the second quarter by IGM and received by the Corporation on July 31, 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 \$19,711 million at June 30, 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	900	220	92	1,212
Share of other items	(104)	8	2	(94)
Share of other comprehensive income (loss)	(184)	(18)	306	104
Dividends	(491)	(167)	(78)	(736)
Other, mainly related to effects of changes in ownership	10	3	(1)	12
Carrying value, at June 30, 2017	13,667	2,912	3,132	19,711

**EQUITY****Preferred shares**

Preferred shares of the Corporation consist of 11 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 \$2,830 million at June 30, 2017 (compared with \$2,580 million 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.

On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of \$250 million.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's 2016 Consolidated Financial Statements and in Note 9 to the Corporation's Interim Consolidated Financial Statements.

**Common shareholders' equity**

Common shareholders' equity was \$17,439 million at June 30, 2017, compared with \$16,901 million at December 31, 2016:

Six months ended June 30	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	1,091	826
Dividends declared	(650)	(622)
Effects of changes in ownership in subsidiaries and other	21	(87)
	462	117
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(310)	(995)
Investment revaluation and cash flow hedges	167	125
Actuarial gains (losses) on defined benefit plans	(81)	(273)
Share of Pargesa and other associates	314	202
Share-based compensation	(15)	(3)
	75	(944)
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 June 30	17,439	16,066

The book value per common share of the Corporation was \$24.45 at June 30, 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 11,874,559 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 six-month period ended June 30, 2017.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated cash flows	
					2017	2016
Six months ended June 30						
Cash flows from:						
Operating activities	694	2,769	220	(713)	<b>2,970</b>	3,406
Financing activities	(391)	(936)	134	697	<b>(496)</b>	(871)
Investing activities	(58)	(1,689)	104	79	<b>(1,564)</b>	(2,338)
Effect of changes in exchange rates on cash and cash equivalents	-	(5)	-	-	<b>(5)</b>	(205)
Increase (decrease) in cash and cash equivalents	245	139	458	63	<b>905</b>	(8)
Cash and cash equivalents, at the beginning of the year	842	3,259	611	(316)	<b>4,396</b>	4,188
Cash and cash equivalents, at June 30	1,087	3,398	1,069	(253)	<b>5,301</b>	4,180

Consolidated cash and cash equivalents increased by \$905 million in the six-month period ended June 30, 2017, compared with a decrease of \$8 million in the corresponding period of 2016.

Operating activities produced a net inflow of \$2,970 million in the six-month period ended June 30, 2017, compared with a net inflow of \$3,406 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 \$496 million in the six-month period ended June 30, 2017, compared with a net outflow of \$871 million in the corresponding period of 2016.

Cash flows from investing activities resulted in a net outflow of \$1,564 million in the six-month period ended June 30, 2017, compared with a net outflow of \$2,338 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 \$44 million in the six-month period ended June 30, 2017, compared with a net inflow of \$34 million in the corresponding period of 2016.

Parts C and D 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 are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Financial, the parent company.

Six months ended June 30	2017	2016
<b>Operating activities</b>		
Net earnings before dividends on perpetual preferred shares	1,091	826
Adjusting items		
Earnings from Lifeco, IGM and Parjointco not received in cash	(382)	(191)
Other	(15)	20
	694	655
<b>Financing activities</b>		
Dividends paid on preferred shares	(62)	(64)
Dividends paid on common shares	(574)	(545)
Issuance of perpetual preferred shares	250	-
Issuance of common shares	1	-
Other (including share issue costs)	(6)	-
	(391)	(609)
<b>Investing activities</b>		
Investments in Portag3 and Wealthsimple	(21)	(13)
Purchase of other investments and other	(37)	(5)
	(58)	(18)
Increase (decrease) in cash and cash equivalents	245	28
Cash and cash equivalents, at the beginning of the year	842	870
<b>Cash and cash equivalents, at June 30</b>	<b>1,087</b>	<b>898</b>

On a non-consolidated basis, cash and cash equivalents increased by \$245 million in the six-month period ended June 30, 2017, compared with an increase of \$28 million in the corresponding period in 2016.

Operating activities resulted in a net inflow of \$694 million in the six-month period ended June 30, 2017, compared with a net inflow of \$655 million in the corresponding period in 2016.

- Dividends paid by Lifeco on its common shares during the six-month period ended June 30, 2017 were \$0.734 per share, compared with \$0.692 in the corresponding period of 2016. In the six-month period ended June 30, 2017, the Corporation received dividends from Lifeco of \$491 million, compared with \$463 million in the corresponding period of 2016.
- Dividends paid by IGM on its common shares during the six-month period ended June 30, 2017 were \$1.125 per share, the same as in the corresponding period of 2016. In the six-month period ended June 30, 2017, the Corporation received dividends from IGM of \$167 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 in 2017 amounted to SF2.44 per bearer share, compared with SF2.38 in 2016. The Corporation received dividends of \$78 million (SF57 million) from Parjointco in 2017, compared with \$75 million (SF56 million) in the corresponding period of 2016.

The Corporation's financing activities during the six-month period ended June 30, 2017 were a net outflow of \$391 million, compared with a net outflow of \$609 million in the corresponding period in 2016, and included:

- Dividends paid on preferred and common shares by the Corporation of \$636 million, compared with \$609 million in the corresponding period of 2016. In the six-month period ended June 30, 2017, dividends paid on the Corporation's common shares were \$0.805 per share, compared with \$0.765 per share in the corresponding period of 2016.
- Issuance of perpetual preferred shares of the Corporation for \$250 million. There was no issuance of preferred shares 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 six-month period ended June 30, 2017 represented a net outflow of \$58 million, compared with a net outflow of \$18 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 June 30, 2017.

	June 30, 2017	December 31, 2016
<b>Debentures and other debt instruments</b>		
Power Financial	250	250
Lifeco	5,531	5,980
IGM	1,925	1,325
Consolidation adjustments	(42)	(42)
	<b>7,664</b>	<b>7,513</b>
<b>Preferred shares</b>		
Power Financial	2,830	2,580
Lifeco	2,714	2,514
IGM	150	150
	<b>5,694</b>	<b>5,244</b>
<b>Equity</b>		
Common shareholders' equity	17,439	16,901
Non-controlling interests <sup>[1]</sup>	10,182	10,071
	<b>27,621</b>	<b>26,972</b>
	<b>40,979</b>	<b>39,729</b>

[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.

**Power Financial**

- On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of \$250 million.

**Lifeco**

- On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debentures at their principal amount together with accrued interest.
- On May 18, 2017, Lifeco issued 8,000,000 5.15% Non-Cumulative First Preferred Shares Series T for gross proceeds of \$200 million.
- On May 26, 2017, Great-West Lifeco & Finance (Delaware) LP issued US\$700 million principal amount of 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, due in 2047.
- On June 21, 2017, Great-West Lifeco & Finance (Delaware) LP redeemed all of the \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067, 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.

**IGM Financial**

- On January 26, 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.

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 C and D 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 C and D 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 for approval 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 of information systems or breaches of security 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 C and D 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 June 30, 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 18 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 six-month period ended June 30, 2017. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	June 30, 2017			December 31, 2016		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	17	2	2	14	1	1
Lifeco	20,056	463	(1,056)	17,229	528	(1,484)
IGM	3,497	41	15	4,094	43	5
	23,570	506	(1,039)	21,337	572	(1,478)

During the six-month period ended June 30, 2017, there was an increase of \$2.2 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward setting to-be-announced security transactions and regular hedging activities by Lifeco, partially offset by the expiration and settlement of foreign exchange contracts that were cash flow hedges for \$1 billion of Lifeco's subordinated debentures, redeemed on June 21, 2017. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to \$506 million at June 30, 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 C and D of this MD&A provide information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

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## OFF-BALANCE SHEET ARRANGEMENTS

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### 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 C of this MD&A and Note 31 to the Corporation's 2016 Consolidated Financial Statements.

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## CONTINGENT LIABILITIES

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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.

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## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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At June 30, 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.

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## INCOME TAXES (NON-CONSOLIDATED BASIS)

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The Corporation had, at June 30, 2017, non-capital losses of \$108 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.

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## TRANSACTIONS WITH RELATED PARTIES

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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 allowed Power Financial to generate sufficient taxable income to use its non-capital losses which would otherwise have expired, while IGM received tax deductions which are used to reduce its taxable income. Under this program, the Corporation owned \$2 billion of 4.50% secured debentures of IGM. These debentures represented 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 had legally enforceable rights to settle these financial instruments on a net basis. These rights were exercised during the second quarter of 2017.

See Note 29 to the Corporation's 2016 Consolidated Financial Statements for more information.

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## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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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 six-month period ended June 30, 2017.

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## CHANGES IN ACCOUNTING POLICIES

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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 17 – INSURANCE CONTRACTS (IFRS 17)

In May 2017, the IASB issued IFRS 17, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. The new standard is effective for periods beginning on or after January 1, 2021. Lifeco is evaluating the impact of the adoption of this standard and expects it to have a significant impact on insurers.

### IFRS 9 – FINANCIAL INSTRUMENTS (IFRS 9)

The Corporation qualifies for the temporary exemption to defer application of IFRS 9 in accordance with the 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.

### IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this interpretation.

## 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 June 30, 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			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues <sup>[1]</sup>	<b>11,780</b>	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) <sup>[2]</sup>	<b>622</b>	501	545	541	557	476	521	596	559	565
per share – basic <sup>[2]</sup>	<b>0.87</b>	0.70	0.76	0.76	0.78	0.67	0.73	0.83	0.79	0.79
Other items <sup>[2, 3]</sup>	<b>(77)</b>	(17)	71	(2)	(52)	(217)	7	6	57	8
per share – basic <sup>[2]</sup>	<b>(0.11)</b>	(0.02)	0.10	–	(0.07)	(0.31)	0.01	0.01	0.08	0.01
Net earnings (attributable to common shareholders)	<b>545</b>	484	616	539	505	259	528	602	616	573
per share – basic	<b>0.76</b>	0.68	0.86	0.76	0.71	0.36	0.74	0.84	0.87	0.80
per share – diluted	<b>0.76</b>	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 Lifeco, IGM and Pargesa's Other items are as follows:

	2017		2016				2015			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lifeco										
Restructuring charges	<b>(84)</b>	(20)	(14)	–	–	–	–	–	–	–
IGM										
Reduction of income tax estimates	–	–	21	–	–	–	–	–	–	–
Pension plan	<b>22</b>	–	–	–	–	–	–	–	–	–
Restructuring charges	<b>(10)</b>	–	–	–	–	–	(15)	–	–	–
Share of Lifeco's other items	<b>(4)</b>	–	–	–	–	–	–	–	–	–
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	<b>(1)</b>	3	(4)	(2)	–	(1)	–	(2)	–	(1)
	<b>(77)</b>	(17)	71	(2)	(52)	(217)	7	6	57	8

# POWER FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited) [in millions of Canadian dollars]	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	5,301	4,396
Investments [Note 4]		
Bonds	118,471	117,072
Mortgage loans	30,095	29,634
Shares	8,225	8,231
Investment properties	4,708	4,340
Loans to policyholders	8,394	8,467
	<b>169,893</b>	<b>167,744</b>
Funds held by ceding insurers	10,317	10,781
Reinsurance assets [Note 7]	5,416	5,627
Investments in jointly controlled corporations and associates [Note 5]	3,198	3,103
Owner-occupied properties and capital assets	1,121	1,128
Derivative financial instruments	506	572
Other assets	8,235	7,685
Deferred tax assets	1,734	1,907
Intangible assets	5,996	5,966
Goodwill	9,413	9,274
Investments on account of segregated fund policyholders [Note 6]	208,536	200,403
<b>Total assets</b>	<b>429,666</b>	<b>418,586</b>
<b>Liabilities</b>		
Insurance contract liabilities [Note 7]	157,797	155,940
Investment contract liabilities [Note 7]	1,953	2,009
Obligations to securitization entities	7,535	7,721
Debentures and other debt instruments [Note 8]	7,664	7,513
Derivative financial instruments	1,545	2,050
Other liabilities	9,287	8,636
Deferred tax liabilities	2,034	2,098
Insurance and investment contracts on account of segregated fund policyholders [Note 6]	208,536	200,403
<b>Total liabilities</b>	<b>396,351</b>	<b>386,370</b>
<b>Equity</b>		
Stated capital [Note 9]		
Perpetual preferred shares	2,830	2,580
Common shares	806	805
Retained earnings	15,311	14,849
Reserves	1,322	1,247
Total shareholders' equity	20,269	19,481
Non-controlling interests	13,046	12,735
<b>Total equity</b>	<b>33,315</b>	<b>32,216</b>
<b>Total liabilities and equity</b>	<b>429,666</b>	<b>418,586</b>

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited) [in millions of Canadian dollars, except per share amounts]	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Premium income				
Gross premiums written	8,792	7,834	19,276	15,760
Ceded premiums	(1,020)	(963)	(2,139)	(1,874)
Premium income, net	7,772	6,871	17,137	13,886
Net investment income				
Regular net investment income	1,606	1,589	3,070	3,251
Change in fair value through profit or loss	301	3,132	1,035	5,543
Net investment income	1,907	4,721	4,105	8,794
Fee income	2,101	1,878	4,107	3,760
Total revenues	11,780	13,470	25,349	26,440
<b>Expenses</b>				
Policyholder benefits				
Insurance and investment contracts				
Gross	7,415	6,143	16,010	12,785
Ceded	(500)	(501)	(1,110)	(973)
Total net policyholder benefits	6,915	5,642	14,900	11,812
Policyholder dividends and experience refunds	462	381	1,020	750
Change in insurance and investment contract liabilities	850	4,012	2,169	7,151
Total paid or credited to policyholders	8,227	10,035	18,089	19,713
Commissions	816	829	1,833	1,621
Operating and administrative expenses [Note 14]	1,788	1,543	3,477	3,124
Financing charges	112	103	219	208
Total expenses	10,943	12,510	23,618	24,666
Earnings before investments in jointly controlled corporations and associates, and income taxes	837	960	1,731	1,774
Share of earnings (losses) of investments in jointly controlled corporations and associates [Note 5]	98	1	147	(179)
Earnings before income taxes	935	961	1,878	1,595
Income taxes [Note 15]	118	127	261	197
<b>Net earnings</b>	<b>817</b>	<b>834</b>	<b>1,617</b>	<b>1,398</b>
<b>Attributable to</b>				
Non-controlling interests	241	298	526	572
Perpetual preferred shareholders	31	31	62	62
Common shareholders	545	505	1,029	764
	817	834	1,617	1,398
<b>Earnings per common share [Note 17]</b>				
Net earnings attributable to common shareholders				
– Basic	0.76	0.71	1.44	1.07
– Diluted	0.76	0.71	1.44	1.07

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) [in millions of Canadian dollars]	Three months ended June 30,		Six months ended June 30	
	2017	2016	2017	2016
<b>Net earnings</b>	<b>817</b>	834	<b>1,617</b>	1,398
<b>Other comprehensive income (loss)</b>				
<b>Items that may be reclassified subsequently to net earnings</b>				
Net unrealized gains (losses) on available-for-sale assets				
Unrealized gains (losses)	(36)	120	(7)	242
Income tax (expense) benefit	5	(22)	(1)	(46)
Realized (gains) losses transferred to net earnings	(12)	(18)	(20)	(49)
Income tax expense (benefit)	2	3	4	7
	<b>(41)</b>	83	<b>(24)</b>	154
Net unrealized gains (losses) on cash flow hedges				
Unrealized gains (losses)	(33)	(22)	4	76
Income tax (expense) benefit	11	8	-	(29)
Realized (gains) losses transferred to net earnings	411	-	411	1
Income tax expense (benefit)	(162)	-	(162)	-
	<b>227</b>	(14)	<b>253</b>	48
Net unrealized foreign exchange gains (losses) on translation of foreign operations				
Unrealized gains (losses) on translation	(367)	(489)	(391)	(1,471)
Unrealized gains (losses) on euro debt designated as hedges of net investments in foreign operations	(60)	20	(60)	30
Income tax (expense) benefit	8	(3)	8	(4)
	<b>(419)</b>	(472)	<b>(443)</b>	(1,445)
Share of other comprehensive income of investments in jointly controlled corporations and associates	75	76	306	197
Total - items that may be reclassified	<b>(158)</b>	(327)	<b>92</b>	(1,046)
<b>Items that will not be reclassified subsequently to net earnings</b>				
Actuarial gains (losses) on defined benefit plans [Note 13]	(130)	(256)	(161)	(544)
Income tax (expense) benefit	38	65	32	135
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	-	(6)	(1)	3
Total - items that will not be reclassified	<b>(92)</b>	(197)	<b>(130)</b>	(406)
<b>Other comprehensive income (loss)</b>	<b>(250)</b>	(524)	<b>(38)</b>	(1,452)
<b>Comprehensive income (loss)</b>	<b>567</b>	310	<b>1,579</b>	(54)
<b>Attributable to</b>				
Non-controlling interests	124	118	407	61
Perpetual preferred shareholders	31	31	62	62
Common shareholders	412	161	1,110	(177)
	<b>567</b>	310	<b>1,579</b>	(54)

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Six months ended June 30, 2017 (unaudited) [in millions of Canadian dollars]	Stated capital			Reserves				Total equity
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 16]	Total	Non-controlling interests	
<b>Balance, beginning of year</b>	2,580	805	14,849	157	1,090	1,247	12,735	32,216
Net earnings	-	-	1,091	-	-	-	526	1,617
Other comprehensive income (loss)	-	-	-	-	81	81	(119)	(38)
Comprehensive income	-	-	1,091	-	81	81	407	1,579
Issue of preferred shares [Note 9]	250	-	-	-	-	-	-	250
Dividends to shareholders								
Perpetual preferred shares	-	-	(62)	-	-	-	-	(62)
Common shares	-	-	(588)	-	-	-	-	(588)
Dividends to non-controlling interests	-	-	-	-	-	-	(365)	(365)
Share-based compensation [Note 10]	-	-	-	27	-	27	9	36
Stock options exercised	-	1	-	(42)	-	(42)	42	1
Effects of changes in ownership of subsidiaries, capital and other	-	-	21	-	9	9	218	248
<b>Balance, end of period</b>	<b>2,830</b>	<b>806</b>	<b>15,311</b>	<b>142</b>	<b>1,180</b>	<b>1,322</b>	<b>13,046</b>	<b>33,315</b>

Six months ended June 30, 2016 (unaudited) [in millions of Canadian dollars]	Stated capital			Reserves				Total equity
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 16]	Total	Non-controlling interests	
Balance, beginning of year	2,580	804	14,206	142	1,741	1,883	12,807	32,280
Net earnings	-	-	826	-	-	-	572	1,398
Other comprehensive income (loss)	-	-	-	-	(941)	(941)	(511)	(1,452)
Comprehensive income (loss)	-	-	826	-	(941)	(941)	61	(54)
Dividends to shareholders								
Perpetual preferred shares	-	-	(62)	-	-	-	-	(62)
Common shares	-	-	(560)	-	-	-	-	(560)
Dividends to non-controlling interests	-	-	-	-	-	-	(356)	(356)
Share-based compensation [Note 10]	-	-	-	29	-	29	11	40
Stock options exercised	-	-	-	(32)	-	(32)	32	-
Effects of changes in ownership of subsidiaries, capital and other	-	-	(87)	-	-	-	(192)	(279)
Balance, end of period	2,580	804	14,323	139	800	939	12,363	31,009

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) [in millions of Canadian dollars]	Six months ended June 30,	
	2017	2016
<b>Operating activities</b>		
Earnings before income taxes	1,878	1,595
Income tax paid, net of refunds received	(341)	(263)
Adjusting items		
Change in insurance and investment contract liabilities	2,149	7,175
Change in funds held by ceding insurers	431	295
Change in reinsurance assets	387	(52)
Change in fair value through profit or loss	(1,035)	(5,543)
Other	(499)	199
	2,970	3,406
<b>Financing activities</b>		
Dividends paid		
By subsidiaries to non-controlling interests	(365)	(359)
Perpetual preferred shares	(62)	(64)
Common shares	(574)	(545)
	(1,001)	(968)
Issue of common shares by the Corporation [Note 9]	1	-
Issue of common shares by subsidiaries	120	21
Repurchase of common shares by subsidiaries	(12)	(248)
Issue of perpetual preferred shares by the Corporation [Note 9]	250	-
Issue of preferred shares by subsidiaries	200	-
Issue of debentures [Note 8]	600	-
Redemption of debentures [Note 8]	(1,284)	-
Changes in other debt instruments [Note 8]	834	(84)
Change in obligations to securitization entities and other	(204)	408
	(496)	(871)
<b>Investment activities</b>		
Bond sales and maturities	14,298	17,032
Mortgage loan repayments	1,243	1,292
Sale of shares	1,217	1,655
Investment property sales	-	373
Change in loans to policyholders	(103)	(63)
Business acquisitions, net of cash and cash equivalents acquired [Note 3]	41	-
Investment in bonds	(15,161)	(18,148)
Investment in mortgage loans	(1,814)	(2,302)
Investment in shares	(993)	(2,017)
Investment in investment properties and other	(292)	(160)
	(1,564)	(2,338)
Effect of changes in exchange rates on cash and cash equivalents	(5)	(205)
Increase (decrease) in cash and cash equivalents	905	(8)
Cash and cash equivalents, beginning of year	4,396	4,188
<b>Cash and cash equivalents, end of period</b>	<b>5,301</b>	<b>4,180</b>
<b>Net cash from operating activities includes</b>		
Interest and dividends received	2,864	3,014
Interest paid	281	273

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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**NOTE 1 CORPORATE INFORMATION**

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada whose registered address is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services sector in Canada, the United States and Europe. Through its investment in Pargesa Holding SA, Power Financial also has substantial holdings based in Europe.

The unaudited Interim Condensed Consolidated Financial Statements (financial statements) of Power Financial as at and for the six months ended June 30, 2017 were approved by its Board of Directors on August 4, 2017. The Corporation is controlled by Power Corporation of Canada.

The following abbreviations are used throughout this report: Canadian Asset Liability Method (CALM); China Asset Management Co., Ltd. (China AMC); Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); IGM Financial Inc. (IGM or IGM Financial); International Financial Reporting Standards (IFRS); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie or Mackenzie Investments); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life).

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Power Financial as at June 30, 2017 have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34) using the same accounting policies, which are consistent with IFRS, as set out in Note 2 to the consolidated financial statements of the Corporation for the year ended December 31, 2016. These financial statements should be read in conjunction with the Corporation's consolidated financial statements and notes thereto for the year ended December 31, 2016.

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**BASIS OF PRESENTATION**

The financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Corporation controls, when the Corporation has power over the entity, it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The Corporation will reassess whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The operating subsidiaries of the Corporation are:

- Lifeco, a public company in which the Corporation and IGM Financial hold 67.6% and 4.0% of the common shares, respectively (67.9% and 4.0%, respectively, at December 31, 2016). Lifeco's major operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam.
- IGM Financial, a public company in which the Corporation and Great-West Life hold 61.5% and 3.8% of the common shares, respectively (61.5% and 3.8%, respectively, at December 31, 2016). IGM's major operating subsidiary companies are Investors Group and Mackenzie.

These financial statements of Power Financial include the results of Lifeco and IGM Financial on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are derived from the publicly disclosed consolidated financial statements of Lifeco and IGM Financial, all as at and for the six months ended June 30, 2017. The notes to Power Financial's financial statements are derived from the notes to the financial statements of Lifeco and IGM Financial.

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the share of net earnings (losses), other comprehensive income (loss) and the changes in equity of the jointly controlled corporations and associates are recognized in the consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of changes in equity, respectively.

The Corporation holds a 50% (50% at December 31, 2016) interest in Parjointco, a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.5% (55.5% at December 31, 2016) equity interest in Pargesa. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries 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 have been made by the management of the Corporation and the management of its subsidiaries are further described in the relevant accounting policies as described in the Corporation's financial statements and notes thereto for the year ended December 31, 2016.

**FUTURE ACCOUNTING CHANGES**

There have been no significant changes to future accounting policies that could impact the Corporation from what was disclosed in the December 31, 2016 consolidated annual audited financial statements, except as described below.

**IFRS 17 – Insurance Contracts (IFRS 17)**

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. The new standard is effective for periods beginning on or after January 1, 2021. Lifeco is evaluating the impact of the adoption of this standard and expects it to have a significant impact on insurers.

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

The Corporation qualifies for the temporary exemption to defer application of IFRS 9 in accordance with the 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.

**IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)**

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this interpretation.

**NOTE 3 ACQUISITIONS****WEALTHSIMPLE FINANCIAL CORP.**

On May 15, 2017, Power Financial attained control of Wealthsimple Financial Corp. (Wealthsimple), a technology-driven investment manager. Consequently, the financial results of Wealthsimple are now consolidated with those of Power Financial. A gain was recognized in net earnings in the second quarter of 2017 as a result of the investment in Wealthsimple being measured at fair value on the date control was attained. Prior to attaining control, Wealthsimple was accounted for using the equity method (refer to Note 5). At June 30, 2017, Power Financial held a 77.4% equity interest in Wealthsimple on a non-diluted basis.

Pending the completion of a comprehensive valuation of the net assets acquired, the accounting for this acquisition had yet to be finalized at June 30, 2017. The financial statements at June 30, 2017 reflect the Corporation and subsidiaries management's best estimate of the purchase price allocation. The excess purchase price over the fair value of the net assets acquired, currently allocated to goodwill, may be adjusted following the completion of the purchase price allocation.

The following table summarizes the initial aggregate amounts assigned to the assets acquired, goodwill and liabilities assumed are:

<b>Assets acquired and goodwill</b>	
Cash and cash equivalents	41
Other assets	52
Intangible assets	65
Goodwill	125
	283
<b>Less: liabilities assumed</b>	
Accounts payable and other liabilities	53
Deferred tax liabilities	17
	70
<b>Net assets acquired</b>	<b>213</b>
<b>Consideration</b>	
Fair value of the investment in Wealthsimple	130
Non-controlling interests, at fair value	83
	213

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired, representing the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition. Goodwill is not deductible for tax purposes.

**LIFECO**

On May 19, 2017, Lifeco, through its wholly owned subsidiary Great-West Life, entered into an agreement to purchase Financial Horizons Group, a Canadian managing general agency that offers access to life/health insurance, employee benefits, pensions, investments, structured settlements, and risk management products and services to advisors throughout Canada. Regulatory approval has been received and the transaction was completed effective July 31, 2017. The revenue and net earnings from Financial Horizons Group will not be material to the financial statements.

**NOTE 4 INVESTMENTS****CARRYING VALUES AND FAIR VALUES**

Carrying values and estimated fair values of investments are as follows:

	June 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Bonds</b>				
Designated as fair value through profit or loss	86,150	86,150	85,697	85,697
Classified as fair value through profit or loss	1,986	1,986	2,586	2,586
Available for sale	13,099	13,099	11,819	11,819
Loans and receivables	17,236	19,032	16,970	18,484
	118,471	120,267	117,072	118,586
<b>Mortgage loans</b>				
Loans and receivables	29,635	30,828	29,295	30,418
Classified as fair value through profit or loss	460	460	339	339
	30,095	31,288	29,634	30,757
<b>Shares</b>				
Designated as fair value through profit or loss	7,628	7,628	7,673	7,673
Available for sale	597	597	558	558
	8,225	8,225	8,231	8,231
Investment properties	4,708	4,708	4,340	4,340
Loans to policyholders	8,394	8,394	8,467	8,467
	169,893	172,882	167,744	170,381

**NOTE 5 INVESTMENTS IN JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES**

The carrying values of the investments in jointly controlled corporations and associates are as follows:

	June 30, 2017		
	Parjointco	Other	Total
Carrying value, beginning of year	2,811	292	3,103
Investments	-	63	63
Share of earnings	94	53	147
Share of other comprehensive income (loss)	306	(1)	305
Dividends	(78)	(6)	(84)
Effect of change in ownership and other <sup>[1]</sup>	(1)	(335)	(336)
Carrying value, end of period	3,132	66	3,198

<sup>[1]</sup> On May 15, 2017, Power Financial attained control of Wealthsimple (Note 3). The investment in Wealthsimple is no longer accounted for as a jointly controlled corporation and the financial results of Wealthsimple are now consolidated with those of the Corporation. In the first quarter of 2017, Lifeco disposed of its investment in Allianz Ireland.

**NOTE 6 SEGREGATED FUNDS**

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

**INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS**

	June 30, 2017	December 31, 2016
Cash and cash equivalents	14,076	12,487
Bonds	42,827	41,619
Mortgage loans	2,684	2,622
Shares and units in unit trusts	85,573	81,033
Mutual funds	53,027	51,726
Investment properties	11,573	11,019
	209,760	200,506
Accrued income	387	359
Other liabilities	(2,481)	(2,009)
Non-controlling mutual fund interest	870	1,547
	208,536	200,403

**INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS**

	Six months ended June 30,	
	2017	2016
Balance, beginning of year	200,403	198,194
Additions (deductions):		
Policyholder deposits	12,244	10,998
Net investment income	759	989
Net realized capital gains on investments	2,909	1,544
Net unrealized capital gains on investments	2,232	1,165
Unrealized gains (losses) due to changes in foreign exchange rates	2,063	(9,748)
Policyholder withdrawals	(11,344)	(10,439)
Change in segregated fund investment in General Fund	(98)	18
Change in General Fund investment in segregated fund	(6)	(5)
Net transfer from General Fund	51	13
Non-controlling mutual fund interest	(677)	(4)
	8,133	(5,469)
Balance, end of period	208,536	192,725

**INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS (by fair value hierarchy level)**

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>[1]</sup>	131,331	66,178	12,720	210,229

<sup>[1]</sup> Excludes other liabilities, net of other assets, of \$1,693 million.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>[1]</sup>	125,829	63,804	12,045	201,678

<sup>[1]</sup> Excludes other liabilities, net of other assets, of \$1,275 million.

During the six months ended June 30, 2017, certain foreign equity holdings valued at \$2,595 million were transferred from Level 2 to Level 1 (\$18 million were transferred from Level 2 to Level 1 at December 31, 2016), based on Lifeco's ability to use observable, quoted prices in active markets.

**NOTE 6 SEGREGATED FUNDS** (continued)

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

	June 30, 2017	December 31, 2016
Balance, beginning of year	12,045	11,765
Total gains (losses) included in segregated fund investment income	275	(109)
Purchases	510	584
Sales	(175)	(370)
Transfers into Level 3	78	175
Transfers out of Level 3	(13)	-
Balance, end of period	12,720	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.

Refer to the Lifeco section of the Corporation's Management's Discussion and Analysis for the six-month period ended June 30, 2017 and for the year ended December 31, 2016, for further details on Lifeco's risk and guarantee exposure and the management of these segregated fund risks.

**NOTE 7 INSURANCE AND INVESTMENT CONTRACT LIABILITIES****INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

	June 30, 2017			December 31, 2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	157,797	5,416	152,381	155,940	5,627	150,313
Investment contract liabilities	1,953	-	1,953	2,009	-	2,009
	159,750	5,416	154,334	157,949	5,627	152,322

**NOTE 8 DEBENTURES AND OTHER DEBT INSTRUMENTS****LIFECO**

During the first quarter of 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25%, \$284 million (€200 million) subordinated debenture notes at their principal amount, together with accrued interest.

On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued \$925 million (US\$700 million) principal amount 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing on June 3, 2047.

On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued interest up to but excluding the redemption date. The debentures were hedged using a cross-currency swap designated as a cash flow hedge. Upon redemption of the debentures, the gains on the debentures realized and the losses realized on the hedging instrument were recorded in the statements of earnings with no impact on net earnings. The deferred income taxes related to this cash flow hedge resulted in a reduction to other comprehensive income of \$97 million that had not previously been recorded.

**IGM FINANCIAL**

On January 26, 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 announced acquisitions of an equity interest in China AMC and for general corporate purposes.

**NOTE 9 STATED CAPITAL****AUTHORIZED**

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

**ISSUED AND OUTSTANDING**

	June 30, 2017		December 31, 2016	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
<b>First Preferred Shares (perpetual)</b>				
Series A	4,000,000	100	4,000,000	100
Series D	6,000,000	150	6,000,000	150
Series E	8,000,000	200	8,000,000	200
Series F	6,000,000	150	6,000,000	150
Series H	6,000,000	150	6,000,000	150
Series I	8,000,000	200	8,000,000	200
Series K	10,000,000	250	10,000,000	250
Series L	8,000,000	200	8,000,000	200
Series O	6,000,000	150	6,000,000	150
Series P	8,965,485	224	8,965,485	224
Series Q	2,234,515	56	2,234,515	56
Series R	10,000,000	250	10,000,000	250
Series S	12,000,000	300	12,000,000	300
Series T	8,000,000	200	8,000,000	200
Series V	10,000,000	250	-	-
		2,830		2,580
<b>Common Shares</b>				
Balance, beginning of year	713,269,660	805	713,238,680	804
Issued under Stock Option Plan	19,039	1	30,980	1
Balance, end of period	713,288,699	806	713,269,660	805

**Preferred Shares**

On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for proceeds of \$250 million. The Series V First Preferred Shares are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.2875 per share per annum. The Corporation may redeem for cash the Series V First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to July 31, 2023, \$25.75 per share if redeemed thereafter and prior to July 31, 2024, \$25.50 per share if redeemed thereafter and prior to July 31, 2025, \$25.25 per share if redeemed thereafter and prior to July 31, 2026 and \$25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption. Share issue costs of \$6 million in connection with the Series V First Preferred Shares were charged to retained earnings.

**Common Shares**

During the six months ended June 30, 2017, 19,039 common shares were issued under the Corporation's Employee Stock Option Plan for a consideration of \$1 million (no common shares were issued during the six months ended June 30, 2016).

During the six months ended June 30, 2017, dividends declared on the Corporation's common shares were to \$0.825 per share (\$0.785 per share in 2016).

**NOTE 10 SHARE-BASED COMPENSATION****STOCK OPTION PLAN**

Under Power Financial's Employee Stock Option Plan, 28,306,581 common shares are reserved for issuance. A summary of the status of Power Financial's Employee Stock Option Plan as at June 30, 2017 and 2016, and changes during the periods ended on those dates is as follows:

	June 30, 2017		June 30, 2016	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding at beginning of year	10,409,648	32.04	8,773,932	32.06
Granted	1,486,550	35.33	1,625,397	31.89
Exercised	(19,039)	32.46	-	-
Forfeited and expired	(2,600)	34.38	-	-
Outstanding at end of period	11,874,559	32.45	10,399,329	32.03
Options exercisable at end of period	6,102,258	30.70	4,794,473	30.30

The exercise price of the 11,874,559 outstanding options ranges from \$25.07 to \$38.35.

**Compensation expense**

Under the Corporation's Employee Stock Option Plan, the following options were granted during the six months ended June 30:

	June 30, 2017	June 30, 2016
First quarter	1,465,974	1,596,476
Second quarter	20,576	28,921
	1,486,550	1,625,397

The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	June 30, 2017	June 30, 2016
Dividend yield	4.1%	4.2%
Expected volatility	19.7%	20.2%
Risk-free interest rate	1%	1.1%
Expected life (years)	9	9
Fair value per stock option (\$/option)	3.67	3.12
Weighted-average exercise price (\$/option)	35.33	31.89

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity investments at the grant date, amortized over the vesting period. For the three months ended June 30, 2017, total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$13 million (\$22 million in 2016), and \$36 million for the six months ended June 30, 2017 (\$40 million in 2016), and is recorded in operating and administrative expenses in the statements of earnings.

## NOTE 11 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 the 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 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. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

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 Groupe Bruxelles Lambert, are responsible for their respective companies' capital management.

The Corporation itself 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 and they manage their capital as described below.

### LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco'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 Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

Management of Lifeco is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

The target level of capitalization for Lifeco 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 Lifeco, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of Lifeco with a high degree of confidence.

**NOTE 11 CAPITAL MANAGEMENT** (continued)

In Canada, the Office of the Superintendent of Financial Institutions 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 (MCCSR). As at June 30, 2017, the MCCSR ratio for Great-West Life was 239% (240% at December 31, 2016).

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

**IGM FINANCIAL**

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM'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. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, long-term investments made by IGM, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

**NOTE 12 RISK MANAGEMENT**

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate 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 and its subsidiaries 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 and its subsidiaries 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, its subsidiaries and its jointly controlled corporations and associates 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.

**NOTE 12 RISK MANAGEMENT** (continued)

This note to the financial statements includes 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 tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of 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 Corporation cannot provide assurance that the actual impact on net earnings or other comprehensive income will be as indicated.

**POWER FINANCIAL**

Liquidity risk, credit risk and market risk of Power Financial are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

**Liquidity risk**

Power Financial is a holding company. As such, corporate cash flows are principally made up of dividends received from its subsidiaries and a jointly controlled corporation, and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its common and preferred shareholders. The ability of Lifeco, IGM and Parjointco, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. The ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries.

Power Financial's management of liquidity risk has not changed materially since December 31, 2016.

**Credit risk**

Fixed income securities and derivatives are subject to credit risk. The Corporation mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates, as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be used on a basis consistent with the risk management guidelines of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

**NOTE 12 RISK MANAGEMENT** (continued)

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2016.

**Market risk**

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities, derivatives and debentures.

*a) Currency risk*

In managing its own cash and cash equivalents as well as fixed income securities Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at June 30, 2017, essentially all of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to currency risk through its subsidiary whose functional currency is the euro. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

*b) Interest rate risk*

Power Financial's financial instruments do not have significant exposure to interest rate risk.

*c) Equity price risk*

Power Financial's financial instruments do not have significant exposure to equity price risk.

Pargesa indirectly holds substantial investments classified as available for sale; unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

**LIFECO**

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks. Lifeco has established policies and procedures designed to identify, measure and report all material risks. Lifeco's approach to risk management has not changed significantly since December 31, 2016. A summary of the risks is presented below. For a more detailed discussion of Lifeco's risk governance structure and risk management approach, refer to the Risk Management note in the Corporation's December 31, 2016 financial statements.

**Liquidity risk**

The following policies and procedures are in place to manage liquidity risk:

- Lifeco 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 of Lifeco 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. Lifeco maintains committed lines of credit with Canadian chartered banks.

**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.

**NOTE 12 RISK MANAGEMENT** (continued)**Market risk***a) Currency risk*

For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco'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 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 Lifeco's total equity. Correspondingly, Lifeco'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.

*b) Interest rate risk*

Projected cash flows from the current assets and liabilities are used in the CALM 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 Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco'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 results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings at June 30, 2017 and December 31, 2016.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings at June 30, 2017 and December 31, 2016.

**NOTE 12 RISK MANAGEMENT** (continued)

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' earnings of a 1% change in Lifeco'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:

	June 30, 2017		December 31, 2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in interest rates</b>				
Increase (decrease) in insurance and investment contract liabilities	(205)	625	(202)	677
Increase (decrease) in net earnings	150	(452)	149	(491)

*c) Equity price risk*

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

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, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

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 fair values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	June 30, 2017		December 31, 2016	
	10% increase	10% decrease	10% increase	10% decrease
<b>Change in equity values</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	(54)	100	(51)	61
Increase (decrease) in net earnings	46	(80)	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:

	June 30, 2017		December 31, 2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in best estimate return assumptions</b>				
Increase (decrease) in non-participating insurance contract liabilities	(530)	579	(504)	552
Increase (decrease) in net earnings	428	(460)	407	(438)

**NOTE 12 RISK MANAGEMENT** (continued)**IGM FINANCIAL**

The risk management policies and procedures of IGM are discussed further in the IGM section of the Corporation's Management's Discussion and Analysis for the six months ended June 30, 2017, and have not changed significantly since December 31, 2016. A summary of the risks is presented below:

**Liquidity risk**

IGM'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 IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

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

IGM 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), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2016.

**Credit risk**

IGM's cash and cash equivalents, securities holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on the financial instruments is their carrying value.

IGM 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 IGM; 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.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities, mortgage portfolios and derivatives have not changed materially since December 31, 2016.

**NOTE 12 RISK MANAGEMENT** (continued)**Market risk***a) Currency risk*

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

*b) Interest rate risk*

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

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks.

IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2016.

*c) Equity price risk*

IGM 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.

**NOTE 13 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

The pension plan and other post-employment benefits expense included in net earnings and other comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Pension plans</b>				
Service costs <sup>[1]</sup>	13	60	72	119
Curtailement	(2)	3	(2)	(10)
Net interest cost	10	8	19	17
	21	71	89	126
<b>Post-employment benefits</b>				
Service costs	1	-	2	1
Net interest cost	5	5	8	8
	6	5	10	9
Expense recognized in net earnings	27	76	99	135
<b>Remeasurements</b>				
<b>Pension plans</b>				
Actuarial losses <sup>[2]</sup>	151	355	273	659
Return on assets greater than discount rate	(27)	(119)	(116)	(122)
Change in the asset ceiling	(4)	3	(16)	(23)
<b>Post-employment benefits</b>				
Actuarial losses <sup>[2]</sup>	10	17	20	30
Expense recognized in other comprehensive income	130	256	161	544
Total expense	157	332	260	679

<sup>[1]</sup> IGM Financial, at its discretion, may from time to time increase certain benefits paid to retired members of the plan. Under its previous policy, IGM Financial had granted benefit increases in most years and the obligation included an estimate for future increases. IGM Financial has implemented a new policy that limits the possibility of future benefit increases. As a result of this change, IGM Financial revalued its pension obligation and has recognized a reduction to its obligation of \$50 million as a decrease to pension plan expenses.

<sup>[2]</sup> Actuarial losses related to the pension plans and other post-employment benefits for the three and six months ended June 30, 2017 are due to a decrease in discount rates since December 31, 2016.

**NOTE 14 RESTRUCTURING CHARGES****LIFECO – Canadian Business Transformation**

In the second quarter of 2017, Lifeco recorded a restructuring charge for the Canadian operations transformation plan of \$215 million pre tax (impact of \$88 million after tax attributable to Power Financial's common shareholders) within operating and administrative expenses in the statement of earnings. This restructuring is in respect of activities aimed at achieving planned expense reductions and an organizational realignment to respond to changing customer needs and expectations in Canada. The expense reductions address costs across the Canadian operations and corporate functions, primarily through a reduction in staff, exiting of certain lease agreements and information system impairments. At June 30, 2017, the balance of the restructuring provision amounted to \$178 million and is recorded in other liabilities.

**NOTE 15 INCOME TAXES****INCOME TAX EXPENSE**

The components of income tax expense recognized in net earnings are:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Current taxes	187	181	320	264
Deferred taxes	(69)	(54)	(59)	(67)
	118	127	261	197

**EFFECTIVE INCOME TAX RATE**

The overall effective income tax rate for the Corporation for the six months ended June 30, 2017 was 13.9%, compared to 14.6% for the full year 2016 and 12.4% for the six months ended June 30, 2016.

The effective income tax rates are generally lower than the Corporation's statutory income tax rate of 26.8% due to non-taxable investment income, lower tax in foreign jurisdictions and the results from the jointly controlled corporations and associates which are not taxable.

**DEFERRED TAX ASSETS**

Deferred tax assets are recognized for deductible temporary differences and unused tax attributes only to the extent that realization of the related income tax benefit through future taxable earnings is probable.

Recognition is based on the fact that it is probable that the entity will have taxable earnings and/or tax planning opportunities available to allow the deferred tax assets 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 tax assets. The financial planning process provides a significant basis for the measurement of deferred tax assets.

The deferred tax assets of Lifeco include balances which are dependent on future taxable earnings where the relevant entities have incurred losses in either the current year or the preceding year. The aggregate deferred tax assets for the most significant entities where this applies are \$1,357 million as at June 30, 2017 (\$1,389 million as at December 31, 2016).

**NOTE 16 OTHER COMPREHENSIVE INCOME**

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Six months ended June 30, 2017						
Balance, beginning of year	(79)	1,048	648	(501)	(26)	1,090
Other comprehensive income (loss)	167	(310)	306	(81)	(1)	81
Other	-	-	-	-	9	9
Balance, end of period	88	738	954	(582)	(18)	1,180
Six months ended June 30, 2016						
Balance, beginning of year	(172)	2,036	278	(374)	(27)	1,741
Other comprehensive income (loss)	125	(995)	202	(273)	-	(941)
Balance, end of period	(47)	1,041	480	(647)	(27)	800

**NOTE 17 EARNINGS PER SHARE**

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Three months ended June 30,		Six months ended June 30	
	2017	2016	2017	2016
<b>Earnings</b>				
Net earnings attributable to shareholders	576	536	1,091	826
Dividends on perpetual preferred shares	(31)	(31)	(62)	(62)
Net earnings attributable to common shareholders	545	505	1,029	764
Dilutive effect of subsidiaries	(1)	(1)	(2)	(1)
Net earnings adjusted for dilutive effect	544	504	1,027	763
<b>Number of common shares [millions]</b>				
Weighted average number of common shares outstanding – Basic	713.3	713.2	713.3	713.2
Potential exercise of outstanding stock options	0.6	0.5	0.7	0.4
Weighted average number of common shares outstanding – Diluted	713.9	713.7	714.0	713.6
<b>Net earnings per common share</b>				
Basic	0.76	0.71	1.44	1.07
Diluted	0.76	0.71	1.44	1.07

For the six months ended June 30, 2017, 6.6 million stock options (7.3 million in 2016) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

**NOTE 18 FAIR VALUE MEASUREMENT**

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

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation 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 1 assets also include open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
- Level 2 inputs utilize 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 inputs 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, external appraisers or by discounting projected cash flows. Assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgage loans, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives and investment properties.

The following table presents the Corporation's assets and liabilities recorded at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies of the Corporation's December 31, 2016 financial statements and above. Fair values are management's estimates and are generally calculated using market information at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, and involve uncertainties and matters of significant judgment.

**NOTE 18 FAIR VALUE MEASUREMENT** (continued)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total fair value
<b>Assets recorded at fair value</b>				
Bonds				
Fair value through profit or loss	-	88,075	61	88,136
Available for sale	-	13,099	-	13,099
Mortgage loans				
Fair value through profit or loss	-	460	-	460
Shares				
Fair value through profit or loss	7,478	2	148	7,628
Available for sale	71	-	159	230
Investment properties	-	-	4,708	4,708
Funds held by ceding insurers	127	8,084	-	8,211
Derivative financial instruments	3	497	6	506
Other assets	497	160	-	657
	8,176	110,377	5,082	123,635
<b>Liabilities recorded at fair value</b>				
Investment contract liabilities	-	1,931	22	1,953
Derivative financial instruments	-	1,528	17	1,545
Other liabilities	109	-	-	109
	109	3,459	39	3,607
December 31, 2016				
	Level 1	Level 2	Level 3	Total fair value
<b>Assets recorded at fair value</b>				
Bonds				
Fair value through profit or loss	-	88,282	1	88,283
Available for sale	-	11,819	-	11,819
Mortgage loans				
Fair value through profit or loss	-	339	-	339
Shares				
Fair value through profit or loss	7,583	9	81	7,673
Available for sale	53	-	129	182
Investment properties	-	-	4,340	4,340
Funds held by ceding insurers	214	8,391	-	8,605
Derivative financial instruments	3	566	3	572
Other assets	302	213	1	516
	8,155	109,619	4,555	122,329
<b>Liabilities recorded at fair value</b>				
Investment contract liabilities	-	1,989	20	2,009
Derivative financial instruments	1	2,023	26	2,050
Other liabilities	10	-	-	10
	11	4,012	46	4,069

There were no significant transfers between Level 1 and Level 2 in these periods.

**NOTE 18 FAIR VALUE MEASUREMENT** (continued)

The following table presents additional information on assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have used Level 3 inputs to determine fair value for the six months ended June 30, 2017 and 2016.

Six months ended June 30, 2017	Bonds		Shares		Investment properties	Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Available for sale	Fair value through profit or loss	Available for sale					
Balance, beginning of year	1	-	81	129	4,340	(23)	1	(20)	4,509
Total gains (losses)									
In net earnings	(1)	-	4	-	73	3	-	-	79
In other comprehensive income <sup>[1]</sup>	3	-	(1)	4	49	-	-	-	55
Purchases	-	-	69	9	262	-	-	-	340
Sales	-	-	(9)	-	(16)	-	(1)	-	(26)
Settlements	-	-	-	-	-	9	-	-	9
Other	-	-	-	-	-	-	-	(2)	(2)
Transfers into Level 3 <sup>[2]</sup>	59	-	4	17	-	-	-	-	80
Transfers out of Level 3 <sup>[3]</sup>	(1)	-	-	-	-	-	-	-	(1)
Balance, end of period	61	-	148	159	4,708	(11)	-	(22)	5,043

Six months ended June 30, 2016	Bonds		Shares		Investment properties	Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Available for sale	Fair value through profit or loss	Available for sale					
Balance, beginning of year	10	1	67	1	5,237	(47)	14	(27)	5,256
Total gains (losses)									
In net earnings	-	-	(3)	-	(38)	(11)	-	-	(52)
In other comprehensive income <sup>[1]</sup>	(1)	-	-	-	(533)	-	(2)	-	(536)
Purchases	-	-	3	69	84	(3)	3	-	156
Sales	-	-	(13)	-	(373)	-	(5)	-	(391)
Settlements	-	-	-	-	-	9	-	-	9
Other	-	-	-	-	-	-	-	6	6
Transfers out of Level 3 <sup>[3]</sup>	(8)	(1)	-	-	-	-	-	-	(9)
Balance, end of period	1	-	54	70	4,377	(52)	10	(21)	4,439

<sup>[1]</sup> Amount of other comprehensive income for investment properties represents the unrealized gains (losses) on foreign exchange.

<sup>[2]</sup> Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies.

<sup>[3]</sup> 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 funds and segregated funds.

**NOTE 18 FAIR VALUE MEASUREMENT** (continued)

The following table 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 2.8% – 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% – 7.5%	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.

**NOTE 19 SEGMENTED INFORMATION**

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Financial's management structure and internal financial reporting. The Corporation evaluates its performance based on the operating segments' contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a financial services company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; cement, aggregates and concrete; design and distribution of sportswear; testing, inspection and certification; wines and spirits; materials technology and recycling; and oil, gas and chemical industries.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and also includes consolidation elimination entries.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other.

**NOTE 19 SEGMENTED INFORMATION** (continued)**CONSOLIDATED NET EARNINGS**

Three months ended June 30, 2017	Lifeco	IGM	Pargesa	Corporate	Total
<b>Revenues</b>					
Premium income, net	7,772	-	-	-	7,772
Net investment income	1,894	45	-	(32)	1,907
Fee income	1,381	753	-	(33)	2,101
<b>Total revenues</b>	<b>11,047</b>	<b>798</b>	<b>-</b>	<b>(65)</b>	<b>11,780</b>
<b>Expenses</b>					
Total paid or credited to policyholders	8,227	-	-	-	8,227
Commissions	549	285	-	(18)	816
Operating and administrative expenses	1,555	219	-	14	1,788
Financing charges	79	28	-	5	112
<b>Total expenses</b>	<b>10,410</b>	<b>532</b>	<b>-</b>	<b>1</b>	<b>10,943</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	637	266	-	(66)	837
Share of earnings (losses) of investments in jointly controlled corporations and associates	1	-	48	49	98
Earnings before income taxes	638	266	48	(17)	935
Income taxes	51	63	-	4	118
<b>Net earnings</b>	<b>587</b>	<b>203</b>	<b>48</b>	<b>(21)</b>	<b>817</b>
<b>Attributable to</b>					
Non-controlling interests	190	79	-	(28)	241
Perpetual preferred shareholders	-	-	-	31	31
Common shareholders	397	124	48	(24)	545
	587	203	48	(21)	817

**NOTE 19 SEGMENTED INFORMATION** (continued)**CONSOLIDATED NET EARNINGS**

Three months ended June 30, 2016	Lifeco	IGM	Pargesa	Corporate	Total
<b>Revenues</b>					
Premium income, net	6,871	-	-	-	6,871
Net investment income	4,704	46	-	(29)	4,721
Fee income	1,231	698	-	(51)	1,878
Total revenues	12,806	744	-	(80)	13,470
<b>Expenses</b>					
Total paid or credited to policyholders	10,035	-	-	-	10,035
Commissions	599	267	-	(37)	829
Operating and administrative expenses	1,308	231	-	4	1,543
Financing charges	75	23	-	5	103
Total expenses	12,017	521	-	(28)	12,510
Earnings before investments in jointly controlled corporations and associates, and income taxes	789	223	-	(52)	960
Share of earnings (losses) of investments in jointly controlled corporations and associates	1	-	4	(4)	1
Earnings before income taxes	790	223	4	(56)	961
Income taxes	76	48	-	3	127
<b>Net earnings</b>	714	175	4	(59)	834
<b>Attributable to</b>					
Non-controlling interests	261	67	-	(30)	298
Perpetual preferred shareholders	-	-	-	31	31
Common shareholders	453	108	4	(60)	505
	714	175	4	(59)	834

**NOTE 19 SEGMENTED INFORMATION** (continued)**CONSOLIDATED NET EARNINGS**

Six months ended June 30, 2017	Lifeco	IGM	Pargesa	Corporate	Total
<b>Revenues</b>					
Premium income, net	17,137	-	-	-	17,137
Net investment income	4,080	93	-	(68)	4,105
Fee income	2,686	1,495	-	(74)	4,107
<b>Total revenues</b>	<b>23,903</b>	<b>1,588</b>	<b>-</b>	<b>(142)</b>	<b>25,349</b>
<b>Expenses</b>					
Total paid or credited to policyholders	18,089	-	-	-	18,089
Commissions	1,302	575	-	(44)	1,833
Operating and administrative expenses	2,993	466	-	18	3,477
Financing charges	155	55	-	9	219
<b>Total expenses</b>	<b>22,539</b>	<b>1,096</b>	<b>-</b>	<b>(17)</b>	<b>23,618</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,364	492	-	(125)	1,731
Share of earnings (losses) of investments in jointly controlled corporations and associates	19	-	94	34	147
Earnings before income taxes	1,383	492	94	(91)	1,878
Income taxes	147	110	-	4	261
<b>Net earnings</b>	<b>1,236</b>	<b>382</b>	<b>94</b>	<b>(95)</b>	<b>1,617</b>
<b>Attributable to</b>					
Non-controlling interests	440	154	-	(68)	526
Perpetual preferred shareholders	-	-	-	62	62
Common shareholders	796	228	94	(89)	1,029
	1,236	382	94	(95)	1,617

**NOTE 19 SEGMENTED INFORMATION** (continued)**CONSOLIDATED NET EARNINGS**

Six months ended June 30, 2016	Lifeco	IGM	Pargesa	Corporate	Total
<b>Revenues</b>					
Premium income, net	13,886	-	-	-	13,886
Net investment income	8,775	90	-	(71)	8,794
Fee income	2,485	1,377	-	(102)	3,760
Total revenues	25,146	1,467	-	(173)	26,440
<b>Expenses</b>					
Total paid or credited to policyholders	19,713	-	-	-	19,713
Commissions	1,165	529	-	(73)	1,621
Operating and administrative expenses	2,658	459	-	7	3,124
Financing charges	153	46	-	9	208
Total expenses	23,689	1,034	-	(57)	24,666
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,457	433	-	(116)	1,774
Share of earnings (losses) of investments in jointly controlled corporations and associates	13	-	(184)	(8)	(179)
Earnings before income taxes	1,470	433	(184)	(124)	1,595
Income taxes	100	89	-	8	197
<b>Net earnings</b>	<b>1,370</b>	<b>344</b>	<b>(184)</b>	<b>(132)</b>	<b>1,398</b>
<b>Attributable to</b>					
Non-controlling interests	498	136	-	(62)	572
Perpetual preferred shareholders	-	-	-	62	62
Common shareholders	872	208	(184)	(132)	764
	1,370	344	(184)	(132)	1,398

**TOTAL ASSETS**

June 30, 2017	Lifeco	IGM	Pargesa	Corporate	Total
Investments, and cash and cash equivalents	164,964	9,058	-	1,172	175,194
Investments in jointly controlled corporations and associates	66	-	3,132	-	3,198
Other assets	25,894	1,353	-	82	27,329
Goodwill and intangible assets	10,352	4,868	-	189	15,409
Investments on account of segregated fund policyholders	208,536	-	-	-	208,536
Total assets <sup>[1]</sup>	409,812	15,279	3,132	1,443	429,666
<b>December 31, 2016</b>					
Investments, and cash and cash equivalents	162,535	8,819	-	786	172,140
Investments in jointly controlled corporations and associates	259	-	2,811	33	3,103
Other assets	26,405	1,263	-	32	27,700
Goodwill and intangible assets	10,409	4,831	-	-	15,240
Investments on account of segregated fund policyholders	200,403	-	-	-	200,403
Total assets <sup>[1]</sup>	400,011	14,913	2,811	851	418,586

<sup>[1]</sup> Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

# Great-West Lifeco Inc.

PART C

## Management's Discussion and Analysis

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## Financial Statements and Notes

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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 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2017  
DATED: AUGUST 2, 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 six months ended June 30, 2017 and includes a comparison to the corresponding period in 2016, to the three months ended March 31, 2017, 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 June 30, 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](http://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**

	As at or for the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
<b>Premiums and deposits:</b>					
<b>Amounts reported in the financial statements</b>					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 7,772	\$ 9,365	\$ 6,871	\$ 17,137	\$ 13,886
Policyholder deposits (segregated funds):					
Individual products	4,142	3,897	3,213	8,039	6,902
Group products	2,020	2,185	1,858	4,205	4,096
<b>Premiums and deposits reported in the financial statements</b>	<b>13,934</b>	<b>15,447</b>	<b>11,942</b>	<b>29,381</b>	<b>24,884</b>
Self-funded premium equivalents (Administrative services only contracts) <sup>(1)</sup>	720	716	707	1,436	1,405
Proprietary mutual funds and institutional deposits <sup>(1)</sup>	13,767	17,386	15,522	31,153	31,876
<b>Total premiums and deposits<sup>(1)</sup></b>	<b>28,421</b>	<b>33,549</b>	<b>28,171</b>	<b>61,970</b>	<b>58,165</b>
<b>Fee and other income</b>	<b>1,381</b>	<b>1,305</b>	<b>1,231</b>	<b>2,686</b>	<b>2,485</b>
<b>Net policyholder benefits, dividends and experience refunds</b>	<b>7,377</b>	<b>8,543</b>	<b>6,023</b>	<b>15,920</b>	<b>12,562</b>
<b>Earnings</b>					
Net earnings - common shareholders	\$ 585	\$ 591	\$ 671	\$ 1,176	\$ 1,291
Adjusted net earnings, excluding restructuring costs - common shareholders <sup>(6)</sup>	712	619	671	1,331	1,291
<b>Per common share</b>					
Basic earnings	0.591	0.598	0.675	1.189	1.300
Adjusted basic earnings, excluding restructuring costs <sup>(6)</sup>	0.719	0.627	0.675	1.345	1.300
Dividends paid	0.367	0.367	0.346	0.734	0.692
Book value <sup>(2)</sup>	19.95	19.99	19.02		
<b>Return on common shareholders' equity<sup>(3)</sup></b>					
Net earnings	13.0%	13.6%	14.0%		
Adjusted net earnings, excluding restructuring costs <sup>(6)</sup>	13.9%	13.9%	14.0%		
<b>Total assets per financial statements</b>					
Proprietary mutual funds and institutional net assets <sup>(4)</sup>	271,686	270,121	243,688		
<b>Total assets under management<sup>(4)</sup></b>	<b>681,459</b>	<b>675,753</b>	<b>633,939</b>		
Other assets under administration <sup>(5)</sup>	627,633	620,064	549,878		
<b>Total assets under administration</b>	<b>\$1,309,092</b>	<b>\$1,295,817</b>	<b>\$1,183,817</b>		
<b>Total equity</b>	<b>\$ 25,428</b>	<b>\$ 25,372</b>	<b>\$ 24,201</b>		

<sup>(1)</sup> 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.

<sup>(2)</sup> Certain comparative figures have been adjusted for presentation purposes.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> 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 includes 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 volume, size and trends.

<sup>(6)</sup> Net earnings attributable to common shareholders include the impact of restructuring costs. The second quarter of 2017 included restructuring costs of \$127 million, \$126 million related to the Canada segment operations and \$1 million related to the Insurance & Annuities business unit. The first quarter of 2017 included restructuring costs of \$28 million, \$17 million relating to the Insurance & Annuities business unit and \$11 million relating to the Financial Services business unit.

## 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 June 30, 2017 were \$585 million compared to \$671 million a year ago and \$591 million in the previous quarter. On a per share basis, this represents \$0.591 per common share (\$0.590 diluted) for the second quarter of 2017 compared to \$0.675 per common share (\$0.674 diluted) a year ago and \$0.598 per common share (\$0.597 diluted) in the previous quarter. Included in Lifeco's net earnings for the second quarter of 2017 were restructuring costs of \$127 million, which included \$126 million related to the Canada segment operations and \$1 million related to the Company's retail business in Ireland. Excluding these costs, adjusted net earnings for the second quarter of 2017 were \$712 million or \$0.719 per common share (\$0.718 diluted).

For the six months ended June 30, 2017, Lifeco's net earnings were \$1,176 million compared to \$1,291 million a year ago. On a per share basis, this represents \$1.189 per common share (\$1.187 diluted) for 2017 compared to \$1.300 per common share (\$1.298 diluted) a year ago. Included in Lifeco's net earnings for the six months ended June 30, 2017 were restructuring costs of \$155 million, which included \$126 million related to the Canada segment operations, \$18 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, adjusted net earnings for the second quarter of 2017 were \$1,331 million or \$1.345 per common share (\$1.343 diluted).

### Net earnings - common shareholders

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016 <sup>(1)</sup>	June 30 2017	June 30 2016 <sup>(1)</sup>
<b>Canada</b>					
Individual Customer <sup>(1)</sup>	\$ 140	\$ 146	\$ 147	\$ 286	\$ 302
Group Customer <sup>(1)</sup>	189	104	162	293	267
Canada Corporate <sup>(2)</sup>	(144)	5	18	(139)	34
	<b>185</b>	<b>255</b>	<b>327</b>	<b>440</b>	<b>603</b>
<b>United States</b>					
Financial Services	88	85	74	173	164
Asset Management	(6)	(16)	(18)	(22)	(43)
U.S. Corporate <sup>(2)</sup>	—	(13)	(3)	(13)	(5)
	<b>82</b>	<b>56</b>	<b>53</b>	<b>138</b>	<b>116</b>
<b>Europe</b>					
Insurance & Annuities	239	225	225	464	451
Reinsurance	83	81	74	164	137
Europe Corporate <sup>(2)</sup>	(1)	(17)	(6)	(18)	(8)
	<b>321</b>	<b>289</b>	<b>293</b>	<b>610</b>	<b>580</b>
<b>Lifeco Corporate</b>	<b>(3)</b>	<b>(9)</b>	<b>(2)</b>	<b>(12)</b>	<b>(8)</b>
<b>Net earnings - common shareholders</b>	<b>\$ 585</b>	<b>\$ 591</b>	<b>\$ 671</b>	<b>\$ 1,176</b>	<b>\$ 1,291</b>
<b>Adjusted net earnings, excluding restructuring costs - common shareholders<sup>(2)</sup></b>	<b>\$ 712</b>	<b>\$ 619</b>	<b>\$ 671</b>	<b>\$ 1,331</b>	<b>\$ 1,291</b>

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

(2) Net earnings attributable to common shareholders include the impact of restructuring costs. The second quarter of 2017 included restructuring costs of \$127 million, \$126 million related to the Canada segment operations and \$1 million related to the Insurance & Annuities business unit. The first quarter of 2017 included restructuring costs of \$28 million, \$17 million relating to the Insurance & Annuities business unit and \$11 million relating to the Financial Services 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 increased 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.

Additional commentary regarding potential future changes in the range of interest rates scenarios to be tested is included in the "Actuarial Standards Update" section.

Refer to note 5 to the Company's condensed consolidated financial statements for the period ended June 30, 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 second quarter of 2017 were up compared to the same period in 2016; however, market levels ended the quarter mixed compared to March 31, 2017. Relative to the Company's expectation, the change in average market levels and market volatility had a positive impact on net earnings of approximately \$4 million during the second quarter of 2017 and a positive impact of \$9 million year-to-date in 2017 (\$5 million negative impact in the second quarter of 2016 and \$18 million negative impact year-to-date in 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 \$5 million in the second quarter of 2017 and positively impacted by \$14 million year-to-date in 2017 (\$3 million positive impact in the second quarter of 2016 and \$4 million negative impact year-to-date in 2016), related to seed money investments held in the U.S. Asset Management and Canada Corporate business units.

Comparing the second quarter of 2017 to the second quarter of 2016, average equity market levels were up by 12% in Canada (as measured by S&P TSX), 16% in the U.S. (measured by S&P 500), 19% in the U.K. (measured by FTSE 100) and 19% in broader Europe (measured by Euro Stoxx 50). The major equity indices finished the second quarter of 2017 down by 2% in Canada and in broader Europe, flat in the U.K. and up 3% in the U.S., compared to March 31, 2017.

### 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 second quarter of 2017 decreased for the British pound and increased for the U.S. dollar and euro, compared to the second quarter of 2016. The overall impact of currency movement on the Company's net earnings for the three month period ended June 30, 2017 was a decrease of \$10 million (\$54 million year-to-date) compared to translation rates a year ago.

From March 31, 2017 to June 30, 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 and euro, the June 30, 2017 end-of-period rates increased compared to March 31, 2017. 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 \$417 million in-quarter (\$439 million net unrealized loss year-to-date) 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 second quarter of 2017, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of \$36 million, compared to \$112 million for the same quarter last year and \$38 million for the previous quarter. In Europe, net earnings were positively impacted by \$29 million primarily due to the impact of updated annuitant mortality and economic assumptions, partially offset by the impact of updated mortality assumptions, modeling refinements and updated expense assumptions. In Canada, net earnings were positively impacted by \$7 million primarily due to the impact of updated mortality assumptions and modeling refinements, partially offset by the impact of updated economic assumptions.

For the six months ended June 30, 2017, actuarial assumption changes resulted in a positive net earnings impact of \$74 million, compared to \$160 million for the same period in 2016.

### ACTUARIAL STANDARDS UPDATE

In May 2017, the Canadian Actuarial Standards Board published initial communications of draft standards. The comment period has closed, and the Company's current expectation is that the final standards will be published later in 2017 with an effective date of October 15, 2017. These draft standards relate to prescribed mortality improvement rates and associated margins for adverse deviations, ultimate reinvestment rates, calibration criteria for stochastic risk-free interest rates and calibration criteria for equity investment returns, which are all used in the valuation of insurance contract liabilities.

The proposed prescribed mortality improvement rates and associated margins for adverse deviation reflect recent mortality improvement trends in the Canadian population, revisions to the shape of expected future mortality improvements and the corresponding margins for adverse deviation including some recognition of diversification of risk. For business in Canada, the Company expects this would result in increases to annuity liabilities and decreases to life insurance liabilities. The overall change is not expected to be material. The Company is still evaluating the implications of this research and standard change on its business outside of Canada. However, the Company does not expect that this change will affect the measurement of the Company's U.K. annuity business as the annuity liabilities under the current model are in excess of the proposed criteria.

Decreases in ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates have been proposed. While the Company is still reviewing the impacts of the proposal, it anticipates an increase in liabilities, primarily in the Canadian segment, where the Company is exposed to low interest rates on reinvestments in longer durations. Initial estimates indicate the impact to net earnings to be less than \$50 million.

It is also proposed to add criteria for the volatility of returns to the calibration criteria for equity investment returns. The Company's current models already meet the proposed criteria; as a result, the Company does not expect any impacts on net earnings.

## 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			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016 <sup>(1)</sup>	June 30 2017	June 30 2016 <sup>(1)</sup>
<b>Canada</b>					
Individual Customer <sup>(1)</sup>	\$ 2,640	\$ 2,932	\$ 2,375	\$ 5,572	\$ 4,885
Group Customer <sup>(1)</sup>	3,941	4,027	3,515	7,968	7,041
	<b>6,581</b>	<b>6,959</b>	<b>5,890</b>	<b>13,540</b>	<b>11,926</b>
<b>United States</b>					
Financial Services	3,078	3,598	3,327	6,676	7,056
Asset Management	10,119	13,960	10,623	24,079	23,011
	<b>13,197</b>	<b>17,558</b>	<b>13,950</b>	<b>30,755</b>	<b>30,067</b>
<b>Europe</b>					
Insurance & Annuities	5,623	5,155	6,293	10,778	11,967
Reinsurance	3,020	3,877	2,038	6,897	4,205
	<b>8,643</b>	<b>9,032</b>	<b>8,331</b>	<b>17,675</b>	<b>16,172</b>
<b>Total premiums and deposits</b>	<b>\$ 28,421</b>	<b>\$ 33,549</b>	<b>\$ 28,171</b>	<b>\$ 61,970</b>	<b>\$ 58,165</b>

### Sales

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Canada	\$ 3,233	\$ 3,663	\$ 2,677	\$ 6,896	\$ 5,945
United States	16,934	24,352	16,665	41,286	56,823
Europe - Insurance & Annuities	4,835	4,416	5,550	9,251	10,124
<b>Total sales</b>	<b>\$ 25,002</b>	<b>\$ 32,431</b>	<b>\$ 24,892</b>	<b>\$ 57,433</b>	<b>\$ 72,892</b>

<sup>(1)</sup> Comparative figures have been reclassified to reflect presentation adjustments, related to 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**

Net investment income	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Investment income earned (net of investment properties expenses)	\$ 1,587	\$ 1,474	\$ 1,571	\$ 3,061	\$ 3,227
Allowances for credit losses on loans and receivables	6	(4)	(16)	2	(23)
Net realized gains	26	30	48	56	99
Regular investment income	1,619	1,500	1,603	3,119	3,303
Investment expenses	(28)	(31)	(27)	(59)	(54)
Regular net investment income	1,591	1,469	1,576	3,060	3,249
Changes in fair value through profit or loss	304	735	3,129	1,039	5,539
<b>Net investment income</b>	<b>\$ 1,895</b>	<b>\$ 2,204</b>	<b>\$ 4,705</b>	<b>\$ 4,099</b>	<b>\$ 8,788</b>

Net investment income in the second quarter of 2017, which includes changes in fair value through profit or loss, decreased by \$2,810 million compared to the same quarter last year. The changes in fair value in the second quarter of 2017 were an increase of \$304 million compared to an increase of \$3,129 million for the second quarter of 2016. The movement of bond yields was mixed in the current quarter resulting in increases in fair values in Canada and the U.S. being partly offset by declines in the U.K.; while in the second quarter of 2016, bond yields declined in all regions.

Regular net investment income in the second quarter of 2017 of \$1,591 million, which excludes changes in fair value through profit or loss, increased by \$15 million compared to the same quarter last year. The increase was primarily due to currency movement driven by the U.S. dollar strengthening against the Canadian dollar, partially offset by the Canadian dollar strengthening against the British pound. Net realized gains include gains on available-for-sale securities of \$12 million for the second quarter of 2017 compared to \$18 million for the same quarter last year.

For the six months ended June 30, 2017, net investment income decreased by \$4,689 million compared to the same period last year. The changes in fair value for the six month period in 2017 were an increase of \$1,039 million compared to an increase of \$5,539 million during the same period in 2016. In the first half of this year, the movement of bond yields was mixed, resulting in increases in fair values in Canada and the U.S. being partly offset by declines in the U.K.; while in the previous year, bond yields declined in all regions.

Regular net investment income for the six months ended June 30, 2017 decreased by \$189 million compared to the same period last year. The decrease was primarily due to the impact of currency movement as the Canadian dollar strengthened against the British pound. Net realized gains include gains on available-for-sale securities of \$20 million for the six months ended June 30, 2017, compared to \$49 million for the same period last year.

Net investment income in the second quarter of 2017 decreased by \$309 million compared to the previous quarter, primarily due to an increase in fair values of \$304 million in the second quarter of 2017 compared to an increase of \$735 million in the previous quarter. The net decrease in changes in fair value in the second quarter was primarily due to U.K. bond yields increasing in the second quarter, compared to decreasing bond yields in the first quarter.

### Credit Markets

In the second quarter of 2017, the Company experienced net recoveries on impaired investments, including dispositions, which had a negligible impact on common shareholders' net earnings (\$18 million net charge in the second quarter of 2016). Prior year in-quarter charges were primarily driven by impairment charges on mortgage loans as a result of the insolvency of British Home Stores (BHS), a U.K. retailer. 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 (negligible impact in the second quarter of 2016).

For the six months ended June 30, 2017, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$1 million (\$22 million net charge year-to-date in 2016). Prior year charges were primarily driven by the reasons discussed for the in-quarter results. 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 \$6 million year-to-date (\$14 million net positive impact year-to-date in 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			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
<b>Canada</b>					
Segregated funds, mutual funds and other	\$ 355	\$ 343	\$ 327	\$ 698	\$ 646
ASO contracts	44	44	42	88	85
	<b>399</b>	<b>387</b>	<b>369</b>	<b>786</b>	<b>731</b>
<b>United States</b>					
Segregated funds, mutual funds and other	636	594	555	1,230	1,126
<b>Europe</b>					
Segregated funds, mutual funds and other	346	324	307	670	628
<b>Total fee and other income</b>	<b>\$ 1,381</b>	<b>\$ 1,305</b>	<b>\$ 1,231</b>	<b>\$ 2,686</b>	<b>\$ 2,485</b>

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.

**NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS**

	Net policyholder benefits, dividends and experience refunds					
	For the three months ended			For the six months ended		
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016	
Canada	\$ 2,329	\$ 2,516	\$ 2,241	\$ 4,845	\$ 4,483	
United States	1,078	1,082	887	2,160	1,937	
Europe	3,970	4,945	2,895	8,915	6,142	
<b>Total</b>	<b>\$ 7,377</b>	<b>\$ 8,543</b>	<b>\$ 6,023</b>	<b>\$ 15,920</b>	<b>\$ 12,562</b>	

Net policyholder benefits, dividends and experience refunds include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends and experience refund payments. The amounts do not include benefit payments for ASO contracts, segregated funds or mutual funds.

For the three months ended June 30, 2017, net policyholder benefits, dividends and experience refunds were \$7.4 billion, an increase of \$1.4 billion from the same period in 2016. The increase in benefit payments was primarily due to new and restructured reinsurance treaties, higher business volumes and the impact of currency movement.

For the six months ended June 30, 2017, net policyholder benefits, dividends and experience refunds were \$15.9 billion, an increase of \$3.4 billion from the same period in 2016. The increase in benefit payments was primarily due to new and restructured reinsurance treaties and higher business volumes.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds decreased by \$1.2 billion, primarily due to restructured reinsurance agreements and lower volumes relating to existing business.

**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 second quarter of 2017, the Company had an effective income tax rate of 8%, down from 10% in the second quarter of 2016. The effective income tax rate for the second quarter of 2017 decreased due to a higher percentage of income consisting of non-taxable investment income and income subject to lower rates in foreign jurisdictions, partially offset by changes in certain tax estimates. The effective income tax rate for the second quarter of 2017, excluding restructuring costs, was 13%.

The Company had an effective income tax rate of 11% for the six months ended June 30, 2017 compared to 7% for the same period last year. The increase in the Company's effective income tax rate was primarily due to changes in certain tax estimates as well as elections with tax authorities during the first quarter of 2016. The effective income tax rate for the six months ended June 30, 2017, excluding restructuring costs, was 13%.

The second quarter 2017 effective income tax rate of 8% was lower than the first quarter 2017 rate of 13%, primarily due to a higher percentage of income consisting of non-taxable investment income and income subject to lower rates in foreign jurisdictions as well as changes in certain tax estimates.

**CONSOLIDATED FINANCIAL POSITION**

**ASSETS**

<b>Assets under administration</b>				
June 30, 2017				
	Canada	United States	Europe	Total
<b>Assets</b>				
Invested assets	\$ 71,826	\$ 44,588	\$ 49,037	\$ 165,451
Goodwill and intangible assets	5,108	2,318	2,466	9,892
Other assets	3,016	4,457	18,421	25,894
Segregated funds net assets	77,225	35,224	96,087	208,536
<b>Total assets</b>	<b>157,175</b>	<b>86,587</b>	<b>166,011</b>	<b>409,773</b>
Proprietary mutual funds and institutional net assets	6,344	227,545	37,797	271,686
<b>Total assets under management</b>	<b>163,519</b>	<b>314,132</b>	<b>203,808</b>	<b>681,459</b>
Other assets under administration	16,196	572,289	39,148	627,633
<b>Total assets under administration</b>	<b>\$ 179,715</b>	<b>\$ 886,421</b>	<b>\$ 242,956</b>	<b>\$ 1,309,092</b>
December 31, 2016				
	Canada	United States	Europe	Total
<b>Assets</b>				
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
<b>Total assets</b>	<b>153,524</b>	<b>87,243</b>	<b>159,145</b>	<b>399,912</b>
Proprietary mutual funds and institutional net assets	5,852	219,699	33,664	259,215
<b>Total assets under management</b>	<b>159,376</b>	<b>306,942</b>	<b>192,809</b>	<b>659,127</b>
Other assets under administration	15,911	534,428	38,952	589,291
<b>Total assets under administration</b>	<b>\$ 175,287</b>	<b>\$ 841,370</b>	<b>\$ 231,761</b>	<b>\$ 1,248,418</b>

Total assets under administration at June 30, 2017 increased by \$60.7 billion to \$1.3 trillion compared to December 31, 2016, primarily due to 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 \$118.2 billion or 71% of invested assets at June 30, 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**

	June 30, 2017		December 31, 2016	
AAA	\$ 24,610	21 %	\$ 27,762	24%
AA	31,483	26	29,816	26
A	40,128	34	37,787	32
BBB	20,737	18	20,116	17
BB or lower	1,257	1	1,292	1
<b>Total</b>	<b>\$ 118,215</b>	<b>100 %</b>	<b>\$ 116,773</b>	<b>100%</b>

**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	June 30, 2017			December 31, 2016	
	Insured	Non-insured	Total	Total	
Single family residential	\$ 679	\$ 1,421	\$ 2,100	9%	\$ 2,075
Multi-family residential	3,202	3,275	6,477	29	5,987
Commercial	338	13,386	13,724	62	13,589
<b>Total</b>	<b>\$ 4,219</b>	<b>\$ 18,082</b>	<b>\$ 22,301</b>	<b>100%</b>	<b>\$ 21,651</b>

The total mortgage portfolio was \$22.3 billion or 13% of invested assets at June 30, 2017, compared to \$21.7 billion or 13% of invested assets at December 31, 2016. Total insured loans were \$4.2 billion or 19% of the mortgage portfolio.

**Single family residential mortgages**

Region	June 30, 2017		December 31, 2016	
Ontario	\$ 1,016	49%	\$ 1,005	49%
Quebec	449	22	436	21
Alberta	137	7	140	7
British Columbia	126	6	127	6
Newfoundland	112	5	113	5
Saskatchewan	89	4	86	4
Nova Scotia	66	3	65	3
Manitoba	52	2	53	3
New Brunswick	48	2	46	2
Other	5	—	4	—
<b>Total</b>	<b>\$ 2,100</b>	<b>100%</b>	<b>\$ 2,075</b>	<b>100%</b>

During the six months ended June 30, 2017, single family mortgage originations, including renewals, were \$253 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 June 30, 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 June 30, 2017, the total actuarial provision for future credit losses in insurance contract liabilities was \$2,996 million compared to \$2,946 million at December 31, 2016, an increase of \$50 million, primarily due to normal business activity, partially offset by the impact of changes in actuarial assumptions and management actions.

The aggregate of impairment provisions of \$46 million (\$45 million at December 31, 2016) and actuarial provisions for future credit losses in insurance contract liabilities of \$2,996 million (\$2,946 million at December 31, 2016) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at June 30, 2017 (2.0% at December 31, 2016).

#### **United Kingdom Property Related Exposures**

##### **Holdings of United Kingdom Mortgages and Investment Properties**

	June 30, 2017						December 31, 2016
	Multi-Family Residential	Retail & shopping centres	Office buildings	Industrial	Other	Total	Total
Mortgages	360	1,624	690	937	382	3,993	3,772
Investment properties	—	1,120	632	630	420	2,802	2,729
<b>Total</b>	<b>\$ 360</b>	<b>\$ 2,744</b>	<b>\$ 1,322</b>	<b>\$ 1,567</b>	<b>\$ 802</b>	<b>\$ 6,795</b>	<b>\$ 6,501</b>

At June 30, 2017, the Company's holdings of property related investments in the U.K. were \$6.8 billion (\$6.5 billion at December 31, 2016), or 3.9% of invested assets including funds held by ceding insurers. Holdings in Central London were \$2.2 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 2.7% of invested assets including funds held by ceding insurers. These holdings were well diversified across property type - Retail (40%), Industrial/Other (35%), Office (20%) and Multi-family (5%). The weighted average loan-to-value ratio of the mortgages was 53% and the weighted average debt-service coverage ratio was 2.2 at June 30, 2017. At June 30, 2017, the weighted average mortgage and property lease term was 13 years.

## DERIVATIVE FINANCIAL INSTRUMENTS

During the second 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 June 30, 2017, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$133 million (\$159 million at December 31, 2016) and pledged on derivative liabilities was \$447 million (\$475 million at December 31, 2016).

During the six month period ended June 30, 2017, the outstanding notional amount of derivative contracts increased by \$2.9 billion to \$20.1 billion. The increase was primarily due to an increase in forward settling to-be-announced security transactions and regular hedging activities partially offset by the expiration and settlement of foreign exchange contracts that were cash flow hedges for the \$1.0 billion of the Company's subordinated debentures redeemed June 21, 2017.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, decreased to \$463 million at June 30, 2017 from \$528 million at December 31, 2016. The decrease was primarily due to the expiration and settlement of foreign exchange contracts that paid euro and received British pounds.

## LIABILITIES

<b>Total liabilities</b>	<b>June 30 2017</b>	<b>December 31 2016</b>
Insurance and investment contract liabilities	\$ 159,750	\$ 157,949
Other general fund liabilities	16,059	16,552
Investment and insurance contracts on account of segregated fund policyholders	208,536	200,403
<b>Total</b>	<b>\$ 384,345</b>	<b>\$ 374,904</b>

Total liabilities increased by \$9.4 billion to \$384.3 billion at June 30, 2017 from December 31, 2016. Insurance and investment contracts on account of segregated fund policyholders increased by \$8.1 billion, primarily due to the combined impact of market value gains and investment income of \$5.9 billion, the impact of currency movement of \$2.1 billion and net deposits of \$0.9 billion. Insurance and investment contract liabilities increased by \$1.8 billion, primarily due to the impact of new business, partially offset by the impact of changes in assumptions, restructured reinsurance treaties and the strengthening of the Canadian dollar against the U.S. dollar.

### 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 June 30, 2017, the amount of GMWB products in-force in Canada, the U.S., Ireland and Germany were \$4,103 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

	June 30, 2017				
	Market Value	Investment deficiency by benefit type			Total <sup>(1)</sup>
		Income	Maturity	Death	
Canada	\$ 31,967	\$ —	\$ 19	\$ 73	\$ 73
United States	12,956	6	—	39	45
<b>Europe</b>					
Insurance & Annuities	9,167	7	—	441	441
Reinsurance <sup>(2)</sup>	1,129	367	—	15	382
Total Europe	10,296	374	—	456	823
<b>Total</b>	<b>\$ 55,219</b>	<b>\$ 380</b>	<b>\$ 19</b>	<b>\$ 568</b>	<b>\$ 941</b>

<sup>(1)</sup> 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 June 30, 2017.

<sup>(2)</sup> 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 June 30, 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 \$3 million in-quarter (\$5 million for the second quarter of 2016) and \$9 million year-to-date (\$13 million year-to-date for 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 June 30, 2017, debentures and other debt instruments decreased by \$449 million to \$5,531 million compared to December 31, 2016.

During the first quarter of 2017, Irish Life Assurance plc (ILA), a subsidiary of the Company, redeemed its 5.25% €200 million subordinated debenture notes at their principal amount together with accrued interest.

On May 26, 2017, Great-West Lifeco Finance (Delaware) LP, a subsidiary of the Company, issued US\$700 million principal amount 4.150% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing on June 3, 2047.

On June 21, 2017, Great-West Lifeco Finance (Delaware) LP, a subsidiary of the Company, redeemed all \$1.0 billion principal amount of its 5.691% subordinated debentures due June 21, 2067 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.

## SHARE CAPITAL AND SURPLUS

Share capital outstanding at June 30, 2017 was \$9,975 million, which comprises \$7,261 million of common shares, \$2,464 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 six months ended June 30, 2017, the Company repurchased and subsequently cancelled 341,683 common shares (2016 - 2,831,181) under its NCIB at an average cost per share of \$35.54 (2016 - \$34.27).

On May 18, 2017 the Company issued 8,000,000 Series T, 5.15% Non-Cumulative First Preferred Shares at \$25.00 per share. The shares are redeemable at the option of the Company on or after June 30, 2022 for \$25.00 per share plus a premium if redeemed prior to June 30, 2026, in each case together with all declared and unpaid dividends up to but excluding the date of redemption.

## 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 June 30, 2017, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$7.0 billion (\$7.9 billion at December 31, 2016) and other liquid assets and marketable securities of \$92.6 billion (\$91.6 billion at December 31, 2016). Included in the cash, cash equivalents and short-term bonds at June 30, 2017 was \$0.9 billion (\$1.1 billion at December 31, 2016) held 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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
<b>Cash flows relating to the following activities:</b>				
Operations	\$ 1,292	\$ 1,777	\$ 2,769	3,143
Financing	(368)	(496)	(936)	(909)
Investment	(571)	(1,066)	(1,689)	(1,774)
	353	215	144	460
Effects of changes in exchange rates on cash and Increase (decrease) in cash and cash equivalents in	3	(70)	(5)	(205)
Cash and cash equivalents, beginning of period	356	145	139	255
	3,042	2,923	3,259	2,813
<b>Cash and cash equivalents, end of period</b>	<u>\$ 3,398</u>	<u>\$ 3,068</u>	<u>\$ 3,398</u>	<u>3,068</u>

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 second quarter of 2017, cash and cash equivalents increased by \$356 million from March 31, 2017. Cash flows provided by operations during the second quarter of 2017 were \$1,292 million, a decrease of \$485 million compared to the second quarter of 2016. Cash flows used in financing were \$368 million, primarily used for the payment of dividends to common shareholders of \$363 million, the net redemption of debt of \$112 million discussed in the Debentures and Other Debt Instruments section and a decrease in line of credit of subsidiary of \$54 million, partially offset by the issuance of preferred shares of \$200 million. For the three months ended June 30, 2017, cash flows were used by the Company to acquire an additional \$571 million of investment assets.

For the six months ended June 30, 2017, cash and cash equivalents increased by \$139 million from December 31, 2016. Cash flows provided by operations were \$2,769 million, a decrease of \$374 million compared to the same period in 2016. Cash flows used in financing were \$936 million, primarily used for payments of dividends to the preferred and common shareholders of \$787 million, the net redemption of debt of \$396 million and a decrease to a line of credit of a subsidiary of \$54 million, partially offset by the issuance of common and preferred shares of \$318 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 six months ended June 30, 2017, cash flows were used by the Company to acquire an additional \$1,689 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 risk profiles 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.

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.

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 June 30, 2017 was 239% (240% at December 31, 2016). London Life's MCCR ratio at June 30, 2017 was 228% (217% at December 31, 2016). Canada Life's MCCR ratio at June 30, 2017 was 277% (275% at December 31, 2016). The MCCR ratio does not take into account any impact from \$0.9 billion of liquidity at the Lifeco holding company level at June 30, 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 as compared to December 31, 2017. 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.

### 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. In the second quarter of 2017, OSFI made further refinements to the September 2016 version of the LICAT guideline, and released a revised version for public consultation on June 23, 2017. OSFI is continuing its assessments of the new guideline, which will help to inform further amendments to the LICAT guideline. The Company continues to actively participate 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.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*. Effective for annual periods beginning after January 1, 2021, IFRS 17 includes, among other things, the new requirements for the recognition and measurement of insurance contracts it issues and reinsurance contracts it holds. The new standard is expected to have a significant impact to insurers and is expected to lead to further review and possible amendments to the OSFI LICAT Guideline. Additional details on the new IFRS 17 standard are included in the "International Financial Reporting Standards" section.

### 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 <sup>(1)</sup>	June 30 2017	March 31 2017	Dec. 31 2016
Canada	18.2 %	20.6 %	19.9 %
U.S. Financial Services <sup>(2)</sup>	10.5 %	10.0 %	10.6 %
U.S. Asset Management (Putnam) <sup>(2)</sup>	(2.0)%	(2.5)%	(2.9)%
Europe	16.8 %	16.9 %	17.1 %
Lifeco Corporate	(3.8)%	(3.7)%	(5.2)%
<b>Total Lifeco Net Earnings Basis</b>	<b>13.0 %</b>	<b>13.6 %</b>	<b>13.8 %</b>
<b>Total Lifeco Adjusted Net Earnings Basis, excluding restructuring costs<sup>(3)</sup></b>	<b>13.9 %</b>	<b>13.9 %</b>	<b>14.0 %</b>

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

<sup>(2)</sup> 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).

<sup>(3)</sup> The second quarter of 2017 included restructuring costs of \$127 million relating to the Canada segment and Insurance & Annuities business unit. 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 the U.S. 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 13.0% at June 30, 2017, compared to 13.6% at March 31, 2017. Excluding the impact of restructuring costs, the Company reported ROE based on adjusted net earnings of 13.9% at June 30, 2017, which was comparable to 13.9% at March 31, 2017.

## RATINGS

Lifeco maintains ratings from five independent ratings companies. In the second 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 second 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 Assurance (ILA) has an insurer financial strength rating of AA from Fitch Ratings. In Q2 2017, Standard & Poor's Ratings Services affirmed and subsequently withdrew its ILA ratings following the redemption of its subordinated debenture during the first quarter of 2017.

## 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 wealth income 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			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Premiums and deposits	\$ 6,581	\$ 6,959	\$ 5,890	\$ 13,540	\$ 11,926
Sales	3,233	3,663	2,677	6,896	5,945
Fee and other income	399	387	369	786	731
Net earnings	185	255	327	440	603
Adjusted net earnings, excluding restructuring costs <sup>(1)</sup>	311	255	327	566	603
<b>Total assets</b>	<b>\$ 157,175</b>	<b>\$ 156,302</b>	<b>\$ 149,913</b>		
Proprietary mutual funds and institutional net assets	6,344	6,163	5,378		
Total assets under management	163,519	162,465	155,291		
Other assets under administration	16,196	16,011	15,537		
<b>Total assets under administration</b>	<b>\$ 179,715</b>	<b>\$ 178,476</b>	<b>\$ 170,828</b>		

<sup>(1)</sup> The second quarter of 2017 included restructuring costs of \$126 million.

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 these changes, in April, the Company announced it expected to achieve \$200 million pre-tax of annual expense reductions expected to be complete by the first quarter of 2019, approximately \$160 million relating to the common shareholders' account and \$40 million relating to the participating accounts. As of June 30, 2017, the Company has achieved approximately \$46 million pre-tax in annualized reductions, approximately \$31 million relating to the common shareholders' account and \$15 million relating to the participating accounts. This resulted in pre-tax expense reductions of \$18 million for the first half of 2017, approximately \$14 million relating to the common shareholders' account and \$4 million relating to the participating accounts. As part of this effort, the Company incurred a \$215 million pre-tax restructuring charge, which included \$172 million relating to the common shareholders' account and \$43 million relating to the participating accounts. During the second quarter of 2017, the restructuring charge has reduced net earnings attributable to the common shareholders by \$126 million and net earnings attributable to the participating accounts by \$32 million.
- On May 19, 2017, the Company, through its wholly-owned subsidiary Great-West Life, entered into an agreement to purchase Financial Horizons Group, a Canadian Managing General Agency ("MGA") that offers access to life and health insurance, employee benefits, pensions, investments, structured settlements, and risk management products and services to advisors throughout Canada. Subsequent to the second quarter of 2017, regulatory approval has been received and the transaction was completed effective July 31, 2017. While the revenue and net earnings from the Financial Horizons Group will not be material, it expands the Company's investment in distribution in Canada with an ownership stake in the growing independent MGA sector.

**BUSINESS UNITS - CANADA**

**INDIVIDUAL CUSTOMER**

**OPERATING RESULTS**

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016 <sup>(1)</sup>	June 30 2017	June 30 2016 <sup>(1)</sup>
Premiums and deposits	\$ 2,640	\$ 2,932	\$ 2,375	\$ 5,572	\$ 4,885
Sales	2,293	2,860	2,062	5,153	4,454
Fee and other income	233	225	215	458	424
Net earnings	140	146	147	286	302

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

**Premiums and deposits**

Premiums and deposits for the second quarter of 2017 increased by \$0.3 billion to \$2.6 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 \$0.1 billion. The increase in individual wealth premiums and deposits was primarily due to an increase in deposits for investment funds. Individual insurance premiums increased primarily due to an increase in participating life premiums.

For the six months ended June 30, 2017, premiums and deposits increased by \$0.7 billion to \$5.6 billion compared to the same period last year, due to an increase in individual wealth premiums and deposits of \$0.4 billion and an increase in individual insurance premiums of \$0.3 billion. The increases were primarily for the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2017 decreased by \$0.3 billion compared to the previous quarter, primarily due to lower deposits for investment funds driven by the positive impact of registered retirement savings plan season on the first quarter results and a decrease in participating life premiums.

**Sales**

Sales for the second quarter of 2017 increased by \$0.2 billion to \$2.3 billion compared to the same quarter last year, due to an increase in individual wealth sales of \$0.3 billion, partially offset by a decrease in individual insurance sales. The increase in individual wealth sales was primarily due to an increase in sales for investment funds. The decrease in individual insurance sales was primarily due to an expected decrease in participating life sales.

For the six months ended June 30, 2017, sales increased by \$0.7 billion to \$5.2 billion compared to the same period last year, primarily due to an increase in individual wealth sales of \$0.6 billion and an increase in individual insurance sales of \$0.1 billion. The increase in individual wealth sales was primarily due to an increase in sales for investment funds. The increase in individual insurance sales was primarily due to an increase in participating life sales.

Sales for the second quarter of 2017 decreased by \$0.6 billion compared to the previous quarter. Individual wealth sales decreased \$0.4 billion, primarily due to lower sales for investment funds. Individual insurance sales were \$0.2 billion lower in the second quarter of 2017, as the first quarter included the final influx of sales related to the transition rules associated with the new tax exempt legislation effective January 1, 2017, which allowed for insurance applied for under the old regime to be delivered by March 31, 2017, under certain circumstances.

For the individual wealth investment fund business, net cash inflows for the second quarter of 2017 were \$116 million compared to net cash outflows of \$20 million for the same quarter last year and net cash inflows of \$125 million for the previous quarter. Net cash inflows for the six months ended June 30, 2017 were \$241 million compared to net cash inflows of \$100 million for the same period last year.

### Fee and other income

Fee and other income for the second quarter of 2017 increased by \$18 million to \$233 million compared to the same quarter last year, primarily due to higher average assets under management driven by higher average equity market levels, partially offset by lower margins.

For the six months ended June 30, 2017, fee and other income increased by \$34 million to \$458 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2017 increased by \$8 million compared to the previous quarter, primarily due to higher average assets under administration driven by higher average foreign equity market levels and positive net cash flows.

### Net earnings

Net earnings for the second quarter of 2017 decreased by \$7 million to \$140 million compared to the same quarter last year. The decrease was primarily due to less favourable morbidity experience, lower contributions from insurance contract liability basis changes and lower contributions from investment experience. These decreases were partially offset by higher net fee income, lower new business strain as well as favourable mortality experience and improved policyholder behaviour experience.

For the six months ended June 30, 2017, net earnings decreased by \$16 million to \$286 million compared to the same period last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes, lower contributions from investment experience as well as less favourable morbidity and policyholder behaviour experience. These decreases were partially offset by higher net fee income, lower new business strain, lower expenses and favourable mortality experience.

Net earnings for the second quarter of 2017 decreased by \$6 million compared to the previous quarter. The decrease was primarily due to lower contributions from insurance contract liability basis changes and lower contributions from investment experience, partially offset by improved policyholder behaviour experience.

For the second quarter of 2017, the net loss attributable to the participating account was \$31 million compared to net earnings of \$11 million for the same quarter last year. Included in results for the second quarter of 2017 were restructuring costs of \$32 million. Excluding these costs, net earnings decreased by \$10 million, primarily due to higher new business strain.

For the six months ended June 30, 2017, the net loss attributable to the participating account was \$2 million compared to net earnings of \$16 million for the same period last year. Excluding the impact of restructuring costs discussed for the in-quarter results, net earnings increased by \$14 million, primarily due to lower new business strain.

Compared to the previous quarter, excluding the impact of restructuring costs discussed for the in-quarter results, net earnings attributable to the participating account decreased by \$28 million, primarily due to higher new business strain.

**GROUP CUSTOMER**

**OPERATING RESULTS**

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016 <sup>(1)</sup>	June 30 2017	June 30 2016 <sup>(1)</sup>
Premiums and deposits	\$ 3,941	\$ 4,027	\$ 3,515	\$ 7,968	\$ 7,041
Sales	940	803	615	1,743	1,491
Fee and other income	154	149	142	303	283
Net earnings	189	104	162	293	267

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

**Premiums and deposits**

Premiums and deposits for the second quarter of 2017 increased by \$0.4 billion to \$3.9 billion compared to the same quarter last year, primarily due to higher premiums and deposits related to single premium group annuities (SPGAs) and group capital accumulation plans (GCAP).

For the six months ended June 30, 2017, premiums and deposits increased by \$0.9 billion to \$8.0 billion compared to the same period last year, due to an increase in group wealth premiums and deposits of \$0.7 billion and an increase in group insurance premiums and deposits of \$0.2 billion. The increase in group wealth was primarily due to higher premiums and deposits from SPGA and GCAP products while the increase in group insurance was primarily due to large case market premiums and deposits.

Premiums and deposits for the second quarter of 2017 were comparable to the previous quarter.

**Sales**

Sales for the second quarter of 2017 increased by \$0.3 billion to \$0.9 billion compared to the same period last year, due to an increase in group wealth sales of \$0.2 billion and an increase in group insurance sales of \$0.1 billion. The increase in group wealth sales was primarily due to higher sales of SPGA products. The increase in group insurance sales was primarily due to higher sales in the large case market. Sales of large cases and creditor products can be highly variable from quarter to quarter.

For the six months ended June 30, 2017, sales increased by \$0.3 billion to \$1.7 billion compared to the same period last year, as an increase in group wealth sales of \$0.4 billion was partly offset by a decrease in group insurance sales of \$0.1 billion. The increase in group wealth sales was primarily due to higher sales of SPGA and GCAP products, while group insurance sales decreased primarily due to lower sales in the large case and creditor markets.

Sales for the second quarter of 2017 increased by \$0.1 billion compared to the previous quarter, primarily due to higher group insurance large case and creditor sales as well as higher sales of SPGA products.

For the group wealth segregated fund business, net cash inflows for the second quarter of 2017 were \$212 million, compared to net cash inflows of \$55 million for the same quarter last year and \$282 million for the previous quarter. For the six months ended June 30, 2017, net cash inflows were \$494 million up from \$272 million for the same period last year.

**Fee and other income**

Fee and other income for the second quarter of 2017 increased by \$12 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 six months ended June 30, 2017 increased by \$20 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2017 increased by \$5 million compared to the previous quarter, primarily due to higher average assets under administration driven by higher average foreign equity market levels and positive net cash flows.

### **Net earnings**

Net earnings for the second quarter of 2017 of \$189 million increased by \$27 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience due in part to the focus on implementing rate increases as contracts were renewed. In addition, higher contributions from insurance contract liability basis changes and higher net fee income were partially offset by lower contributions from investment experience and higher income taxes. Net earnings for the second quarter of 2016 were more favourably impacted by changes to certain tax estimates.

For the six months ended June 30, 2017, net earnings increased by \$26 million to \$293 million compared to the same period last year. The increase was primarily due to same reasons discussed for the in-quarter results.

Net earnings for the second quarter of 2017 increased by \$85 million compared to the previous quarter. The increase was primarily due to more favourable long-term disability experience, favourable insurance mortality experience, higher contributions from insurance contract liability basis changes and lower operating expenses, partially offset by lower contributions from investment experience.

### **CANADA CORPORATE**

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

For the three months ended June 30, 2017, the net loss was \$144 million compared to net earnings of \$18 million for the same period last year. The change in net earnings was primarily due to restructuring costs of \$126 million. Excluding these costs, adjusted net earnings decreased by \$36 million to an adjusted net loss of \$18 million, primarily due to lower net investment income, which included a gain on sale of an investment property in 2016, and the less favourable impact of changes to certain income tax estimates.

Excluding the impact of restructuring costs of \$126 million for the six months ended June 30, 2017, the adjusted net loss was \$13 million compared to net earnings of \$34 million for the same period in 2016. The change was primarily due to the same reasons discussed for the in-quarter results.

Excluding the impact of restructuring costs discussed for the in-quarter results, the adjusted net loss of \$18 million compared to net earnings of \$5 million in the previous quarter, primarily due to lower net investment income.

### **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			For the six months ended	
	June 30 2017	March 31 2017 <sup>(1)</sup>	June 30 2016	June 30 2017 <sup>(1)</sup>	June 30 2016
Premiums and deposits	\$ 13,197	\$ 17,558	\$ 13,950	\$ 30,755	\$ 30,067
Sales	16,934	24,352	16,665	41,286	56,823
Fee and other income	636	594	555	1,230	1,126
Net earnings <sup>(1)</sup>	82	56	53	138	116
Net earnings (US\$) <sup>(1)</sup>	62	42	40	104	87
<b>Total assets</b>	<b>\$ 86,587</b>	<b>\$ 87,861</b>	<b>\$ 84,780</b>		
Proprietary mutual funds and institutional net assets	227,545	228,245	205,830		
<b>Total assets under management</b>	<b>314,132</b>	<b>316,106</b>	<b>290,610</b>		
Other assets under administration	572,289	564,835	495,366		
<b>Total assets under administration</b>	<b>\$ 886,421</b>	<b>\$ 880,941</b>	<b>\$ 785,976</b>		

<sup>(1)</sup> The first quarter of 2017 included restructuring costs of \$11 million (US\$8 million) relating to the Financial Services business unit.

## 2017 DEVELOPMENTS

- 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. 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 in compliance with the components of the rule that were effective June 9, 2017 and is executing a plan for required full compliance by January 1, 2018.
- 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 participant accounts have grown to approximately 8.3 million at June 30, 2017 from 8 million at December 31, 2016. Empower continues to have strong participant retention and ranked second based on the number of participants as part of the 2016 Plansponsor DC Recordkeeper Survey.

**OPERATING RESULTS**

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Premiums and deposits	\$ 3,078	\$ 3,598	\$ 3,327	\$ 6,676	\$ 7,056
Sales <sup>(1)</sup>	6,815	10,392	6,042	17,207	33,812
Fee and other income	388	366	323	754	644
Net earnings	88	85	74	173	164
Premiums and deposits (US\$)	\$ 2,297	\$ 2,726	\$ 2,579	\$ 5,023	\$ 5,301
Sales (US\$) <sup>(1)</sup>	5,086	7,873	4,684	12,959	24,954
Fee and other income (US\$)	290	277	251	567	485
Net earnings (US\$)	66	64	56	130	123

<sup>(1)</sup> For the three and six months ended June 30, 2017, sales included US\$0.4 billion and \$0.9 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (\$0.2 billion and \$0.5 billion for the three and six months ended June 30, 2016).

**Premiums and deposits**

Premiums and deposits for the second quarter of 2017 of US\$2.3 billion decreased by US\$0.3 billion compared to the same quarter last year, primarily due to a decrease in Empower Retirement driven by lower net transfers from retail investment options and lower sales related to assets under management.

For the six months ended June 30, 2017, premiums and deposits decreased by US\$0.3 billion to US\$5.0 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2017 decreased by US\$0.4 billion compared to the previous quarter, primarily due to a decrease in Empower Retirement as a result of lower deposits from existing participants as well as lower sales in the executive benefits line of business for Individual Markets.

**Sales**

Sales in the second quarter of 2017 increased by US\$0.4 billion to US\$5.1 billion compared to the same quarter last year, primarily due to an increase in Empower Retirement sales.

For the six months ended June 30, 2017, sales decreased by US\$12.0 billion to US\$13.0 billion compared to the same period last year, primarily due to a decrease in Empower Retirement 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 second quarter of 2017 decreased by US\$2.8 billion compared to the previous quarter, primarily due to a decrease in Empower Retirement sales driven by lower 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 second quarter of 2017 increased by US\$39 million to US\$290 million compared to the same quarter last year, primarily due to higher asset-based fees driven by growth in these assets, due to positive net cash flows and higher average equity market levels.

For the six months ended June 30, 2017, fee and other income increased by US\$82 million to US\$567 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2017 increased US\$13 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

**Net earnings**

Net earnings for the second quarter of 2017 increased by US\$10 million to US\$66 million compared to the same quarter last year, primarily due to higher net fee income, partially offset by lower contributions from investment experience.

For the six months ended June 30, 2017, net earnings increased by US\$7 million to US\$130 million compared to the same period 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\$26 million, primarily due to higher net fee income.

Net earnings for the second quarter of 2017 increased by US\$2 million compared to the previous quarter, primarily due to higher net fee income and lower operating expenses, mostly offset by less favourable mortality 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 June 30, 2017, the Company has achieved approximately US\$53 million pre-tax in annualized expense reductions. This resulted in a pre-tax expense reduction of approximately US\$13 million in the second quarter of 2017.
- Putnam continues to sustain strong investment performance relative to its peers. As of June 30, 2017, approximately 50% 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 59% and 80% of Putnam's fund assets performed at levels above the Lipper top quartile and Lipper median, respectively, on a five-year basis.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Sales	\$ 10,119	\$ 13,960	\$ 10,623	\$ 24,079	\$ 23,011
Fee income					
Investment management fees	203	193	188	396	387
Performance fees	(5)	(13)	(6)	(18)	(11)
Service fees	39	38	39	77	81
Underwriting & distribution fees	11	10	11	21	25
Fee income	248	228	232	476	482
Core net earnings (loss) <sup>(1)</sup>	9	(2)	(5)	7	(22)
Less: Financing and other expenses (after-tax) <sup>(1)</sup>	(15)	(14)	(13)	(29)	(21)
Reported net earnings (loss)	(6)	(16)	(18)	(22)	(43)
Sales (US\$)	\$ 7,552	\$ 10,576	\$ 8,236	\$ 18,128	17,278
Fee income (US\$)					
Investment management fees (US\$)	151	146	146	297	291
Performance fees (US\$)	(4)	(10)	(5)	(14)	(9)
Service fees (US\$)	29	29	30	58	61
Underwriting & distribution fees (US\$)	8	8	8	16	19
Fee income (US\$)	184	173	179	357	362
Core net earnings (loss) (US\$) <sup>(1)</sup>	7	(1)	(4)	6	(16)
Less: Financing and other expenses (after-tax) (US\$) <sup>(1)</sup>	(11)	(11)	(10)	(22)	(16)
Reported net earnings (loss) (US\$)	(4)	(12)	(14)	(16)	(32)
Pre-tax operating margin <sup>(2)</sup>	7.4%	(1.1)%	(2.7)%	3.2%	(7.4)%
Average assets under management (US\$)	\$ 161,816	\$ 157,432	\$ 146,728	\$ 159,642	\$ 144,124

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 second quarter of 2017 decreased by US\$0.7 billion to US\$7.6 billion compared to the same quarter last year, due to a US\$1.8 billion decrease in institutional sales, partially offset by a US\$1.1 billion increase in mutual fund sales.

For the six months ended June 30, 2017, sales increased by US\$0.9 billion to US\$18.1 billion compared to the same period last year, due to an increase in mutual fund sales of US\$1.4 billion, partially offset by lower institutional sales of US\$0.5 billion.

Sales in the second quarter of 2017 decreased by US\$3.0 billion compared to the previous quarter, primarily due to a US\$2.7 billion decrease in institutional sales and a US\$0.3 billion decrease 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 assets under management (AUM) and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales. Performance fees are generated on certain mutual funds and institutional portfolios and are based on a rolling 36 month performance period. Performance fees on mutual funds are symmetric and as a result can be positive or negative

Fee income for the second quarter of 2017 increased by US\$5 million to US\$184 million compared to the same quarter last year. The increase was primarily due to higher asset-based fees driven by higher average AUM.

For the six months ended June 30, 2017, fee income decreased by US\$5 million to US\$357 million compared to the same period last year. The decrease was primarily due to lower performance fees on mutual funds, lower service fees reflecting a decrease in the number of accounts as well as lower underwriting and distribution fees, partially offset by higher investment management fees driven by higher average AUM.

Fee income for the second quarter of 2017 increased by US\$11 million compared to the previous quarter, primarily due to higher asset-based fees driven by higher average AUM and improved performance fees due to the seasonality in which these fees are earned.

**Net earnings**

Core net earnings (a non-IFRS financial measure) for the second quarter of 2017 were US\$7 million compared to a core net loss of US\$4 million for the same quarter last year. The increase in net earnings was primarily due to lower expenses of US\$8 million after-tax (US\$13 million pre-tax) largely related to the expense reductions undertaken in the fourth quarter of 2016 as well as higher net fee income. In the second quarter of 2017, the reported net loss, including financing and other expenses, was US\$4 million compared to a reported net loss of US\$14 million for the same quarter last year. Financing and other expenses for the second quarter of 2017 increased by US\$1 million compared to the same quarter last year, primarily due to higher allocated financing charges.

For the six months ended June 30, 2017, core net earnings were US\$6 million compared to a core net loss of US\$16 million for the same period last year. The increase in net earnings was primarily due to lower expenses of US\$16 million after-tax (US\$26 million pre-tax) largely related to the expense reductions discussed for the in-quarter results and higher net investment income driven by gains on seed capital. The reported net loss, including financing and other expenses, for the six months ended June 30, 2017 was US\$16 million compared to US\$32 million for the same period last year. Financing and other expenses for the six month period ended June 30, 2017 increased by US\$6 million to US\$22 million compared to the same period last year, primarily due to lower income taxes for the same period last year, driven by a management election to claim foreign tax credits of US\$6 million.

Core net earnings for the second quarter of 2017 were US\$7 million compared to a core net loss of US\$1 million for the previous quarter. The increase in net earnings was primarily due to higher net fee income and lower expenses, partially offset by lower net investment income. The reported net loss, including financing and other expenses for the second quarter of 2017 was US\$4 million compared to a reported net loss of US\$12 million in the previous quarter. Financing and other expenses for the second quarter of 2017 were comparable to the previous quarter.

**ASSETS UNDER MANAGEMENT**

Assets under management (\$US)	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30, 2016
<b>Beginning assets</b>	<b>\$ 159,945</b>	<b>\$ 152,122</b>	<b>\$ 145,803</b>	<b>\$ 152,122</b>	<b>\$ 148,370</b>
Sales - Mutual funds	4,873	5,207	3,749	10,080	8,708
Redemptions - Mutual funds	(5,279)	(5,953)	(6,162)	(11,232)	(13,731)
Net asset flows - Mutual funds	(406)	(746)	(2,413)	(1,152)	(5,023)
Sales - Institutional	2,679	5,369	4,487	8,048	8,570
Redemptions - Institutional	(3,166)	(3,310)	(2,760)	(6,476)	(5,936)
Net asset flows - Institutional	(487)	2,059	1,727	1,572	2,634
Net asset flows - Total	(893)	1,313	(686)	420	(2,389)
Impact of market/performance	3,861	6,510	2,533	10,371	1,669
<b>Ending assets</b>	<b>\$ 162,913</b>	<b>\$ 159,945</b>	<b>\$ 147,650</b>	<b>\$ 162,913</b>	<b>\$ 147,650</b>
<u>Average assets under management</u>					
Mutual funds	74,807	73,682	72,540	74,249	72,532
Institutional assets	87,009	83,750	74,188	85,393	71,592
<b>Total average assets under management</b>	<b>\$ 161,816</b>	<b>\$ 157,432</b>	<b>\$ 146,728</b>	<b>\$ 159,642</b>	<b>\$ 144,124</b>

Average AUM for the three months ended June 30, 2017 was US\$161.8 billion, an increase of US\$15.1 billion or 10% compared to the same quarter last year, primarily due to the cumulative impact of positive markets and net asset inflows for the institutional business over the twelve month period. Net asset outflows for the second quarter of 2017 were US\$0.9 billion compared to net asset outflows of US\$0.7 billion in the same quarter last year. In-quarter institutional net asset outflows were US\$0.5 billion and mutual fund net asset outflows were US\$0.4 billion.

Average AUM for the six months ended June 30, 2017 increased by US\$15.5 billion to US\$159.6 billion compared to the same period last year, primarily due to the same reasons discussed for in the in-quarter results. Net asset inflows for the six months ended June 30, 2017 were US\$0.4 billion compared to net asset outflows of US\$2.4 billion for the same period last year. Year-to-date mutual fund net asset outflows of US\$1.2 billion were more than offset by institutional net asset inflows of US\$1.6 billion.

Average AUM for the three months ended June 30, 2017 increased by US\$4.4 billion compared to the previous quarter, primarily due to the impact of positive markets in the quarter, partially offset by net asset outflows.

**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 second quarter of 2017, net earnings of nil compared to a net loss of US\$2 million for the same quarter last year, driven by restructuring costs incurred in 2016.

For the six months ended June 30, 2017, the net loss increased by US\$6 million to US\$10 million compared to the same period in 2016, primarily due to higher restructuring costs and expenses related to discontinued operations resulting from the Healthcare division sold in 2008. Results for the first six months of 2017 included restructuring costs of US\$8 million relating to Empower Retirement and the acquisition of the J.P. Morgan Retirement Plan Services (RPS) business as well as business strategy restructuring, compared to US\$4 million for the same period last year.

The net loss for the three months ended June 30, 2017 decreased by US\$10 million to nil compared to the previous quarter, primarily due to lower restructuring costs and expenses related to discontinued operations discussed for the year-to-date results.

## 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			For the six months ended	
	June 30 2017 <sup>(1)</sup>	March 31 2017 <sup>(1)</sup>	June 30 2016	June 30 2017 <sup>(1)</sup>	June 30 2016
Premiums and deposits	\$ 8,643	\$ 9,032	\$ 8,331	\$ 17,675	\$ 16,172
Fee and other income	346	324	307	670	628
Net earnings <sup>(1)</sup>	321	289	293	610	580
Total assets	\$ 166,011	\$ 161,469	\$ 155,558		
Proprietary mutual funds and institutional net assets	37,797	35,713	32,480		
Total assets under management	203,808	197,182	188,038		
Other assets under administration	39,148	39,218	38,975		
<b>Total assets under administration<sup>(2)</sup></b>	<b>\$ 242,956</b>	<b>\$ 236,400</b>	<b>\$ 227,013</b>		

<sup>(1)</sup> The second quarter of 2017 included restructuring costs of \$1 million related to the Insurance & Annuities business unit. The first quarter of 2017 included restructuring costs of \$17 million relating to the Insurance & Annuities business unit.

<sup>(2)</sup> At June 30, 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

- In the second quarter of 2017, the Company achieved €3 million pre-tax of annualized synergies relating to the integration of the Irish Life Health operations and €8 million pre-tax 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 6 months.

- During the quarter, the Company continued its efforts relating to the Irish Life business strategy to support growth in the retail division and remains on track to achieve targeted annual cost savings of €8 million pre-tax within the next 6 months. As of June 30, 2017, the Company achieved €5 million pre-tax in annualized cost reductions within the Irish Life retail division.
- Some market volatility remains following the U.K.'s formal notification in March 2017 of its intention to leave the European Union (EU). The U.K. general election on June 8, 2017 resulted in a minority government, who are supported on key votes by a smaller party, which created further uncertainty regarding exit negotiations. 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 has declined by 7% from the second quarter of 2016 to the second 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 negotiate 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.
- During the second quarter of 2017, the Company received a number of awards:
  - The 2017 Opinion Research Corporation (ORC) International Survey rated Canada Life Group Insurance the number one U.K. group risk insurer for the 5th consecutive year.
  - The Marketing Institute of Ireland awarded Irish Life Health the 2017 Integrated Marketing Award in recognition of their brand launch campaign.

## BUSINESS UNITS – EUROPE

### INSURANCE & ANNUITIES

#### OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Premiums and deposits <sup>(1)</sup>	\$ 5,623	\$ 5,155	\$ 6,293	\$ 10,778	\$ 11,967
Sales <sup>(1)</sup>	4,835	4,416	5,550	9,251	10,124
Fee and other income	342	319	303	661	619
Net earnings	239	225	225	464	451

<sup>(1)</sup> For the three and six months ended June 30, 2017, premiums and deposits and sales exclude \$0.2 billion and \$0.5 billion, respectively, of assets managed for other business units within the Lifeco group of companies (\$0.3 billion for the three months ended March 31, 2017 and \$6.9 billion for the three months ended June 30, 2016).

#### Premiums and deposits

Premiums and deposits for the second quarter of 2017 decreased by \$0.7 billion to \$5.6 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 wealth management sales in the U.K. and higher pension sales in Ireland.

For the six months ended June 30, 2017, premiums and deposits decreased by \$1.2 billion to \$10.8 billion compared to the same period last year, 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. and higher pension sales in Ireland.

Premiums and deposits for the second quarter of 2017 increased by \$0.5 billion compared to the previous quarter, primarily due to higher fund management sales in Ireland, higher wealth management sales in the U.K. and the impact of currency movement, partially offset by lower payout annuity sales in the U.K.

**Sales**

Sales for the second quarter of 2017 decreased by \$0.7 billion to \$4.8 billion compared to the same quarter last year. For the six months ended June 30, 2017, sales decreased by \$0.8 billion to \$9.3 billion compared to the same period last year. Decreases in both the three and six month periods were due to the same reasons discussed for premiums and deposits for the respective periods.

Sales for the second quarter of 2017 of \$4.8 billion increased by \$0.4 billion compared to the previous quarter, primarily due to the same reasons discussed for premiums and deposits for the same period.

**Fee and other income**

Fee and other income for the second quarter of 2017 increased by \$39 million to \$342 million compared to the same quarter last year. The increase was primarily due to higher asset management fees in Ireland and Germany as well as from other income in Ireland, which can be highly variable from quarter to quarter. This increase was partially offset by lower surrender fees in the U.K.

For the six months ended June 30, 2017, fee and other income increased by \$42 million to \$661 million compared to the same period last year. The increase was primarily due to higher asset management fees in Ireland and Germany as well as from other income in Ireland, partially offset by the impact of currency movement and lower surrender fees in the U.K.

Fee and other income for second quarter of 2017 increased by \$23 million compared to the previous quarter, primarily due to the impact of currency movement and higher other income in Ireland, partially offset by lower 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 second quarter of 2017 increased by \$14 million to \$239 million compared to the same quarter last year, primarily due to higher contributions from investment experience and favourable mortality experience, partially offset by lower contributions from insurance contract liability basis changes and the impact of currency movement.

Net earnings for the six months ended June 30, 2017 increased by \$13 million to \$464 million compared to the same period last year, primarily due to a gain on the sale of the Company's Allianz Ireland holdings, higher contributions from investment experience, favourable mortality experience and the impact of higher new business volumes in U.K. payout annuities. This increase was partially offset by lower contributions from insurance contract liability basis changes and the impact of currency movement. In addition, net earnings in 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 second quarter of 2017 increased by \$14 million compared to the previous quarter. The increase was primarily due to higher contributions from investment experience, improved morbidity experience in the U.K., improved mortality experience in Ireland and the impact of currency movement. This increase was partially offset by the impact of lower new business volumes and a gain on the sale of the Company's Allianz Ireland holdings in the prior quarter.

**REINSURANCE**

**OPERATING RESULTS**

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
Premiums and deposits	\$ 3,020	\$ 3,877	\$ 2,038	\$ 6,897	\$ 4,205
Fee and other income	4	5	4	9	9
Net earnings	83	81	74	164	137

**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 second quarter of 2017 increased from \$2.0 billion to \$3.0 billion compared to the same quarter last year, primarily due to new and restructured reinsurance agreements and higher volumes relating to existing business.

For the six months ended June 30, 2017, premiums and deposits increased by \$2.7 billion to \$6.9 billion compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2017 decreased by \$0.9 billion compared to the previous quarter. The decrease was primarily due to restructured reinsurance agreements and lower volumes relating to existing business.

**Fee and other income**

Fee and other income for the second quarter of 2017 of \$4 million was comparable to the same period last year and to the previous quarter.

For the six months ended June 30, 2017, fee and other income of \$9 million was comparable to the same period last year.

**Net earnings**

Net earnings for the second quarter of 2017 increased by \$9 million to \$83 million compared to the same quarter last year. The increase was primarily due to improved mortality experience for the traditional life line of business and the impact of currency movement, partially offset by higher new business strain.

For the six months ended June 30, 2017, net earnings increased by \$27 million to \$164 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Net earnings for the second quarter of 2017 increased by \$2 million compared to the previous quarter. The increase was primarily due to higher contributions from insurance contract liability basis changes, partially offset by higher new business strain for the traditional life line of business and less favourable mortality experience in the payout annuity line of business.

**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 second quarter of 2017, Europe Corporate had a net loss of \$1 million compared to a net loss of \$6 million for the same quarter last year, primarily due to higher earnings for the legacy international businesses. Second quarter 2017 results included restructuring costs of \$1 million related to the Irish Life retail business.

For the six months ended June 30, 2017, Europe Corporate had a net loss of \$18 million compared to a net loss of \$8 million for the same period last year, primarily due to higher restructuring costs, partially offset by higher earnings for the legacy international businesses. Included in the year-to-date results were \$18 million of restructuring costs related to Irish Life Health and the Irish Life business strategy to support business growth in the retail division, compared to \$2 million, primarily related to the integration of Legal & General International (Ireland) Limited, for the same period last year.

For the three months ended June 30, 2017, Europe Corporate had a net loss of \$1 million compared to a net loss of \$17 million for the previous quarter, primarily due to lower restructuring costs.

**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 June 30, 2017, Lifeco Corporate had a net loss of \$3 million compared to \$2 million for the same period in 2016, primarily due to higher income taxes partially offset by lower operating expenses. Included in results for the second quarter of 2016 was the positive impact of changes to certain income tax estimates.

For the six months ended June 30, 2017, Lifeco Corporate had a net loss of \$12 million, an increase from a net loss of \$8 million for the same period last year, primarily due to higher income taxes discussed for the in-quarter results and higher operating expenses.

The net loss for the three months ended June 30, 2017 decreased from \$9 million in the previous quarter to \$3 million in the current quarter, primarily due to higher net investment income and lower operating expenses.

## 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 second 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 Interests 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 May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. The new standard is effective for annual periods beginning on or after January 1, 2021. The Company is evaluating the impact of the adoption of this standard and expects it to have a significant impact on insurers.

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Company is evaluating the impact of the adoption of this interpretation.

There have been no other significant changes to the future accounting policies that could impact the Company, as disclosed in the December 31, 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 during the six month period ended June 30, 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	<b>Total revenue<sup>(1)</sup></b>	<b>\$ 11,048</b>	\$ 12,874	\$ 7,814	\$ 13,408	\$ 12,807	\$ 12,352	\$ 8,321
<b>Common shareholders</b>								
<b>Net earnings</b>								
Total	\$ 585	\$ 591	\$ 676	\$ 674	\$ 671	\$ 620	\$ 683	\$ 720
Basic - per share	0.591	0.598	0.686	0.682	0.675	0.625	0.688	0.724
Diluted - per share	0.590	0.597	0.685	0.681	0.674	0.623	0.686	0.722
<b>Adjusted net earnings<sup>(2)</sup></b>								
Total	\$ 712	\$ 619	\$ 696	\$ 687	\$ 671	\$ 620	\$ 683	\$ 720
Basic - per share	0.719	0.627	0.707	0.695	0.675	0.625	0.688	0.724
Diluted - per share	0.718	0.625	0.706	0.694	0.674	0.623	0.686	0.722

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

<sup>(2)</sup> The second quarter of 2017 included restructuring costs of \$127 million relating to the Canada segment and Insurance & Annuities business unit. 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 the U.S. Asset Management business unit. The third quarter of 2016 included restructuring costs of \$13 million related to the Insurance & Annuities business unit.

Lifeco's consolidated net earnings attributable to common shareholders were \$585 million for the second quarter of 2017 compared to \$671 million reported a year ago. On a per share basis, this represents \$0.591 per common share (\$0.590 diluted) for the second quarter of 2017 compared to \$0.675 per common share (\$0.674 diluted) a year ago.

Total revenue for the second quarter of 2017 was \$11,048 million and comprises premium income of \$7,772 million, regular net investment income of \$1,591 million, a positive change in fair value through profit or loss on investment assets of \$304 million and fee and other income of \$1,381 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 Period ended	June 30 2017	Mar. 31 2017	Dec. 31 2016	Sept. 30 2016	June 30 2016	Mar. 31 2016
<b>United States dollar</b>						
Balance sheet	\$ 1.30	\$ 1.33	\$ 1.34	\$ 1.31	\$ 1.30	\$ 1.30
Income and expenses	\$ 1.34	\$ 1.32	\$ 1.33	\$ 1.31	\$ 1.29	\$ 1.37
<b>British pound</b>						
Balance sheet	\$ 1.69	\$ 1.67	\$ 1.66	\$ 1.71	\$ 1.72	\$ 1.87
Income and expenses	\$ 1.72	\$ 1.64	\$ 1.66	\$ 1.71	\$ 1.85	\$ 1.96
<b>Euro</b>						
Balance sheet	\$ 1.48	\$ 1.42	\$ 1.42	\$ 1.47	\$ 1.44	\$ 1.48
Income and expenses	\$ 1.48	\$ 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](http://www.sedar.com).

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

	For the three months ended			For the six months ended	
	June 30 2017	March 31 2017	June 30 2016	June 30 2017	June 30 2016
<b>Income</b>					
Premium income					
Gross premiums written	\$ 8,792	\$ 10,484	\$ 7,834	\$ 19,276	\$ 15,760
Ceded premiums	(1,020)	(1,119)	(963)	(2,139)	(1,874)
Total net premiums	<u>7,772</u>	<u>9,365</u>	<u>6,871</u>	<u>17,137</u>	<u>13,886</u>
Net investment income (note 4)					
Regular net investment income	1,591	1,469	1,576	3,060	3,249
Changes in fair value through profit or loss	304	735	3,129	1,039	5,539
Total net investment income	<u>1,895</u>	<u>2,204</u>	<u>4,705</u>	<u>4,099</u>	<u>8,788</u>
Fee and other income	1,381	1,305	1,231	2,686	2,485
	<u>11,048</u>	<u>12,874</u>	<u>12,807</u>	<u>23,922</u>	<u>25,159</u>
<b>Benefits and expenses</b>					
Policyholder benefits					
Gross	7,415	8,595	6,143	16,010	12,785
Ceded	(500)	(610)	(501)	(1,110)	(973)
Total net policyholder benefits	<u>6,915</u>	<u>7,985</u>	<u>5,642</u>	<u>14,900</u>	<u>11,812</u>
Policyholder dividends and experience refunds	462	558	381	1,020	750
Changes in insurance and investment contract liabilities	850	1,319	4,012	2,169	7,151
Total paid or credited to policyholders	<u>8,227</u>	<u>9,862</u>	<u>10,035</u>	<u>18,089</u>	<u>19,713</u>
Commissions	549	753	599	1,302	1,165
Operating and administrative expenses	1,185	1,233	1,161	2,418	2,369
Premium taxes	107	123	98	230	190
Financing charges (note 9)	79	76	75	155	153
Amortization of finite life intangible assets	47	45	44	92	90
Restructuring expenses (note 15)	216	37	5	253	9
<b>Earnings before income taxes</b>	<u>638</u>	<u>745</u>	<u>790</u>	<u>1,383</u>	<u>1,470</u>
Income taxes (note 16)	51	96	76	147	100
<b>Net earnings before non-controlling interests</b>	<u>587</u>	<u>649</u>	<u>714</u>	<u>1,236</u>	<u>1,370</u>
Attributable to non-controlling interests	(28)	27	13	(1)	18
<b>Net earnings</b>	<u>615</u>	<u>622</u>	<u>701</u>	<u>1,237</u>	<u>1,352</u>
Preferred share dividends	30	31	30	61	61
<b>Net earnings - common shareholders</b>	<u>\$ 585</u>	<u>\$ 591</u>	<u>\$ 671</u>	<u>\$ 1,176</u>	<u>\$ 1,291</u>
<b>Earnings per common share (note 12)</b>					
Basic	<u>\$ 0.591</u>	<u>\$ 0.598</u>	<u>\$ 0.675</u>	<u>\$ 1.189</u>	<u>\$ 1.300</u>
Diluted	<u>\$ 0.590</u>	<u>\$ 0.597</u>	<u>\$ 0.674</u>	<u>\$ 1.187</u>	<u>\$ 1.298</u>

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

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2017	2017	2016	2017	2016
<b>Net earnings</b>	<b>\$ 615</b>	<b>\$ 622</b>	<b>\$ 701</b>	<b>\$ 1,237</b>	<b>\$ 1,352</b>
<b>Other comprehensive income (loss)</b>					
<b>Items that may be reclassified subsequently to Consolidated Statements of Earnings</b>					
Unrealized foreign exchange gains (losses) on translation of foreign operations	(365)	(22)	(508)	(387)	(1,492)
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	(60)	—	20	(60)	30
Income tax (expense) benefit	8	—	(3)	8	(4)
Unrealized gains (losses) on available-for-sale assets	(41)	30	125	(11)	246
Income tax (expense) benefit	5	(6)	(22)	(1)	(46)
Realized (gains) losses on available-for-sale assets	(12)	(8)	(18)	(20)	(49)
Income tax expense (benefit)	2	2	3	4	7
Unrealized gains (losses) on cash flow hedges	(28)	24	(20)	(4)	75
Income tax (expense) benefit	10	(9)	7	1	(29)
Realized (gains) losses on cash flow hedges	411	—	—	411	1
Income tax expense (benefit)	(162)	—	—	(162)	—
Non-controlling interests	28	(6)	(21)	22	(15)
Income tax (expense) benefit	(6)	2	5	(4)	8
<b>Total items that may be reclassified</b>	<b>(210)</b>	<b>7</b>	<b>(432)</b>	<b>(203)</b>	<b>(1,268)</b>
<b>Items that will not be reclassified to Consolidated Statements of Earnings</b>					
Re-measurements on defined benefit pension and other post-employment benefit plans (note 14)	(96)	(17)	(220)	(113)	(462)
Income tax (expense) benefit	31	(9)	57	22	119
Non-controlling interests	11	6	14	17	33
Income tax (expense) benefit	(2)	(2)	(3)	(4)	(8)
<b>Total items that will not be reclassified</b>	<b>(56)</b>	<b>(22)</b>	<b>(152)</b>	<b>(78)</b>	<b>(318)</b>
<b>Total other comprehensive income (loss)</b>	<b>(266)</b>	<b>(15)</b>	<b>(584)</b>	<b>(281)</b>	<b>(1,586)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 349</b>	<b>\$ 607</b>	<b>\$ 117</b>	<b>\$ 956</b>	<b>\$ (234)</b>

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

	June 30 2017	December 31 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 3,398	\$ 3,259
Bonds (note 4)	118,215	116,773
Mortgage loans (note 4)	22,301	21,651
Stocks (note 4)	8,435	8,665
Investment properties (note 4)	4,708	4,340
Loans to policyholders	8,394	8,467
	<u>165,451</u>	<u>163,155</u>
Funds held by ceding insurers	10,317	10,781
Goodwill	5,992	5,977
Intangible assets	3,900	3,972
Derivative financial instruments	463	528
Owner occupied properties	653	649
Fixed assets	293	304
Other assets	2,359	2,263
Premiums in course of collection, accounts and interest receivable	4,550	4,311
Reinsurance assets (note 7)	5,416	5,627
Current income taxes	168	97
Deferred tax assets	1,675	1,845
Investments on account of segregated fund policyholders (note 8)	208,536	200,403
<b>Total assets</b>	<u>\$ 409,773</u>	<u>\$ 399,912</u>
<b>Liabilities</b>		
Insurance contract liabilities (note 7)	\$ 157,797	\$ 155,940
Investment contract liabilities (note 7)	1,953	2,009
Debentures and other debt instruments	5,531	5,980
Capital trust securities	160	161
Funds held under reinsurance contracts	336	320
Derivative financial instruments	1,519	2,012
Accounts payable	2,443	2,049
Other liabilities	3,924	3,836
Current income taxes	603	549
Deferred tax liabilities	1,543	1,645
Investment and insurance contracts on account of segregated fund policyholders (note 8)	208,536	200,403
<b>Total liabilities</b>	<u>384,345</u>	<u>374,904</u>
<b>Equity</b>		
Non-controlling interests		
Participating account surplus in subsidiaries	2,753	2,782
Non-controlling interests in subsidiaries	212	224
Shareholders' equity		
Share capital (note 11)		
Preferred shares	2,714	2,514
Common shares	7,261	7,130
Accumulated surplus	11,889	11,465
Accumulated other comprehensive income	478	746
Contributed surplus	121	147
<b>Total equity</b>	<u>25,428</u>	<u>25,008</u>
<b>Total liabilities and equity</b>	<u>\$ 409,773</u>	<u>\$ 399,912</u>

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

	June 30, 2017					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
<b>Balance, beginning of year</b>	\$ 9,644	\$ 147	\$ 11,465	\$ 746	\$ 3,006	\$ 25,008
Net earnings	—	—	1,237	—	(1)	1,236
Other comprehensive income (loss)	—	—	—	(281)	(31)	(312)
	<b>9,644</b>	<b>147</b>	<b>12,702</b>	<b>465</b>	<b>2,974</b>	<b>25,932</b>
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(61)	—	—	(61)
Common shareholders	—	—	(726)	—	—	(726)
Shares exercised and issued under share-based payment plans (note 11)	133	(58)	—	—	45	120
Share-based payment plans expense	—	32	—	—	—	32
Equity settlement of Putnam share-based plans	—	—	—	—	(52)	(52)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(12)	—	—	—	—	(12)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	10	—	(10)	—	—	—
Issuance of preferred shares (note 11)	200	—	—	—	—	200
Preferred share issue costs (note 11)	—	—	(5)	—	—	(5)
Dilution gain on non-controlling interests	—	—	2	—	(2)	—
Disposal of investment in associate (note 4)	—	—	(13)	13	—	—
<b>Balance, end of period</b>	<b>\$ 9,975</b>	<b>\$ 121</b>	<b>\$ 11,889</b>	<b>\$ 478</b>	<b>\$ 2,965</b>	<b>\$ 25,428</b>
	June 30, 2016					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,670	\$ 135	\$ 10,416	\$ 2,218	\$ 2,821	\$ 25,260
Net earnings	—	—	1,352	—	18	1,370
Other comprehensive income (loss)	—	—	—	(1,586)	(18)	(1,604)
	<b>9,670</b>	<b>135</b>	<b>11,768</b>	<b>632</b>	<b>2,821</b>	<b>25,026</b>
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(61)	—	—	(61)
Common shareholders	—	—	(687)	—	—	(687)
Shares exercised and issued under share-based payment plans (note 11)	20	(45)	—	—	49	24
Share-based payment plans expense	—	35	—	—	—	35
Equity settlement of Putnam share-based plans	—	—	—	—	(39)	(39)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(97)	—	—	—	—	(97)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	77	—	(77)	—	—	—
Dilution loss on non-controlling interests	—	—	(2)	—	2	—
<b>Balance, end of period</b>	<b>\$ 9,670</b>	<b>\$ 125</b>	<b>\$ 10,941</b>	<b>\$ 632</b>	<b>\$ 2,833</b>	<b>\$ 24,201</b>

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

	For the six months ended June 30	
	2017	2016
<b>Operations</b>		
Earnings before income taxes	\$ 1,383	\$ 1,470
Income taxes paid, net of refunds received	(249)	(142)
Adjustments:		
Change in insurance and investment contract liabilities	2,149	7,175
Change in funds held by ceding insurers	431	295
Change in funds held under reinsurance contracts	10	5
Change in reinsurance assets	387	(52)
Changes in fair value through profit or loss	(1,039)	(5,539)
Other	(303)	(69)
	2,769	3,143
<b>Financing Activities</b>		
Issue of common shares (note 11)	118	20
Issue of preferred shares (note 11)	200	—
Share issue costs (note 11)	(5)	—
Purchased and cancelled common shares (note 11)	(12)	(97)
Issue of senior unsecured notes (note 10)	925	—
Repayment of subordinate debentures (note 10)	(1,284)	—
Decrease in line of credit of subsidiary	(54)	(93)
Increase (decrease) in debentures and other debt instruments	(37)	9
Dividends paid on common shares	(726)	(687)
Dividends paid on preferred shares	(61)	(61)
	(936)	(909)
<b>Investment Activities</b>		
Bond sales and maturities	14,143	16,876
Mortgage loan repayments	1,243	1,292
Stock sales	1,180	1,632
Investment property sales	16	373
Change in loans to policyholders	(103)	(63)
Investment in bonds	(15,050)	(18,026)
Investment in mortgage loans	(2,010)	(1,886)
Investment in stocks	(846)	(1,888)
Investment in investment properties	(262)	(84)
	(1,689)	(1,774)
Effect of changes in exchange rates on cash and cash equivalents	(5)	(205)
<b>Increase in cash and cash equivalents</b>	<b>139</b>	<b>255</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,259</b>	<b>2,813</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,398</b>	<b>\$ 3,068</b>
<b>Supplementary cash flow information</b>		
Interest income received	\$ 2,610	\$ 2,756
Interest paid	156	157
Dividend income received	118	129

**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 and six months ended June 30, 2017 were approved by the Board of Directors on August 2, 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 June 30, 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 Interests 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.

Future Accounting Policies

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4 *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. The new standard is effective for annual periods beginning on or after January 1, 2021. The Company is evaluating the impact of the adoption of this standard and expects it to have a significant impact on insurers.

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Company is evaluating the impact of the adoption of this interpretation.

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

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2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

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. Business Acquisition**

On May 19, 2017, the Company, through its wholly-owned subsidiary Great-West Life, entered into an agreement to purchase Financial Horizons Group, a Canadian Managing General Agency that offers access to life/health insurance, employee benefits, pensions, investments, structured settlements, and risk management products and services to advisors throughout Canada. Regulatory approval has been received and the transaction was completed effective July 31, 2017. The revenue and net earnings from Financial Horizons Group will not be material to the financial statements.

**4. Portfolio Investments**

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

	June 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Bonds</b>				
Designated fair value through profit or loss <sup>(1)</sup>	\$ 86,192	\$ 86,192	\$ 85,739	\$ 85,739
Classified fair value through profit or loss <sup>(1)</sup>	1,986	1,986	2,586	2,586
Available-for-sale	12,801	12,801	11,478	11,478
Loans and receivables	17,236	19,032	16,970	18,484
	<b>118,215</b>	<b>120,011</b>	116,773	118,287
<b>Mortgage loans</b>				
Residential	8,577	8,843	8,062	8,260
Commercial	13,724	14,517	13,589	14,290
	<b>22,301</b>	<b>23,360</b>	21,651	22,550
<b>Stocks</b>				
Designated fair value through profit or loss <sup>(1)</sup>	7,577	7,577	7,606	7,606
Available-for-sale	46	46	48	48
Available-for-sale, at cost <sup>(2)</sup>	382	382	391	391
Equity method <sup>(3)</sup>	430	435	620	610
	<b>8,435</b>	<b>8,440</b>	8,665	8,655
<b>Investment properties</b>	<b>4,708</b>	<b>4,708</b>	4,340	4,340
<b>Total</b>	<b>\$ 153,659</b>	<b>\$ 156,519</b>	\$ 151,429	\$ 153,832

<sup>(1)</sup> 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.

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

<sup>(3)</sup> 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 14). These actuarial losses were transferred within equity from accumulated other comprehensive income to accumulated surplus.

4. Portfolio Investments (cont'd)

**(b) Included in portfolio investments are the following:**

Carrying amount of impaired investments

	June 30 2017	December 31 2016
Impaired amounts by classification		
Fair value through profit or loss	\$ 253	\$ 283
Available-for-sale	12	10
Loans and receivables	80	79
<b>Total</b>	<b>\$ 345</b>	<b>\$ 372</b>

The carrying amount of impaired investments includes \$288 bonds, \$53 mortgage loans and \$4 stocks at June 30, 2017 (\$315 bonds and \$57 mortgage loans at December 31, 2016). The above carrying values for loans and receivables are net of allowances of \$46 at June 30, 2017 and \$43 at December 31, 2016.

**(c) Net investment income comprises the following:**

For the three months ended June 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,117	\$ 228	\$ 69	\$ 75	\$ 118	\$ 1,607
Net realized gains						
Available-for-sale	12	—	—	—	—	12
Other classifications	2	12	—	—	—	14
Net allowances for credit losses on loans and receivables	6	—	—	—	—	6
Other income (expenses)	—	—	—	(20)	(28)	(48)
	1,137	240	69	55	90	1,591
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(8)	—	3	—	—	(5)
Designated fair value through profit or loss	353	—	(62)	—	(23)	268
Recorded at fair value through profit or loss	—	—	—	41	—	41
	345	—	(59)	41	(23)	304
<b>Total</b>	<b>\$ 1,482</b>	<b>\$ 240</b>	<b>\$ 10</b>	<b>\$ 96</b>	<b>\$ 67</b>	<b>\$ 1,895</b>

4. Portfolio Investments (cont'd)

For the three months ended June 30, 2016	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,074	\$ 230	\$ 62	\$ 89	\$ 138	\$ 1,593
Net realized gains (losses)						
Available-for-sale	19	—	(1)	—	—	18
Other classifications	4	26	—	—	—	30
Net allowances for credit losses on loans and receivables	—	(16)	—	—	—	(16)
Other income (expenses)	—	—	—	(22)	(27)	(49)
	1,097	240	61	67	111	1,576
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	24	—	—	—	—	24
Designated fair value through profit or loss	3,171	—	161	—	(165)	3,167
Recorded at fair value through profit or loss	—	—	—	(62)	—	(62)
	3,195	—	161	(62)	(165)	3,129
<b>Total</b>	<b>\$ 4,292</b>	<b>\$ 240</b>	<b>\$ 222</b>	<b>\$ 5</b>	<b>\$ (54)</b>	<b>\$ 4,705</b>

For the six months ended June 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,151	\$ 451	\$ 135	\$ 156	\$ 209	\$ 3,102
Net realized gains						
Available-for-sale	20	—	—	—	—	20
Other classifications	11	25	—	—	—	36
Net allowances for credit losses on loans and receivables	6	(4)	—	—	—	2
Other income (expenses)	—	—	—	(41)	(59)	(100)
	2,188	472	135	115	150	3,060
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	3	—	3	—	—	6
Designated fair value through profit or loss	882	—	96	—	(18)	960
Recorded at fair value through profit or loss	—	—	—	73	—	73
	885	—	99	73	(18)	1,039
<b>Total</b>	<b>\$ 3,073</b>	<b>\$ 472</b>	<b>\$ 234</b>	<b>\$ 188</b>	<b>\$ 132</b>	<b>\$ 4,099</b>

4. Portfolio Investments (cont'd)

For the six months ended June 30, 2016	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,168	\$ 467	\$ 141	\$ 172	\$ 321	\$ 3,269
Net realized gains						
Available-for-sale	49	—	—	—	—	49
Other classifications	15	35	—	—	—	50
Net allowances for credit losses on loans and receivables						
	—	(23)	—	—	—	(23)
Other income (expenses)						
	—	—	—	(42)	(54)	(96)
	2,232	479	141	130	267	3,249
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss						
	66	—	—	—	—	66
Designated fair value through profit or loss						
	5,425	—	313	—	(227)	5,511
Recorded at fair value through profit or loss						
	—	—	—	(38)	—	(38)
	5,491	—	313	(38)	(227)	5,539
<b>Total</b>	<b>\$ 7,723</b>	<b>\$ 479</b>	<b>\$ 454</b>	<b>\$ 92</b>	<b>\$ 40</b>	<b>\$ 8,788</b>

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.

5. 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.

5. 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.

5. 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:

- At June 30, 2017 and December 31, 2016, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At June 30, 2017 and December 31, 2016, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

5. 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:

	June 30, 2017		December 31, 2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in interest rates</b>				
Increase (decrease) in insurance and investment contract liabilities	\$ (205)	\$ 625	\$ (202)	\$ 677
Increase (decrease) in net earnings	\$ 150	\$ (452)	\$ 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. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	June 30, 2017		December 31, 2016	
	10% increase	10% decrease	10% increase	10% decrease
<b>Change in equity values</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (54)	\$ 100	\$ (51)	\$ 61
Increase (decrease) in net earnings	\$ 46	\$ (80)	\$ 43	\$ (50)

5. *Financial Instruments Risk Management (cont'd)*

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:

	June 30, 2017		December 31, 2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in best estimate return assumptions</b>				
Increase (decrease) in non-participating insurance contract liabilities	\$ (530)	\$ 579	\$ (504)	\$ 552
Increase (decrease) in net earnings	\$ 428	\$ (460)	\$ 407	\$ (438)

6. **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.

6. 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:

<b>Assets measured at fair value</b>	<b>June 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 3,398	\$ —	\$ —	\$ 3,398
Financial assets at fair value through profit or loss				
Bonds	—	88,117	61	88,178
Stocks	7,428	2	147	7,577
Total financial assets at fair value through profit or loss	7,428	88,119	208	95,755
Available-for-sale financial assets				
Bonds	—	12,801	—	12,801
Stocks	45	—	1	46
Total available-for-sale financial assets	45	12,801	1	12,847
Investment properties	—	—	4,708	4,708
Funds held by ceding insurers	127	8,084	—	8,211
Derivatives <sup>(1)</sup>	3	460	—	463
Other assets:				
Trading account assets	396	160	—	556
Other <sup>(2)</sup>	101	—	—	101
<b>Total assets measured at fair value</b>	<b>\$ 11,498</b>	<b>\$ 109,624</b>	<b>\$ 4,917</b>	<b>\$ 126,039</b>
<b>Liabilities measured at fair value</b>				
Derivatives <sup>(3)</sup>	\$ —	\$ 1,519	\$ —	\$ 1,519
Investment contract liabilities	—	1,931	22	1,953
Other liabilities	101	—	—	101
<b>Total liabilities measured at fair value</b>	<b>\$ 101</b>	<b>\$ 3,450</b>	<b>\$ 22</b>	<b>\$ 3,573</b>

<sup>(1)</sup> Excludes collateral received from counterparties of \$132.

<sup>(2)</sup> Includes cash collateral under securities lending agreements.

<sup>(3)</sup> Excludes collateral pledged to counterparties of \$396.

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

6. 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 <sup>(1)</sup>	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 <sup>(2)</sup>	\$ 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>

<sup>(1)</sup> Excludes collateral received from counterparties of \$149.

<sup>(2)</sup> 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.

6. 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:

June 30, 2017								
	Fair value through profit or loss bonds	Available- for-sale bonds	Fair value through profit or loss stocks <sup>(3)</sup>	Available- for-sale stocks	Investment properties	Other assets- trading account <sup>(4)</sup>	Total Level 3 assets	Investment contract liabilities
<b>Balance, beginning of year</b>	\$ 1	\$ —	\$ 80	\$ 1	\$ 4,340	\$ 1	\$ 4,423	\$ 20
Total gains (losses)								
Included in net earnings	(1)	—	4	—	73	—	76	—
Included in other comprehensive income (loss) <sup>(1)</sup>	3	—	(1)	—	49	—	51	—
Purchases	—	—	69	—	262	—	331	—
Sales	—	—	(9)	—	(16)	(1)	(26)	—
Other	—	—	—	—	—	—	—	2
Transfers into Level 3 <sup>(2)</sup>	59	—	4	—	—	—	63	—
Transfers out of Level 3 <sup>(2)</sup>	(1)	—	—	—	—	—	(1)	—
<b>Balance, end of period</b>	<b>\$ 61</b>	<b>\$ —</b>	<b>\$ 147</b>	<b>\$ 1</b>	<b>\$ 4,708</b>	<b>\$ —</b>	<b>\$ 4,917</b>	<b>\$ 22</b>
<b>Total gains (losses) for the period included in net investment income</b>	<b>\$ (1)</b>	<b>\$ —</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 73</b>	<b>\$ —</b>	<b>\$ 76</b>	<b>\$ —</b>
<b>Change in unrealized gains (losses) for the period included in net earnings for assets held at June 30, 2017</b>	<b>\$ (1)</b>	<b>\$ —</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ 70</b>	<b>\$ —</b>	<b>\$ 73</b>	<b>\$ —</b>

- (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.

6. 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 <sup>(3)</sup>	Available- for-sale stocks	Investment properties	Other assets - trading account <sup>(4)</sup>	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) <sup>(1)</sup>	—	—	—	—	(633)	—	(633)	—
Purchases	—	—	50	—	102	—	152	—
Sales	—	—	(38)	—	(427)	(5)	(470)	—
Other	—	—	—	—	—	—	—	(7)
Transfers into Level 3 <sup>(2)</sup>	—	—	—	—	—	1	1	—
Transfers out of Level 3 <sup>(2)</sup>	(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.

6. 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 2.8% - 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% - 7.5%	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.

7. Insurance and Investment Contract Liabilities

	June 30, 2017		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 157,797	\$ 5,416	\$ 152,381
Investment contract liabilities	1,953	—	1,953
<b>Total</b>	<b>\$ 159,750</b>	<b>\$ 5,416</b>	<b>\$ 154,334</b>

	December 31, 2016		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 155,940	\$ 5,627	\$ 150,313
Investment contract liabilities	2,009	—	2,009
<b>Total</b>	<b>\$ 157,949</b>	<b>\$ 5,627</b>	<b>\$ 152,322</b>

## 8. 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

	June 30 2017	December 31 2016
Cash and cash equivalents	\$ 14,076	\$ 12,487
Bonds	42,827	41,619
Mortgage loans	2,684	2,622
Stocks and units in unit trusts	85,573	81,033
Mutual funds	53,027	51,726
Investment properties	11,573	11,019
	<u>209,760</u>	<u>200,506</u>
Accrued income	387	359
Other liabilities	(2,481)	(2,009)
Non-controlling mutual funds interest	870	1,547
<b>Total</b>	<u><u>\$ 208,536</u></u>	<u><u>\$ 200,403</u></u>

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

	For the six months ended June 30	
	2017	2016
<b>Balance, beginning of year</b>	\$ 200,403	\$ 198,194
Additions (deductions):		
Policyholder deposits	12,244	10,998
Net investment income	759	989
Net realized capital gains on investments	2,909	1,544
Net unrealized capital gains on investments	2,232	1,165
Unrealized gains (losses) due to changes in foreign exchange rates	2,063	(9,748)
Policyholder withdrawals	(11,344)	(10,439)
Change in Segregated Fund investment in General Fund	(98)	18
Change in General Fund investment in Segregated Fund	(6)	(5)
Net transfer from General Fund	51	13
Non-controlling mutual funds interest	(677)	(4)
<b>Total</b>	<u>8,133</u>	<u>(5,469)</u>
<b>Balance, end of period</b>	<u><u>\$ 208,536</u></u>	<u><u>\$ 192,725</u></u>

8. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 6)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
<b>Investments on account of segregated fund policyholders</b> <sup>(1)</sup>	<b>\$ 131,331</b>	<b>\$ 66,178</b>	<b>\$ 12,720</b>	<b>\$ 210,229</b>

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$1,693.

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

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$1,275.

During the first six months of 2017 certain foreign stock holdings valued at \$2,595 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:

	June 30 2017	December 31 2016
<b>Balance, beginning of year</b>	<b>\$ 12,045</b>	<b>\$ 11,765</b>
Total gains (losses) included in segregated fund investment income	275	(109)
Purchases	510	584
Sales	(175)	(370)
Transfers into Level 3	78	175
Transfers out of Level 3	(13)	—
<b>Balance, end of period</b>	<b>\$ 12,720</b>	<b>\$ 12,045</b>

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.

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 June 30, 2017 and the "Risk Management and Control Practices" section of the Company's December 31, 2016 Management's Discussion and Analysis.

## 9. Financing Charges

Financing charges consist of the following:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
<b>Operating charges</b>				
Interest on operating lines and short-term debt instruments	\$ 2	\$ 2	\$ 4	\$ 4
<b>Financial charges</b>				
Interest on long-term debentures and other debt instruments	68	64	132	130
Interest on capital trust securities	2	2	5	5
Other	7	7	14	14
	<u>77</u>	<u>73</u>	<u>151</u>	<u>149</u>
<b>Total</b>	<u>\$ 79</u>	<u>\$ 75</u>	<u>\$ 155</u>	<u>\$ 153</u>

## 10. Debentures and Other Debt Instruments

During the first quarter of 2017, Irish Life Assurance, an indirect wholly owned subsidiary of the Company, redeemed its 5.25% \$284 (200 euro) subordinated debenture notes at their principal amount together with accrued interest.

On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued \$925 (U.S. \$700) principal amount 4.150% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing on June 3, 2047.

On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all \$1,000 principal amount of its 5.691% subordinated debentures at a redemption price equal to 100% of the principal amount of the debentures, plus accrued interest up to but excluding the redemption date. The debentures were hedged using a cross-currency swap designated as a cash flow hedge. Upon redemption of the debentures, the gains on the debentures realized and the losses realized on the hedging instrument were recorded in the Consolidated Statements of Earnings with no impact on net earnings. The deferred income taxes related to this cash flow hedge resulted in a reduction to Other Comprehensive Income of \$97 that had not previously been recorded.

## 11. Share Capital

### (a) Common Shares

	For the six months ended June 30			
	2017		2016	
	Number	Carrying value	Number	Carrying value
<b>Common shares</b>				
<b>Balance, beginning of year</b>	<b>986,398,335</b>	<b>\$ 7,130</b>	993,350,331	\$ 7,156
Purchased and cancelled under Normal Course Issuer Bid	(341,683)	(12)	(2,831,181)	(97)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	10	—	77
Exercised and issued under stock option plan	3,840,404	133	639,234	20
<b>Balance, end of period</b>	<b>989,897,056</b>	<b>\$ 7,261</b>	991,158,384	\$ 7,156

During the six months ended June 30, 2017, 3,840,404 common shares were exercised under the Company's stock plan with a carrying value of \$133, including \$15 from contributed surplus transferred upon exercise (639,234 with a carrying value of \$20 during the six months ended June 30, 2016).

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 six months ended June 30, 2017, the Company repurchased and subsequently cancelled 341,683 common shares under the current normal course issuer bid at a cost of \$12 (2,831,181 during the six months ended June 30, 2016 under the previous normal course issuer bid at a cost of \$97). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value was \$10 and was recognized as a reduction to equity during the six months ended June 30, 2017 (\$77 during the six months ended June 30, 2016 under the previous normal course issuer bid).

### (b) Preferred Shares

On May 18, 2017 the Company issued 8,000,000 Series T, 5.15% Non-Cumulative First Preferred Shares at \$25.00 per share for gross proceeds of \$200. The shares are redeemable at the option of the Company on or after June 30, 2022 for \$25.00 per share plus a premium if redeemed prior to June 30, 2026, in each case together with all declared and unpaid dividends up to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of \$5 were charged to accumulated surplus.

12. Earnings per Common Share

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
<b>Earnings</b>				
Net earnings	\$ 615	\$ 701	\$ 1,237	\$ 1,352
Preferred share dividends	(30)	(30)	(61)	(61)
<b>Net earnings - common shareholders</b>	<b>\$ 585</b>	<b>\$ 671</b>	<b>\$ 1,176</b>	<b>\$ 1,291</b>
<b>Number of common shares</b>				
Average number of common shares outstanding	990,016,393	992,837,470	988,859,635	993,044,221
Add: Potential exercise of outstanding stock options	1,323,058	1,998,103	1,693,228	1,889,719
<b>Average number of common shares outstanding - diluted basis</b>	<b>991,339,451</b>	<b>994,835,573</b>	<b>990,552,863</b>	<b>994,933,940</b>
<b>Basic earnings per common share</b>	<b>\$ 0.591</b>	<b>\$ 0.675</b>	<b>\$ 1.189</b>	<b>\$ 1.300</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.590</b>	<b>\$ 0.674</b>	<b>\$ 1.187</b>	<b>\$ 1.298</b>
<b>Dividends per common share</b>	<b>\$ 0.3670</b>	<b>\$ 0.3460</b>	<b>\$ 0.7340</b>	<b>\$ 0.6920</b>

### 13. 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:

	June 30 2017	December 31 2016
<b>Adjusted Net Tier 1 Capital</b>	<b>\$ 13,532</b>	<b>\$ 13,071</b>
<b>Net Tier 2 Capital</b>	<b>2,794</b>	<b>2,798</b>
<b>Total Capital Available</b>	<b>\$ 16,326</b>	<b>\$ 15,869</b>
<b>Total Capital Required</b>	<b>\$ 6,845</b>	<b>\$ 6,618</b>
<b>Tier 1 Ratio</b>	<b>198%</b>	<b>198%</b>
<b>Total Ratio</b>	<b>239%</b>	<b>240%</b>

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

#### 14. 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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
Pension plans				
Service costs	\$ 56	\$ 53	\$ 107	\$ 105
Net interest cost	7	5	13	11
Curtailment	(2)	—	(2)	(13)
	61	58	118	103
Other post-employment benefits				
Service costs	—	—	1	1
Net interest cost	4	5	7	8
	4	5	8	9
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	65	63	126	112
Pension plans - re-measurements				
Actuarial loss	122	323	225	596
Return on assets greater than assumed	(30)	(121)	(113)	(127)
Administrative expenses less than assumed	(1)	(1)	(2)	(2)
Change in the asset ceiling	(4)	3	(16)	(23)
Actuarial loss (gain) - investment in associate <sup>(1)</sup>	—	1	1	(8)
Pension plans re-measurement loss	87	205	95	436
Other post-employment benefits - re-measurements				
Actuarial loss	9	15	18	26
Pension plans and other post-employment benefits re-measurements - other comprehensive loss	96	220	113	462
<b>Total pension plans and other post-employment benefits expense including re-measurements</b>	<b>\$ 161</b>	<b>\$ 283</b>	<b>\$ 239</b>	<b>\$ 574</b>

<sup>(1)</sup> 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 4).

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:

	June 30		March 31		December 31	
	2017	2016	2017	2016	2016	2015
Weighted average discount rate	3.2%	3.1%	3.3%	3.5%	3.4%	3.8%

## 15. Restructuring Expenses

### Canadian Business Transformation

In the second quarter of 2017, the Company recorded a restructuring provision for the Canadian operations transformation plan of \$215 pre-tax (\$172 pre-tax in the shareholder account and \$43 pre-tax in the participating accounts) with the charge recorded in restructuring expenses in the Consolidated Statements of Earnings. This restructuring is in respect of activities aimed at achieving planned expense reductions and an organizational realignment to respond to changing customer needs and expectations in Canada. The expense reductions address costs across the Canadian operations and corporate functions primarily through a reduction in staff, exiting of certain lease agreements and information system impairments. The restructuring charge in the participating accounts is comprised of \$29 in London Life, \$7 in Great-West Life and \$7 in Canada Life.

At June 30, 2017, the Company has a restructuring provision of \$178 recorded in other liabilities for this charge. The change in the restructuring provision for the Canadian Business Transformation is set out below:

<b>Balance, beginning of year</b>	<b>\$</b>	<b>—</b>
Restructuring charge		<b>215</b>
Amounts used		<b>(37)</b>
<b>Balance, end of period</b>	<b>\$</b>	<b>178</b>

**16. Income Taxes**

**(a) Income Tax Expense**

Income tax expense (recovery) consists of the following:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Current income taxes	\$ 134	\$ 119	\$ 238	\$ 173
Deferred income taxes	(83)	(43)	(91)	(73)
<b>Total income tax expense</b>	<b>\$ 51</b>	<b>\$ 76</b>	<b>\$ 147</b>	<b>\$ 100</b>

**(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 June 30, 2017 was 8.0% compared to 9.6% for the three months ended June 30, 2016. The overall effective income tax rate for Lifeco for the six months ended June 30, 2017 was 10.6% compared to 6.8% for the six months ended June 30, 2016.

The effective income tax rate for the three months ended June 30, 2017 is lower than the effective income tax rate for the same period last year due to a higher percentage of income consisting of non-taxable investment income and income subject to lower rates in foreign jurisdictions partially offset by changes in certain tax estimates.

The effective income tax rate for the six months ended June 30, 2017 is higher than the effective income tax rate for the six months ended June 30, 2016 primarily due to changes in certain tax estimates as well as elections with tax authorities during the first quarter of 2016.

**(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 \$1,357 at June 30, 2017 (\$1,389 at December 31, 2016).

**17. Segmented Information**

**Consolidated Net Earnings**

For the three months ended June 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
<b>Income</b>					
Total net premiums	\$ 3,189	\$ 942	\$ 3,641	\$ —	\$ 7,772
Net investment income					
Regular net investment income	642	451	496	2	1,591
Changes in fair value through profit or loss	282	274	(252)	—	304
Total net investment income	924	725	244	2	1,895
Fee and other income	399	636	346	—	1,381
	<u>4,512</u>	<u>2,303</u>	<u>4,231</u>	<u>2</u>	<u>11,048</u>
<b>Benefits and expenses</b>					
Paid or credited to policyholders	3,333	1,476	3,418	—	8,227
Other <sup>(1)</sup>	783	651	405	2	1,841
Financing charges	31	37	10	1	79
Amortization of finite life intangible assets	17	22	8	—	47
Restructuring expenses	215	—	1	—	216
<b>Earnings (loss) before income taxes</b>	<u>133</u>	<u>117</u>	<u>389</u>	<u>(1)</u>	<u>638</u>
Income taxes (recovery)	(22)	28	45	—	51
<b>Net earnings (loss) before non-controlling interests</b>	<u>155</u>	<u>89</u>	<u>344</u>	<u>(1)</u>	<u>587</u>
Non-controlling interests	(31)	3	—	—	(28)
<b>Net earnings (loss)</b>	<u>186</u>	<u>86</u>	<u>344</u>	<u>(1)</u>	<u>615</u>
Preferred share dividends	26	—	4	—	30
<b>Net earnings (loss) before capital allocation</b>	<u>160</u>	<u>86</u>	<u>340</u>	<u>(1)</u>	<u>585</u>
Impact of capital allocation	25	(4)	(19)	(2)	—
<b>Net earnings (loss) - common shareholders</b>	<u>\$ 185</u>	<u>\$ 82</u>	<u>\$ 321</u>	<u>\$ (3)</u>	<u>\$ 585</u>

<sup>(1)</sup> Includes commissions, operating and administrative expenses and premium taxes.

17. Segmented Information (cont'd)

For the three months ended June 30, 2016

	Canada	United States	Europe	Lifeco Corporate	Total
<b>Income</b>					
Total net premiums	\$ 2,896	\$ 1,267	\$ 2,708	\$ —	\$ 6,871
<b>Net investment income</b>					
Regular net investment income	665	420	487	4	1,576
Changes in fair value through profit or loss	940	526	1,663	—	3,129
Total net investment income	1,605	946	2,150	4	4,705
Fee and other income	369	555	307	—	1,231
	<u>4,870</u>	<u>2,768</u>	<u>5,165</u>	<u>4</u>	<u>12,807</u>
<b>Benefits and expenses</b>					
Paid or credited to policyholders	3,632	1,996	4,407	—	10,035
Other <sup>(1)</sup>	833	645	374	6	1,858
Financing charges	26	35	11	3	75
Amortization of finite life intangible assets	17	20	7	—	44
Restructuring expenses	—	4	1	—	5
Earnings (loss) before income taxes	362	68	365	(5)	790
Income taxes (recovery)	23	12	46	(5)	76
Net earnings (loss) before non-controlling interests	339	56	319	—	714
Non-controlling interests	11	1	1	—	13
Net earnings (loss)	328	55	318	—	701
Preferred share dividends	26	—	4	—	30
Net earnings (loss) before capital allocation	302	55	314	—	671
Impact of capital allocation	25	(2)	(21)	(2)	—
Net earnings (loss) - common shareholders	<u>\$ 327</u>	<u>\$ 53</u>	<u>\$ 293</u>	<u>\$ (2)</u>	<u>\$ 671</u>

<sup>(1)</sup> Includes commissions, operating and administrative expenses and premium taxes.

17. Segmented Information (cont'd)

For the six months ended June 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
<b>Income</b>					
Total net premiums	\$ 6,484	\$ 2,171	\$ 8,482	\$ —	\$ 17,137
Net investment income					
Regular net investment income	1,255	906	898	1	3,060
Changes in fair value through profit or loss	657	376	6	—	1,039
Total net investment income	1,912	1,282	904	1	4,099
Fee and other income	786	1,230	670	—	2,686
	<b>9,182</b>	<b>4,683</b>	<b>10,056</b>	<b>1</b>	<b>23,922</b>
<b>Benefits and expenses</b>					
Paid or credited to policyholders	6,578	3,028	8,483	—	18,089
Other <sup>(1)</sup>	1,811	1,337	791	11	3,950
Financing charges	61	71	22	1	155
Amortization of finite life intangible assets	34	43	15	—	92
Restructuring expenses	215	17	21	—	253
<b>Earnings (loss) before income taxes</b>	<b>483</b>	<b>187</b>	<b>724</b>	<b>(11)</b>	<b>1,383</b>
Income taxes (recovery)	43	39	68	(3)	147
<b>Net earnings (loss) before non-controlling interests</b>	<b>440</b>	<b>148</b>	<b>656</b>	<b>(8)</b>	<b>1,236</b>
Non-controlling interests	(2)	2	(1)	—	(1)
<b>Net earnings (loss)</b>	<b>442</b>	<b>146</b>	<b>657</b>	<b>(8)</b>	<b>1,237</b>
Preferred share dividends	52	—	9	—	61
<b>Net earnings (loss) before capital allocation</b>	<b>390</b>	<b>146</b>	<b>648</b>	<b>(8)</b>	<b>1,176</b>
Impact of capital allocation	50	(8)	(38)	(4)	—
<b>Net earnings (loss) - common shareholders</b>	<b>\$ 440</b>	<b>\$ 138</b>	<b>\$ 610</b>	<b>\$ (12)</b>	<b>\$ 1,176</b>

<sup>(1)</sup> Includes commissions, operating and administrative expenses and premium taxes.

17. Segmented Information (cont'd)

For the six months ended June 30, 2016

	Canada	United States	Europe	Lifeco Corporate	Total
<b>Income</b>					
Total net premiums	\$ 5,757	\$ 2,647	\$ 5,482	\$ —	\$ 13,886
<b>Net investment income</b>					
Regular net investment income	1,401	874	970	4	3,249
Changes in fair value through profit or loss	1,477	1,007	3,055	—	5,539
Total net investment income	2,878	1,881	4,025	4	8,788
Fee and other income	731	1,126	628	—	2,485
	<u>9,366</u>	<u>5,654</u>	<u>10,135</u>	<u>4</u>	<u>25,159</u>
<b>Benefits and expenses</b>					
Paid or credited to policyholders	6,933	4,108	8,672	—	19,713
Other <sup>(1)</sup>	1,650	1,331	733	10	3,724
Financing charges	55	72	23	3	153
Amortization of finite life intangible assets	33	42	15	—	90
Restructuring expenses	—	7	2	—	9
Earnings (loss) before income taxes	695	94	690	(9)	1,470
Income taxes (recovery)	74	(28)	59	(5)	100
Net earnings (loss) before non-controlling interests	621	122	631	(4)	1,370
Non-controlling interests	16	2	—	—	18
Net earnings (loss)	605	120	631	(4)	1,352
Preferred share dividends	52	—	9	—	61
Net earnings (loss) before capital allocation	553	120	622	(4)	1,291
Impact of capital allocation	50	(4)	(42)	(4)	—
Net earnings (loss) - common shareholders	<u>\$ 603</u>	<u>\$ 116</u>	<u>\$ 580</u>	<u>\$ (8)</u>	<u>\$ 1,291</u>

<sup>(1)</sup> Includes commissions, operating and administrative expenses and premium taxes.

# IGM Financial Inc.

PART D

## Management's Discussion and Analysis

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## Financial Statements and Notes

PAGE D 53

Please note that the bottom of each page in Part D contains two different page numbers. A page number with the prefix "D" 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

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three and six months ended June 30, 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 and the 2017 IGM Financial Inc. First Quarter Report to Shareholders filed on [www.sedar.com](http://www.sedar.com). Commentary in the MD&A as at and for the three and six months ended June 30, 2017 is as of August 3, 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](http://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 to 4.

# 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 \$142.9 billion at June 30, 2017 compared with \$128.8 billion at June 30, 2016. Average investment fund assets under management for the second quarter of 2017 were \$143.9 billion compared to \$127.9 billion in the second quarter of 2016. Average investment fund assets under management for the six months ended June 30, 2017 were \$141.8 billion compared to \$126.1 billion for the six months ended June 30, 2016.

Total assets under management were \$148.2 billion at June 30, 2017 compared with \$135.1 billion at June 30, 2016, as detailed in Tables 6 and 7. Average total assets under management

for the second quarter of 2017 were \$149.3 billion compared to \$134.0 billion in the second quarter of 2016. Average total assets under management for the six months ended June 30, 2017 were \$147.1 billion compared to \$132.4 billion for the six months ended June 30, 2016.

Net earnings available to common shareholders for the three months ended June 30, 2017 were \$200.8 million or 83 cents per share compared to net earnings available to common shareholders of \$172.9 million or 72 cents per share for the comparative period in 2016. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the three months ended June 30, 2017 were \$185.9 million or 77 cents per share.

Net earnings available to common shareholders for the six months ended June 30, 2017 were \$377.9 million or \$1.57 per share compared to net earnings available to common shareholders of

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
<b>Adjusted net earnings available to common shareholders – Non-IFRS measure</b>	<b>\$ 185.9</b>	<b>\$ 177.1</b>	<b>\$ 172.9</b>	<b>\$ 363.0</b>	<b>\$ 339.9</b>
Pension plan, net of tax	36.8	–	–	36.8	–
Restructuring and other, net of tax	(16.8)	–	–	(16.8)	–
Proportionate share of affiliate's provision	(5.1)	–	–	(5.1)	–
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 200.8</b>	<b>\$ 177.1</b>	<b>\$ 172.9</b>	<b>\$ 377.9</b>	<b>\$ 339.9</b>
<b>Adjusted net earnings per share<sup>(1)</sup> available to common shareholders – Non-IFRS measure</b>	<b>\$ 0.77</b>	<b>\$ 0.74</b>	<b>\$ 0.72</b>	<b>\$ 1.51</b>	<b>\$ 1.40</b>
Pension plan, net of tax	0.15	–	–	0.15	–
Restructuring and other, net of tax	(0.07)	–	–	(0.07)	–
Proportionate share of affiliate's provision	(0.02)	–	–	(0.02)	–
<b>Net earnings per share<sup>(1)</sup> available to common shareholders – IFRS</b>	<b>\$ 0.83</b>	<b>\$ 0.74</b>	<b>\$ 0.72</b>	<b>\$ 1.57</b>	<b>\$ 1.40</b>
<b>Adjusted EBITDA – Non-IFRS measure</b>	<b>\$ 345.3</b>	<b>\$ 324.6</b>	<b>\$ 316.0</b>	<b>\$ 669.9</b>	<b>\$ 620.2</b>
Pension plan	50.4	–	–	50.4	–
Restructuring and other	(23.0)	–	–	(23.0)	–
Proportionate share of affiliate's provision	(5.1)	–	–	(5.1)	–
<b>EBITDA – Non-IFRS measure</b>	<b>367.6</b>	<b>324.6</b>	<b>316.0</b>	<b>692.2</b>	<b>620.2</b>
Commission amortization	(57.4)	(58.9)	(59.0)	(116.3)	(118.8)
Amortization of capital assets and intangible assets and other	(15.5)	(12.2)	(11.5)	(27.7)	(22.5)
Interest expense on long-term debt	(28.7)	(26.8)	(22.9)	(55.5)	(45.8)
<b>Earnings before income taxes</b>	<b>266.0</b>	<b>226.7</b>	<b>222.6</b>	<b>492.7</b>	<b>433.1</b>
Income taxes	(63.0)	(47.4)	(47.5)	(110.4)	(88.8)
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(4.4)	(4.4)
<b>Net earnings available to common shareholders – IFRS</b>	<b>\$ 200.8</b>	<b>\$ 177.1</b>	<b>\$ 172.9</b>	<b>\$ 377.9</b>	<b>\$ 339.9</b>

(1) Diluted earnings per share

\$339.9 million or \$1.40 per share for the comparative period in 2016. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the six months ended June 30, 2017 were \$363.0 million or \$1.51 per share.

Other items for the three and six months ended June 30, 2017 consisted of:

- Favourable revaluation of the Company's registered pension plan obligation of \$50.4 million (\$36.8 million after-tax), reflecting a new policy introduced in the quarter which limits the possibility of certain benefit increases in the future.
- Restructuring and other charges including severance and termination costs largely associated with the reduction of our region office footprint in the quarter of \$23.0 million (\$16.8 million after-tax).
- An after-tax charge of \$5.1 million representing the Company's proportionate share in Great-West Lifeco Inc.'s restructuring provision.

Shareholders' equity was \$4.8 billion as at June 30, 2017 compared to \$4.7 billion at December 31, 2016. Return on average common equity based on adjusted net earnings for the six months ended June 30, 2017 was 15.6% compared with 15.1% for the comparative period in 2016. The quarterly dividend per common share declared in the second quarter of 2017 was 56.25 cents, unchanged from the first quarter of 2017.

## 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, 3, and 4. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2017 VS. Q2 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
<b>Revenues</b>								
Fee income	\$ 482.4	\$ 446.2	\$ 204.0	\$ 188.8	\$ 66.6	\$ 63.1	\$ 753.0	\$ 698.1
Net investment income and other	22.1	18.6	(1.9)	1.2	30.1	26.5	50.3	46.3
	<b>504.5</b>	<b>464.8</b>	<b>202.1</b>	<b>190.0</b>	<b>96.7</b>	<b>89.6</b>	<b>803.3</b>	<b>744.4</b>
<b>Expenses</b>								
Commission	162.9	152.2	75.5	72.2	46.0	42.8	284.4	267.2
Non-Commission	147.7	138.5	83.2	77.6	15.6	15.6	246.5	231.7
	<b>310.6</b>	<b>290.7</b>	<b>158.7</b>	<b>149.8</b>	<b>61.6</b>	<b>58.4</b>	<b>530.9</b>	<b>498.9</b>
<b>Earnings before interest and taxes</b>	<b>\$ 193.9</b>	<b>\$ 174.1</b>	<b>\$ 43.4</b>	<b>\$ 40.2</b>	<b>\$ 35.1</b>	<b>\$ 31.2</b>	<b>272.4</b>	<b>245.5</b>
Interest expense							(28.7)	(22.9)
Pension plan							50.4	-
Restructuring and other							(23.0)	-
Proportionate share of affiliate's provision							(5.1)	-
Earnings before income taxes							266.0	222.6
Income taxes							63.0	47.5
<b>Net earnings</b>							<b>203.0</b>	<b>175.1</b>
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							<b>\$ 200.8</b>	<b>\$ 172.9</b>
<b>Adjusted net earnings available to common shareholders<sup>(1)</sup></b>							<b>\$ 185.9</b>	<b>\$ 172.9</b>

(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 – YTD 2017 VS. YTD 2016

SIX MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
	JUN. 30	JUN. 30	JUN. 30	JUN. 30	JUN. 30	JUN. 30	JUN. 30	JUN. 30
<b>Revenues</b>								
Fee income	\$ 960.5	\$ 877.9	\$ 402.5	\$ 374.2	\$ 131.9	\$ 125.1	\$ 1,494.9	\$ 1,377.2
Net investment income and other	40.1	32.4	(1.8)	1.5	59.8	56.1	98.1	90.0
	<b>1,000.6</b>	<b>910.3</b>	<b>400.7</b>	<b>375.7</b>	<b>191.7</b>	<b>181.2</b>	<b>1,593.0</b>	<b>1,467.2</b>
<b>Expenses</b>								
Commission	332.5	299.6	150.1	143.9	91.1	85.2	573.7	528.7
Non-Commission	295.4	273.5	165.7	155.2	32.3	30.9	493.4	459.6
	<b>627.9</b>	<b>573.1</b>	<b>315.8</b>	<b>299.1</b>	<b>123.4</b>	<b>116.1</b>	<b>1,067.1</b>	<b>988.3</b>
<b>Earnings before interest and taxes</b>	<b>\$ 372.7</b>	<b>\$ 337.2</b>	<b>\$ 84.9</b>	<b>\$ 76.6</b>	<b>\$ 68.3</b>	<b>\$ 65.1</b>	<b>525.9</b>	<b>478.9</b>
Interest expense							(55.5)	(45.8)
Pension plan							50.4	–
Restructuring and other							(23.0)	–
Proportionate share of affiliate's provision							(5.1)	–
Earnings before income taxes							492.7	433.1
Income taxes							110.4	88.8
<b>Net earnings</b>							<b>382.3</b>	<b>344.3</b>
Perpetual preferred share dividends							4.4	4.4
<b>Net earnings available to common shareholders</b>							<b>\$ 377.9</b>	<b>\$ 339.9</b>
<b>Adjusted net earnings available to common shareholders<sup>(1)</sup></b>							<b>\$ 363.0</b>	<b>\$ 339.9</b>

(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: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2017 VS. Q1 2017

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2017	2017	2017	2017	2017	2017	2017	2017
	JUN. 30	MAR. 31	JUN. 30	MAR. 31	JUN. 30	MAR. 31	JUN. 30	MAR. 31
<b>Revenues</b>								
Fee income	\$ 482.4	\$ 478.1	\$ 204.0	\$ 198.5	\$ 66.6	\$ 65.3	\$ 753.0	\$ 741.9
Net investment income and other	22.1	18.0	(1.9)	0.1	30.1	29.7	50.3	47.8
	<b>504.5</b>	<b>496.1</b>	<b>202.1</b>	<b>198.6</b>	<b>96.7</b>	<b>95.0</b>	<b>803.3</b>	<b>789.7</b>
<b>Expenses</b>								
Commission	162.9	169.6	75.5	74.6	46.0	45.1	284.4	289.3
Non-Commission	147.7	147.7	83.2	82.5	15.6	16.7	246.5	246.9
	<b>310.6</b>	<b>317.3</b>	<b>158.7</b>	<b>157.1</b>	<b>61.6</b>	<b>61.8</b>	<b>530.9</b>	<b>536.2</b>
<b>Earnings before interest and taxes</b>	<b>\$ 193.9</b>	<b>\$ 178.8</b>	<b>\$ 43.4</b>	<b>\$ 41.5</b>	<b>\$ 35.1</b>	<b>\$ 33.2</b>	<b>272.4</b>	<b>253.5</b>
Interest expense							(28.7)	(26.8)
Pension plan							50.4	–
Restructuring and other							(23.0)	–
Proportionate share of affiliate's provision							(5.1)	–
Earnings before income taxes							266.0	226.7
Income taxes							63.0	47.4
<b>Net earnings</b>							<b>203.0</b>	<b>179.3</b>
Perpetual preferred share dividends							2.2	2.2
<b>Net earnings available to common shareholders</b>							<b>\$ 200.8</b>	<b>\$ 177.1</b>
<b>Adjusted net earnings available to common shareholders<sup>(1)</sup></b>							<b>\$ 185.9</b>	<b>\$ 177.1</b>

(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.

Certain items reflected in Tables 2, 3, and 4 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt.
- *Pension plan* – Change in policy relating to granting increases to certain pension benefits paid under the Company's registered pension plan, resulting in a one-time expense reduction of \$50.4 million (\$36.8 million after-tax). The Company, at its discretion, may from time to time increase the benefits paid to retired members of the plan. The Company has implemented a new policy that limits the possibility of future benefit increases.
- *Restructuring and other charges* – severance and termination costs largely associated with the reduction of our region office footprint in the quarter of \$23.0 million (\$16.8 million after tax).

- *Proportionate share of affiliate's provision* – represents the Company's proportionate share in Great-West Lifeco Inc.'s restructuring provision.
- *Income taxes* – changes in the effective tax rates are shown in Table 5.

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 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
<b>Income taxes at Canadian federal and provincial statutory rates</b>	<b>26.85 %</b>	26.84 %	26.85 %	<b>26.84 %</b>	26.84 %
Effect of:					
Proportionate share of affiliate's earnings	(2.51)	(3.33)	(2.89)	(2.89)	(3.21)
Loss consolidation <sup>(1)</sup>	(1.12)	(2.64)	(2.71)	(1.82)	(2.79)
Other items	(0.06)	0.03	0.07	(0.01)	(0.33)
<b>Effective income tax rate – adjusted net earnings</b>	<b>23.16</b>	20.90	21.32	<b>22.12</b>	20.51
Proportionate share of affiliate's provision	0.52	–	–	0.28	–
<b>Effective income tax rate – net earnings</b>	<b>23.68 %</b>	20.90 %	21.32 %	<b>22.40 %</b>	20.51 %

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

## SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$148.2 billion at June 30, 2017 compared to \$135.1 billion at June 30, 2016. Changes in total assets under management are detailed in Tables 6 and 7.

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 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q2 2017 VS. Q2 2016

THREE MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
<b>Investment funds</b>								
<b>Mutual funds<sup>(2)</sup></b>								
Gross sales – long-term	\$ 1,986	\$ 1,503	\$ 2,207	\$ 1,403	\$ 165	\$ 202	\$ 4,248	\$ 3,109
Total mutual fund gross sales	2,357	1,778	2,305	1,494	178	213	4,730	3,485
Net sales – long-term	243	(242)	533	(380)	(31)	26	641	(596)
Total mutual fund net sales	435	(168)	552	(375)	(22)	31	860	(511)
<b>ETFs</b>								
Net creations			\$ 389	\$ 44			\$ 389	\$ 44
<b>Total investment fund net sales<sup>(3)</sup></b>	<b>\$ 435</b>	<b>\$ (168)</b>	<b>\$ 730</b>	<b>\$ (331)</b>	<b>\$ (22)</b>	<b>\$ 31</b>	<b>\$ 1,038</b>	<b>\$ (467)</b>
<b>Sub-advisory, institutional and other accounts</b>								
Net sales <sup>(4)</sup>	\$ 4	\$ –	\$ 1,405	\$ 40	\$ –	\$ –	\$ (86)	\$ (34)
<b>Combined net sales</b>	<b>\$ 439</b>	<b>\$ (168)</b>	<b>\$ 2,135</b>	<b>\$ (291)</b>	<b>\$ (22)</b>	<b>\$ 31</b>	<b>\$ 952</b>	<b>\$ (501)</b>
<b>Change in total assets under management</b>								
Net sales	\$ 439	\$ (168)	\$ 2,135	\$ (291)	\$ (22)	\$ 31	\$ 952	\$ (501)
Investment returns	(9)	1,141	105	1,268	63	56	189	2,262
Net change in assets	430	973	2,240	977	41	87	1,141	1,761
Beginning assets	84,443	75,664	66,310	60,690	4,653	4,229	147,060	133,354
<b>Ending assets</b>	<b>\$ 84,873</b>	<b>\$ 76,637</b>	<b>\$ 68,550</b>	<b>\$ 61,667</b>	<b>\$ 4,694</b>	<b>\$ 4,316</b>	<b>\$ 148,201</b>	<b>\$ 135,115</b>
<b>Total assets under management consists of:</b>								
<b>Investment funds</b>								
Mutual funds	\$ 84,306	\$ 76,203	\$ 53,622	\$ 48,210	\$ 4,694	\$ 4,316	\$ 142,515	\$ 128,726
ETFs	–	–	622	45	–	–	622	45
Total investment funds <sup>(5)</sup>	84,306	76,203	53,962	48,255	4,694	4,316	142,855	128,771
<b>Sub-advisory, institutional and other accounts</b>	<b>567</b>	<b>434</b>	<b>14,588</b>	<b>13,412</b>	<b>–</b>	<b>–</b>	<b>5,346</b>	<b>6,344</b>
<b>Ending assets</b>	<b>\$ 84,873</b>	<b>\$ 76,637</b>	<b>\$ 68,550</b>	<b>\$ 61,667</b>	<b>\$ 4,694</b>	<b>\$ 4,316</b>	<b>\$ 148,201</b>	<b>\$ 135,115</b>

(1) Total Net Sales excluded \$1.6 billion in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$73 million in 2016).

Total assets under management excluded \$9.9 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.5 billion at June 30, 2016).

(2) During the second quarter of 2017, Investors Group mutual funds made fund allocation changes which resulted in Mackenzie mutual fund gross sales of \$108 million, redemptions of \$3 million and net sales of \$105 million.

(3) Mackenzie and Consolidated investment fund net sales exclude Mackenzie mutual fund investments in ETFs of \$211 million for the second quarter of 2017.

(4) During the second quarter of 2017, Mackenzie was awarded a \$1.4 billion sub-advisory mandate from Investors Group.

(5) Mackenzie and Consolidated investment fund assets under management exclude Mackenzie mutual fund investment in ETFs of \$282 million at June 30, 2017.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2017 VS. 2016

SIX MONTHS ENDED (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED <sup>(1)</sup>	
	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
<b>Investment funds</b>								
<b>Mutual funds<sup>(2)</sup></b>								
Gross sales – long-term	\$ 4,549	\$ 3,467	\$ 4,959	\$ 3,134	\$ 374	\$ 447	\$ 9,772	\$ 7,049
Total mutual fund gross sales	5,289	4,045	5,166	3,335	395	475	10,740	7,855
Net sales – long-term	962	113	583	(608)	(19)	91	1,421	(404)
Total mutual fund net sales	1,325	299	628	(573)	(5)	110	1,843	(163)
<b>ETFs</b>								
Net creations			\$ 503	\$ 44			\$ 503	\$ 44
<b>Total investment fund net sales<sup>(3)</sup></b>	\$ 1,325	\$ 299	\$ 869	\$ (529)	\$ (5)	\$ 110	\$ 2,084	\$ (120)
<b>Sub-advisory, institutional and other accounts</b>								
Net sales <sup>(4)</sup>	\$ 42	\$ –	\$ 1,694	\$ (149)	\$ –	\$ –	\$ 33	\$ (315)
<b>Combined net sales</b>	\$ 1,367	\$ 299	\$ 2,563	\$ (678)	\$ (5)	\$ 110	\$ 2,117	\$ (435)
<b>Change in total assets under management</b>								
Net sales	\$ 1,367	\$ 299	\$ 2,563	\$ (678)	\$ (5)	\$ 110	\$ 2,117	\$ (435)
Investment returns	1,813	965	1,952	692	198	28	3,803	1,426
Net change in assets	3,180	1,264	4,515	14	193	138	5,920	991
Beginning assets	81,693	75,373	64,035	61,653	4,501	4,178	142,281	134,124
<b>Ending assets</b>	\$ 84,873	\$ 76,637	\$ 68,550	\$ 61,667	\$ 4,694	\$ 4,316	\$ 148,201	\$ 135,115

(1) Total Net Sales excluded \$1.8 billion in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$166 million in 2016).

Total assets under management excluded \$9.9 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$7.5 billion at June 30, 2016).

(2) During the first six months of 2017, Investors Group and certain third party programs which include Mackenzie mutual funds made fund allocations changes which resulted in Mackenzie mutual fund gross sales of \$421 million, redemptions of \$621 million and net redemptions of \$200 million.

(3) Mackenzie and Consolidated investment fund net sales exclude Mackenzie mutual fund investment in ETFs of \$262 million at June 30, 2017.

(4) During the second quarter of 2017, Mackenzie was awarded a \$1.4 billion sub-advisory mandate from Investors Group.

## SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 8 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 8, largely reflect changes in domestic and foreign markets.

TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3
<b>Consolidated statements of earnings (\$ millions)</b>								
Revenues								
Management fees	\$ 547.0	\$ 527.7	\$ 525.7	\$ 518.3	\$ 497.4	\$ 483.8	\$ 504.1	\$ 508.5
Administration fees	111.2	109.0	109.0	107.9	104.4	100.3	104.7	104.6
Distribution fees	94.8	105.2	117.7	101.1	96.3	95.0	97.0	92.7
Net investment income and other	50.3	47.8	48.7	49.1	46.3	43.7	49.7	45.9
	<b>803.3</b>	<b>789.7</b>	<b>801.1</b>	<b>776.4</b>	<b>744.4</b>	<b>722.8</b>	<b>755.5</b>	<b>751.7</b>
Expenses								
Commission	284.4	289.3	288.2	273.1	267.2	261.5	264.3	263.2
Non-commission	246.5	246.9	231.1	224.9	231.7	227.9	214.5	208.4
Interest	28.7	26.8	23.2	23.2	22.9	22.9	23.2	23.2
	<b>559.6</b>	<b>563.0</b>	<b>542.5</b>	<b>521.2</b>	<b>521.8</b>	<b>512.3</b>	<b>502.0</b>	<b>494.8</b>
Earnings before undernoted Restructuring and other charges	243.7	226.7	258.6	255.2	222.6	210.5	253.5	256.9
Proportionate share of affiliate's provision	(5.1)	–	–	–	–	–	(33.9)	–
Earnings before income taxes	266.0	226.7	258.6	255.2	222.6	210.5	219.6	256.9
Income taxes	63.0	47.4	23.4	55.4	47.5	41.3	43.5	55.7
Net earnings	203.0	179.3	235.2	199.8	175.1	169.2	176.1	201.2
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	\$ 200.8	\$ 177.1	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0
<b>Reconciliation of Non-IFRS financial measures<sup>(1)</sup> (\$ millions)</b>								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 185.9	\$ 177.1	\$ 199.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 198.2	\$ 199.0
Other items:								
Pension plan, net of tax	36.8	–	–	–	–	–	–	–
Restructuring and other, net of tax	(16.8)	–	–	–	–	–	(24.3)	–
Proportionate share of affiliate's provision	(5.1)	–	–	–	–	–	–	–
Reduction in income tax estimates related to certain tax filings	–	–	34.0	–	–	–	–	–
Net earnings available to common shareholders – IFRS	\$ 200.8	\$ 177.1	\$ 233.0	\$ 197.6	\$ 172.9	\$ 167.0	\$ 173.9	\$ 199.0
<b>Earnings per Share (¢)</b>								
Adjusted net earnings available to common shareholders <sup>(1)</sup>								
– Basic	77	74	83	82	72	69	81	81
– Diluted	77	74	83	82	72	69	81	81
Net earnings available to common shareholders								
– Basic	83	74	97	82	72	69	71	81
– Diluted	83	74	97	82	72	69	71	81
<b>Average daily investment fund assets (\$ billions)</b>	\$ 143.9	\$ 139.6	\$ 134.8	\$ 132.2	\$ 127.9	\$ 124.4	\$ 127.8	\$ 128.6
<b>Total investment fund assets under management (\$ billions)</b>	\$ 142.9	\$ 141.7	\$ 137.2	\$ 133.7	\$ 128.8	\$ 127.1	\$ 127.5	\$ 124.9
<b>Total assets under management (\$ billions)</b>	\$ 148.2	\$ 147.1	\$ 142.3	\$ 140.3	\$ 135.1	\$ 133.4	\$ 134.1	\$ 131.4

(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

In the second quarter of 2017, Investors Group introduced its new strategic vision and established a number of strategic priorities to drive future business success.

Investors Group's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Our value proposition is to deliver better Gamma, better Beta and better Alpha:

- Gamma – the value of all efforts that sit outside of investment portfolio construction. This includes the value that a financial advisor adds to a client relationship, and comes from the creation and follow through of a well constructed financial plan.
- Beta – the value created by well constructed investment portfolios – achieving expected investment returns for the lowest possible risk.
- Alpha – the value of active management – achieving returns superior to passive benchmarks with a similar composition and risk profile.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing the most powerful, competitively priced, comprehensive suite of solutions.
- Business processes that are simple, easy and digitized – Redesigning client and advisor interactions to simplify processes, reduce errors, and digitize the experience.
- Enabled by a brand that is known and recognized, technology that is suited for purpose, effective corporate services, appropriate cost structure, and a winning culture.

### 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 region offices across Canada.

At June 30, 2017, Investors Group had a Consultant network of 4,530, down from 5,366 at June 30, 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:

- 2,229 Consultant practices at June 30, 2017 (2,361 at June 30, 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 approximately 95% of AUM.
- 1,298 New Consultants at June 30, 2017 (2,074 at June 30, 2016), which are those Consultants with less than four years of Investors Group experience.
- 1,003 Associates and regional directors at June 30, 2017 (931 at June 30, 2016). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the team's clientele.

Starting in the first quarter of 2017, Investors Group has managed the departure of Consultants who have not developed a successful practice. We also enhanced recruiting standards to achieve greater likelihood of success while also enhancing our culture and brand. This has resulted in us reducing the overall size of our region office footprint from 115 to 98 offices.

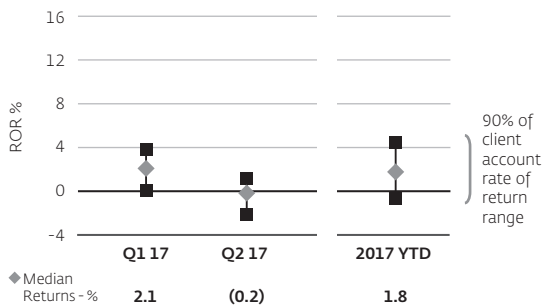
Over 55% of Consultant practices have professionals who are qualified as Certified Financial Planners (CFP) or its Quebec equivalent, Financial Planners (F.PI.) and approximately 95% of Consultant practices are qualified or enrolled to be qualified. At June 30, 2017, 1,564 individuals in our Consultant network held the CFP designation or the F.PI. designation. In addition, there were 2,366 individuals enrolled in these programs to gain these designations. The total of 3,930 of those studying to be or qualified as CFP or F.PI. is up 63% from 2,417 at June 30, 2016. The CFP and F.PI. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2016 that Investors Group has more CFP designation holders than any other organization in Canada.

### ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and

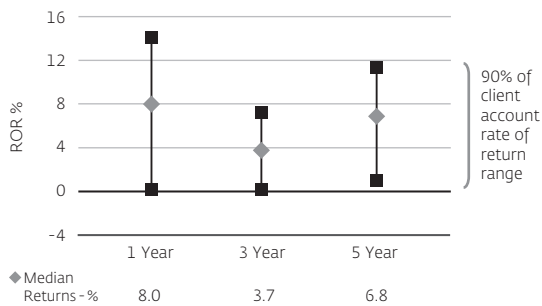
### Client Account Rate of Return (ROR) Experience

Quarterly and year to date returns



### Client Account Rate of Return (ROR) Experience

As at June 30, 2017



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 1,000 Consultants throughout Quebec. Mutual fund assets under management in Quebec were approximately \$15 billion as at June 30, 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 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.

#### CLIENT 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 June 30, 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 June 30, 2017, the client account median rate of return was approximately (0.2)% and 42% of client accounts experienced positive returns. For the six months ended June 30, 2017, the client account median rate of return was approximately 1.8% and 91% of client accounts experienced positive returns.

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.

Our clients' statements include a multiple-period view of their performance, including one year, three year and five year rates of return.

Also in June 30, 2017, Investors Group introduced its annual cost of compensation disclosure which outlines the fees paid to the Investors Group dealer that were related to a client's account.

#### ASSETS UNDER MANAGEMENT

The composition of total assets under management is summarized in Table 9. At June 30, 2017, Investors Group's mutual fund and total assets under management were \$84.3 billion and \$84.9 billion, respectively.

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

TABLE 9: TOTAL ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	% CHANGE	
				2017 MAR. 31	2016 JUN. 30
<b>Mutual fund assets under management<sup>(1)</sup></b>					
Sales	\$ 2,357	\$ 2,932	\$ 1,778	(19.6) %	32.6 %
Redemptions	1,922	2,042	1,946	(5.9)	(1.2)
<b>Net sales (redemptions)</b>	<b>435</b>	<b>890</b>	<b>(168)</b>	<b>(51.1)</b>	<b>N/M</b>
Investment returns	(29)	1,768	1,148	N/M	N/M
Net change in assets	406	2,658	980	(84.7)	(58.6)
Beginning assets	83,900	81,242	75,223	3.3	11.5
<b>Ending assets</b>	<b>\$ 84,306</b>	<b>\$ 83,900</b>	<b>\$ 76,203</b>	<b>0.5 %</b>	<b>10.6 %</b>
<b>Total assets under management</b>					
Mutual funds	\$ 84,306	\$ 83,900	\$ 76,203	0.5 %	10.6 %
Sub-advisory, institutional and other accounts	567	543	434	4.4	30.6
	\$ 84,873	\$ 84,443	\$ 76,637	0.5 %	10.7 %
<b>Average assets<sup>(2)</sup></b>					
Mutual Funds	\$ 85,021	\$ 82,751	\$ 75,803	2.7 %	12.2 %
Total	85,586	83,256	76,240	2.8	12.3
<b>SIX MONTHS ENDED</b>					
(\$ millions)			2017 JUN. 30	2016 JUN. 30	% CHANGE
<b>Mutual fund assets under management<sup>(1)</sup></b>					
Sales			\$ 5,289	\$ 4,045	30.8 %
Redemptions			3,964	3,746	5.8
<b>Net sales (redemptions)</b>			<b>1,325</b>	<b>299</b>	<b>N/M</b>
Investment returns			1,739	1,007	72.7
Net change in assets			3,064	1,306	134.6
Beginning assets			81,242	74,897	8.5
<b>Ending assets</b>			<b>\$ 84,306</b>	<b>\$ 76,203</b>	<b>10.6 %</b>
<b>Average assets<sup>(2)</sup></b>					
Mutual Funds			\$ 83,892	\$ 74,676	12.3 %
Total			84,426	75,117	12.4

(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.

## FUND PERFORMANCE

At June 30, 2017, 51.6% of Investors Group mutual funds had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 11.5% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 64.0% for three stars or better and 26.8% for four and five star funds at June 30, 2017. Morningstar Ratings<sup>†</sup> are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

## CHANGES TO MUTUAL FUND PRODUCT OFFERING

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

Effective 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. Assets under management for clients in this category totalled \$36.4 billion at June 30, 2017, an increase of 24.9% from one year ago, and represented 43% of total assets under management. Sales to high net worth clients totalled \$977 million for the second quarter of 2017, an increase of 113% from the second quarter of 2016, and represented 42% of total sales.

### **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. Assets under management for clients in this category totalled \$32.3 billion, an increase of 17.9% from \$27.4 billion at June 30, 2016.

- Series J had assets of \$21.4 billion at June 30, 2017, a decrease of 8.2% from \$23.4 billion at June 30, 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 June 30, 2017, Series U assets under management had increased to \$10.8 billion, compared to \$4.0 billion at June 30, 2016, an increase of 167%.

### **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 June 30, 2017, the *iProfile* program assets under management were \$4.2 billion, an increase of 143% from \$1.7 billion at June 30, 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 June 30, 2017, \$15.0 billion, or 17.7% of Investors Group's mutual fund assets under management, were in products with unbundled fee structures, up 160% from

\$5.7 billion at June 30, 2016. Sales of these products to high net worth clients totalled \$626 million for the second quarter of 2017, an increase of \$498 million from the second quarter of 2016, and represented 64% of total high net worth sales.

### **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 – 2017 VS. 2016**

Investors Group's total assets under management were \$84.9 billion compared to \$76.6 billion at June 30, 2016.

Investors Group's sub-advisory, institutional and other accounts were \$567 million at June 30, 2017 compared to \$434 million at June 30, 2016, an increase of 30.6%.

Investors Group's mutual fund assets under management were \$84.3 billion at June 30, 2017, representing an increase of 10.6% from \$76.2 billion at June 30, 2016. Average daily mutual fund assets were \$85.0 billion in the second quarter of 2017, up 12.2% from \$75.8 billion in the second quarter of 2016.

For the quarter ended June 30, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.4 billion, an increase of 32.6% from the comparable period in 2016. Mutual fund redemptions totalled \$1.9 billion, a decrease of 1.2% from 2016. Investors Group mutual fund net sales for the second quarter of 2017 were \$435 million compared with net redemptions of \$168 million in 2016. During the second quarter, investment returns resulted in a decrease of \$29 million in mutual fund assets compared to an increase of \$1.1 billion in the second quarter of 2016.

Sales of long-term funds were \$2.0 billion for the second quarter of 2017, an increase of 32.1% from the previous year.

Net sales of long-term funds for the second quarter of 2017 were \$243 million compared to net redemptions of \$242 million in 2016.

Investors Group's annualized quarterly redemption rate for long-term funds was 8.4% in the second quarter of 2017 compared to 9.4% in the second quarter of 2016. Investors Group's twelve month trailing redemption rate for long-term funds was 8.6% at June 30, 2017 compared to 8.8% at June 30, 2016, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.4% at June 30, 2017.

For the six months ended June 30, 2017, sales of Investors Group mutual funds through its Consultant network were \$5.3 billion, an increase of 30.8% from 2016. Mutual fund redemptions totalled \$4.0 billion, an increase of 5.8% from 2016. Net sales of Investors Group mutual funds were \$1.3 billion compared with net sales of \$299 million in 2016. Sales of long-term funds for the six month period in 2017 were \$4.5 billion compared with \$3.5 billion in 2016, an increase of 31.2%. Net sales of long-term funds were \$962 million compared to net sales of \$113 million in 2016. During 2017, investment returns resulted in an increase of \$1.8 billion in mutual fund assets compared to an increase of \$1.0 billion in 2016.

#### **CHANGE IN ASSETS UNDER MANAGEMENT – Q2 2017 VS. Q1 2017**

Investors Group's total assets under management were \$84.9 billion compared to \$84.4 billion at March 31, 2017. Investors Group's sub-advisory, institutional and other accounts were \$567 million at June 30, 2017 compared to \$543 million at March 31, 2017, an increase of 4.4%.

Investors Group's mutual fund assets under management were \$84.3 billion at June 30, 2017, an increase of 0.5% from \$83.9 billion at March 31, 2017. Average daily mutual fund assets were \$85.0 billion in the second quarter of 2017 compared to \$82.8 billion in the first quarter of 2017, an increase of 2.7%.

For the quarter ended June 30, 2017, sales of Investors Group mutual funds through its Consultant network were \$2.4 billion, a decrease of 19.6% from the first quarter of 2017. Mutual fund redemptions, which totalled \$1.9 billion for the second quarter, decreased 5.9% from the previous quarter and the annualized quarterly redemption rate was 8.4% in the second quarter compared to 9.2% in the first quarter of 2017. Investors Group mutual fund net sales were \$435 million for the current quarter compared to net sales of \$890 million in the previous quarter. Sales of long-term funds were \$2.0 billion for the current quarter compared to \$2.6 billion in the previous quarter. Net sales of

long-term funds for the current quarter were \$243 million compared to net sales of \$719 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 June 30, 2017, total segregated fund assets were \$1.8 billion compared to \$1.7 billion at June 30, 2016.

### **INSURANCE**

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the quarter ended June 30, 2017, sales of insurance products as measured by new annualized premiums were \$18 million, a decrease of 8.7% from \$20 million in 2016. For the six months ended June 30, 2017, sales of insurance products as measured by new annualized premiums were \$42 million, an increase of 10% from \$38 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 utilization of our 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.

More Consultants are transitioning their registration to Investors Group Securities Inc. supported by the recently introduced

IIROC platform and products, which include separately managed accounts and fee-based accounts.

### **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 three and six months ended June 30, 2017 were \$398 million and \$709 million, compared to \$653 million and \$1.1 billion in 2016, a decrease of 39.1% and 36.1%, respectively. At June 30, 2017, mortgages serviced by Investors Group related to its mortgage banking operations totalled \$11.0 billion, compared to \$10.8 billion at June 30, 2016, an increase of 1.9%.

### **SOLUTIONS BANKING<sup>†</sup>**

Investors Group's Solutions Banking<sup>†</sup> 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<sup>†</sup>, clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking<sup>†</sup> 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<sup>†</sup> offering totalled \$3.3 billion at June 30, 2017, compared to \$3.1 billion at June 30, 2016.

Available credit associated with Solutions Banking<sup>†</sup> All-in-One accounts originated for the three and six month periods ended June 30, 2017 were \$284 million and \$433 million, compared to \$191 million and \$361 million in 2016. At June 30, 2017, the balance outstanding of Solutions Banking All-in-One products was \$2.0 billion, compared to \$1.6 billion one year ago, and represented approximately 47% of total available credit associated with these accounts.

### **ADDITIONAL PRODUCTS AND SERVICES**

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

## REVIEW OF SEGMENT OPERATING RESULTS

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

### 2017 VS. 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<sup>†</sup> 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 \$354.6 million in the second quarter of 2017, an increase of \$36.3 million or 11.4% from \$318.3 million in 2016. For the six months ended June 30, 2017, management fees were \$695.7 million, an increase of \$69.2 million or 11.0% from \$626.5 million in 2016.

The net increase in management fees in the three and six months ended June 30, 2017 was primarily due to the increase in average assets under management of 12.3%, and 12.4%, respectively, as shown in Table 9. The average management fee rate in the second quarter of 2017 was 166.2 basis points of average assets under management compared to 167.5 basis

TABLE 10: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 MAR. 31	2016 JUN. 30
<b>Revenues</b>					
Management fees	\$ 354.6	\$ 341.1	\$ 318.3	4.0 %	11.4 %
Administration fees	81.3	79.9	76.5	1.8	6.3
Distribution fees	46.5	57.1	51.4	(18.6)	(9.5)
	482.4	478.1	446.2	0.9	8.1
Net investment income and other	22.1	18.0	18.6	22.8	18.8
	504.5	496.1	464.8	1.7	8.5
<b>Expenses</b>					
Commission	78.9	90.9	82.1	(13.2)	(3.9)
Asset retention bonus and premium	84.0	78.7	70.1	6.7	19.8
Non-commission	147.7	147.7	138.5	–	6.6
	310.6	317.3	290.7	(2.1)	6.8
<b>Earnings before interest and taxes</b>	<b>\$ 193.9</b>	<b>\$ 178.8</b>	<b>\$ 174.1</b>	<b>8.4 %</b>	<b>11.4 %</b>
<b>SIX MONTHS ENDED</b>					
(\$ millions)			2017	2016	% CHANGE
			JUN. 30	JUN. 30	
<b>Revenues</b>					
Management fees			\$ 695.7	\$ 626.5	11.0 %
Administration fees			161.2	150.1	7.4
Distribution fees			103.6	101.3	2.3
			960.5	877.9	9.4
Net investment income and other			40.1	32.4	23.8
			1,000.6	910.3	9.9
<b>Expenses</b>					
Commission			169.8	161.1	5.4
Asset retention bonus and premium			162.7	138.5	17.5
Non-commission			295.4	273.5	8.0
			627.9	573.1	9.6
<b>Earnings before interest and taxes</b>			<b>\$ 372.7</b>	<b>\$ 337.2</b>	<b>10.5 %</b>

points in 2016. The average management fee rate was 166.2 basis points of daily mutual fund assets for the six month period ended June 30, 2017 compared to 167.5 basis points in 2016. The decrease in the management fee rate in both periods is due, in part, to assets moving into high net worth products.

Management fees were also impacted by a decrease of \$2.9 million in fee income in the six month periods 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 \$81.3 million in the current quarter compared to \$76.5 million a year ago, an increase of 6.3%. Administration fees were \$161.2 million for the six month period ended June 30, 2017 compared to \$150.1 million in 2016, an increase of 7.4%. These increases 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. The impact on administration fee revenue during the quarter associated with the changes was \$1.9 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<sup>†</sup>.

Distribution fee income of \$46.5 million for the second quarter of 2017 decreased by \$4.9 million from \$51.4 million in 2016 primarily due to decreases in distribution fee income from insurance products and lower redemption fees. For the six month period, distribution fee income of \$103.6 million increased by \$2.3 million from \$101.3 million in 2016 due to the strength of insurance sales in the first quarter of 2017 and was offset, in part, by lower redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

#### 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 \$22.1 million in the second quarter of 2017, an increase of \$3.5 million from \$18.6 million in 2016. For the six months ended June 30, 2017, net investment income and other totalled \$40.1 million, an increase of \$7.7 million from \$32.4 million in 2016.

Net investment income related to Investors Group's mortgage banking operations totalled \$21.3 million for the second quarter of 2017 compared to \$17.8 million in 2016, an increase of \$3.5 million. For the six months ended June 30, 2017, net investment income related to Investors Group's mortgage banking operations totalled \$38.1 million compared to \$31.9 million in 2016, an increase of \$6.2 million. A summary of mortgage banking operations for the three and six month periods under review is presented in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – decreased by \$0.6 million and increased by \$0.8 million for the three and six month periods ended June 30, 2017 to \$15.9 million and \$32.2 million, respectively, compared to 2016. The decrease during the three month period was due to lower margins on securitized loans partially offset by higher average balances. The increase during the six month period resulted from higher average balances of securitized loans partially offset by lower margins.
- Gains realized on the sale of residential mortgages – decreased by \$1.1 million and \$1.7 million for the three and six month periods ended June 30, 2017 to \$4.5 million and \$6.6 million, respectively, compared to 2016. The decrease in gains resulted primarily from lower margins.
- Fair value adjustments – increased by \$4.8 million and \$5.3 million for the three and six month periods ended June 30, 2017 to \$2.3 million and \$1.0 million, respectively, 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 \$0.4 million and \$1.8 million for the three and six month periods ended June 30, 2017 to (\$1.4) million and (\$1.7) million compared to 2016 primarily due to lower mortgage issuance 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

TABLE 11: MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2017		2016	% CHANGE	
	JUN. 30	MAR. 31	JUN. 30	2017 MAR. 31	2016 JUN. 30
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 49.4	\$ 49.5	\$ 48.1	(0.2) %	2.7 %
Interest expense	33.5	33.2	31.6	0.9	6.0
Net interest income	15.9	16.3	16.5	(2.5)	(3.6)
Gains on sales <sup>(1)</sup>	4.5	2.1	5.6	114.3	(19.6)
Fair value adjustments	2.3	(1.3)	(2.5)	N/M	192.0
Other <sup>(2)</sup>	(1.4)	(0.3)	(1.8)	N/M	22.2
	\$ 21.3	\$ 16.8	\$ 17.8	26.8 %	19.7 %
<b>Average mortgages serviced</b>					
Securitized	\$ 7,441	\$ 7,525	\$ 7,130	(1.1) %	4.4 %
Other	3,620	3,555	3,532	1.8	2.5
	\$ 11,061	\$ 11,080	\$ 10,662	(0.2) %	3.7 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized	\$ 308	\$ 331	\$ 995	(6.9) %	(69.0) %
Other <sup>(1)</sup>	294	298	317	(1.3)	(7.3)
	\$ 602	\$ 629	\$ 1,312	(4.3) %	(54.1) %
<b>SIX MONTHS ENDED</b>					
(\$ millions)	2017		2016	% CHANGE	
	JUN. 30	JUN. 30	JUN. 30		
<b>Total mortgage banking income</b>					
Net interest income on securitized loans					
Interest income	\$ 98.9	\$ 94.5	\$ 94.5		4.7 %
Interest expense	66.7	63.1	63.1		5.7
Net interest income	32.2	31.4	31.4		2.5
Gains on sales <sup>(1)</sup>	6.6	8.3	8.3		(20.5)
Fair value adjustments	1.0	(4.3)	(4.3)		123.3
Other <sup>(2)</sup>	(1.7)	(3.5)	(3.5)		51.4
	\$ 38.1	\$ 31.9	\$ 31.9		19.4 %
<b>Average mortgages serviced</b>					
Securitized	\$ 7,483	\$ 7,001	\$ 7,001		6.9 %
Other	3,588	3,573	3,573		0.4
	\$ 11,071	\$ 10,574	\$ 10,574		4.7 %
<b>Mortgage sales to:<sup>(3)</sup></b>					
Securitized	\$ 639	\$ 1,605	\$ 1,605		(60.2) %
Other <sup>(1)</sup>	592	534	534		10.9
	\$ 1,231	\$ 2,139	\$ 2,139		(42.4) %

(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.

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 \$78.9 million for the second quarter of 2017, a decrease of \$3.2 million from \$82.1 million in 2016. Commission expense was \$169.8 million for the six months ended June 30, 2017, an increase of \$8.7 million from \$161.1 million in 2016. The increase for the six months ended June 30, 2017 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 \$13.9 million and \$24.2 million for the three and six month periods ended June 30, 2017 to \$84.0 million and \$162.7 million, respectively, compared to 2016. The increase in both periods was primarily due to the increase in assets under management and to the increasing proportion of no load products within our asset base.

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 second quarter of 2017 compared to \$138.5 million in 2016, an increase of \$9.2 million or 6.6%. For the six month period, non-commission expenses were \$295.4 million compared to \$273.5 million in 2016, an increase of \$21.9 million or 8.0%. The increase in both periods resulted largely from Consultant network support and other business development efforts, as well as sub-advisory fees related to increased assets under management.

## Q2 2017 VS. Q1 2017

### FEE INCOME

Management fee income increased by \$13.5 million or 4.0% to \$354.6 million in the second quarter of 2017 compared with the first quarter of 2017. The net increase in management fees in the second quarter was primarily due to the increase in average assets under management of 2.8% for the quarter, as shown in Table 9, as well as the impact of one additional calendar day in the second quarter compared to the first quarter.

Administration fees increased to \$81.3 million in the second quarter of 2017 from \$79.9 million in the first quarter of 2017.

The increase was largely due to the change in average mutual fund assets under management in the period.

Distribution fee income of \$46.5 million in the second quarter of 2017 decreased by \$10.6 million from \$57.1 million in the first quarter primarily due to a decrease in distribution fee income from insurance product sales as well as lower redemption fees.

### NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$22.1 million in the second quarter of 2017 compared to \$18.0 million in the previous quarter, an increase of \$4.1 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled \$21.3 million in the second quarter of 2017, an increase of \$4.5 million from \$16.8 million in the previous quarter as shown in Table 11. The changes in mortgage banking income were due to:

- Gains realized on the sale of residential mortgages – increased by \$2.4 million for the second quarter of 2017 to \$4.5 million compared to \$2.1 million in the previous quarter primarily due to higher margins.
- Fair value adjustments – increased by \$3.6 million for the second quarter of 2017 to \$2.3 million compared to (\$1.3) million in the previous quarter 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 – decreased by \$1.1 million for the second quarter of 2017 to (\$1.4) million, compared to (\$0.3) million in the previous quarter primarily due to higher mortgage issuance costs.

### EXPENSES

Commission expense in the current quarter was \$78.9 million compared with \$90.9 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 \$5.3 million to \$84.0 million in the second quarter of 2017 primarily due to the increase in assets under management.

Non-commission expenses were \$147.7 million in the current quarter, unchanged from the prior quarter of 2017.

# 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 individual investors, financial advisors and institutional investors. We aim to achieve this mandate by attracting and fostering 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 is proudly celebrating its 50<sup>th</sup> 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 primarily 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 served 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 celebrates 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 well-being of military and Veteran families. This expedition occurred in July 2017 and raised 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 12 and the changes in total assets under management are summarized in Table 13. At June 30, 2017, Mackenzie's investment fund and total assets under management were \$54.0 billion and \$68.6 billion, respectively.

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

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 MAR. 31	2016 JUN. 30
Sales	\$ 2,305	\$ 2,861	\$ 1,494	(19.4) %	54.3 %
Redemptions	1,753	2,785	1,869	(37.1)	(6.2)
Mutual fund net sales (redemptions) <sup>(1)</sup>	552	76	(375)	N/M	N/M
ETF net creations	389	114	44	241.2	N/M
<b>Investment fund net sales (redemptions)<sup>(2)</sup></b>	<b>730</b>	<b>139</b>	<b>(331)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	130	1,536	959	(91.5)	(86.4)
Net change in assets	860	1,675	628	(48.7)	36.9
Beginning assets	53,102	51,427	47,627	3.3	11.5
<b>Ending assets</b>	<b>\$ 53,962</b>	<b>\$ 53,102</b>	<b>\$ 48,255</b>	<b>1.6 %</b>	<b>11.8 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 53,622	\$ 52,937	\$ 48,210	1.3 %	11.2 %
ETFs	622	234	45	165.8	N/M
Investment funds <sup>(3)</sup>	\$ 53,962	\$ 53,102	\$ 48,255	1.6 %	11.8 %
<b>Daily average investment fund assets</b>	<b>\$ 54,160</b>	<b>\$ 52,330</b>	<b>\$ 47,864</b>	<b>3.5 %</b>	<b>13.2 %</b>

SIX MONTHS ENDED (\$ millions)			% CHANGE	
	2017 JUN. 30	2016 JUN. 30	2017 JUN. 30	2016 JUN. 30
Sales	\$ 5,166	\$ 3,335	54.9	54.9
Redemptions	4,538	3,908	16.1	16.1
Mutual fund net sales (redemptions) <sup>(1)</sup>	628	(573)	N/M	N/M
ETF net creations	503	44	N/M	N/M
<b>Investment fund net sales (redemptions)<sup>(2)</sup></b>	<b>869</b>	<b>(529)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	1,666	339	N/M	N/M
Net change in assets	2,535	(190)	N/M	N/M
Beginning assets	51,427	48,445	6.2	6.2
<b>Ending assets</b>	<b>\$ 53,962</b>	<b>\$ 48,255</b>	<b>11.8 %</b>	<b>11.8 %</b>
<b>Daily average mutual fund assets</b>	<b>\$ 53,250</b>	<b>\$ 47,303</b>	<b>12.6 %</b>	<b>12.6 %</b>

(1) During the second quarter of 2017, Investors Group mutual funds made fund allocation changes which resulted in Mackenzie mutual fund gross sales of \$108 million, redemptions of \$3 million and net sales of \$105 million.

During the first six months of 2017, Investors Group mutual funds and certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in Mackenzie mutual fund gross sales of \$421 million, redemptions of \$621 million and net redemptions of \$200 million.

(2) Total investment fund net sales exclude Mackenzie mutual fund investments in ETFs of \$211 million for the second quarter of 2017 and \$51 million for the first quarter of 2017.

(3) Excludes Mackenzie mutual fund investments in ETFs of \$282 million at June 30, 2017 and \$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 June 30, 2017, 59.7% of

Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 43.5% for the three year time frame and 46.9% 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<sup>†</sup> fund ranking service. At June 30, 2017, 71.6% of Mackenzie mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 39.7% had a rating of four or five stars.

TABLE 13: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 MAR. 31	2016 JUN. 30
Net sales (redemptions)					
Mutual funds <sup>(1)</sup>	\$ 552	\$ 76	\$ (375)	N/M %	N/M %
ETF net creations	389	114	44	241.2	N/M
Investment funds <sup>(2)</sup>	730	139	(331)	N/M	N/M
Sub-advisory, institutional and other accounts <sup>(3)</sup>	1,405	289	40	N/M	N/M
<b>Total net sales</b>	<b>2,135</b>	<b>428</b>	<b>(291)</b>	<b>N/M</b>	<b>N/M</b>
Investment returns	105	1,847	1,268	(94.3)	(91.7)
Net change in assets	2,240	2,275	977	(1.5)	129.3
Beginning assets	66,310	64,035	60,690	3.6	9.3
<b>Ending assets</b>	<b>\$ 68,550</b>	<b>\$ 66,310</b>	<b>\$ 61,667</b>	<b>3.4 %</b>	<b>11.2 %</b>
<b>Consists of:</b>					
Mutual funds	\$ 53,622	\$ 52,937	\$ 48,210	1.3 %	11.2 %
ETFs	622	234	45	165.8	N/M
Investment funds <sup>(4)</sup>	53,962	53,102	48,255	1.6	11.8
Sub-advisory, institutional and other accounts	14,588	13,208	13,412	10.4	8.8
Total assets under management	\$ 68,550	\$ 66,310	\$ 61,667	3.4 %	11.2 %
<b>Average total asset<sup>(5)</sup></b>	<b>\$ 67,806</b>	<b>\$ 65,182</b>	<b>\$ 60,847</b>	<b>4.0 %</b>	<b>11.4 %</b>
SIX MONTHS ENDED (\$ millions)			2017 JUN. 30	2016 JUN. 30	% CHANGE
Net sales (redemptions)					
Mutual funds <sup>(1)</sup>			\$ 628	\$ (573)	N/M %
ETF net creations			503	44	N/M
Investment funds <sup>(2)</sup>			869	(529)	N/M
Sub-advisory, institutional and other accounts <sup>(3)</sup>			1,694	(149)	N/M
<b>Total net sales</b>			<b>2,563</b>	<b>(678)</b>	<b>N/M</b>
Investment returns			1,952	692	182.1
Net change in assets			4,515	14	N/M
Beginning assets			64,035	61,653	3.9
<b>Ending assets</b>			<b>\$ 68,550</b>	<b>\$ 61,667</b>	<b>11.2 %</b>
<b>Average total assets<sup>(5)</sup></b>			<b>\$ 66,504</b>	<b>\$ 60,307</b>	<b>10.3 %</b>

(1) During the second quarter of 2017, Investors Group mutual funds made fund allocation changes which resulted in Mackenzie mutual fund gross sales of \$108 million, redemptions of \$3 million and net sales of \$105 million.

During the first six months of 2017, Investors Group mutual funds and certain third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in Mackenzie mutual fund gross sales of \$421 million, redemptions of \$621 million and net redemptions of \$200 million.

(2) Total net sales exclude Mackenzie mutual fund investments in ETFs of \$211 million for the second quarter of 2017 and \$51 million for the first quarter of 2017.

(3) During the second quarter of 2017, Mackenzie was awarded a \$1.4 billion sub-advisory mandate from Investors Group.

(4) Excludes Mackenzie mutual fund investments in ETFs of \$282 million at June 30, 2017 and \$69 million at March 31, 2017.

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

This compared to the Morningstar<sup>1</sup> universe of 77.3% for three stars or better and 37.7% for four and five star funds at June 30, 2017. These ratings exclude the Quadrus Group of Funds<sup>1</sup>.

### 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 the second quarter of 2017, Mackenzie celebrated its first anniversary of entering the Exchange Traded Fund (ETF) business. ETF assets ended the second quarter of 2017 with \$622 million. The addition of ETFs complements Mackenzie's broad and innovative fund line-up and reflects its investor-focus vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios and include:

- Four unique fixed income actively managed ETFs managed by Mackenzie's Fixed Income Team.
- Six 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, to the extent possible, the performance of select rules-based indices from the TOBAM Maximum Diversification Index Series.

During the second quarter of 2017, Mackenzie launched one ETF:

- 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 the second quarter of 2017, Mackenzie launched two mutual funds, aimed at helping investors meet their income needs:

- 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.

- 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.

#### Private Wealth Series

During the second quarter, Mackenzie implemented automatic switching into its Private Wealth Series. Beginning in April 2017 qualified investors – investors with a minimum of \$100,000 per fund and households with a minimum of \$250,000 – began to be automatically switched into the appropriate Private Wealth Series. These switches occur such that investors are transferred to the lowest fee series for which they qualify.

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

Mackenzie's total assets under management at June 30, 2017 were \$68.6 billion, an increase of 11.2% from \$61.7 billion at June 30, 2016. Mackenzie's sub-advisory, institutional and other accounts at June 30, 2017 were \$14.6 billion, an increase of 8.8% from \$13.4 billion last year.

Mackenzie's investment fund assets under management were \$54.0 billion at June 30, 2017, an increase of 11.8% from June 30, 2016. Mackenzie's mutual fund assets under management were \$53.6 billion at June 30, 2017, an increase of 11.2% from \$48.2 billion at June 30, 2016. Mackenzie's ETF assets were \$622 million at June 30, 2017, inclusive of \$282 million in investments from Mackenzie mutual funds.

In the three months ended June 30, 2017, Mackenzie's mutual fund gross sales were \$2.3 billion, an increase of 54.3% from \$1.5 billion in the comparative period last year. Mutual fund redemptions in the current quarter were \$1.8 billion, a decrease of 6.2% from last year. Mutual fund net sales for the three months ended June 30, 2017 were \$552 million, as compared to net redemptions of \$375 million last year. In the three months ended June 30, 2017, ETF net creations were \$389 million, inclusive of \$211 million in investments from Mackenzie mutual funds. Investment fund net sales in the current quarter were \$730 million compared to net redemptions of \$331 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by \$130 million as compared to an increase of \$959 million last year.

During the second quarter of 2017, Investors Group mutual funds made fund allocation changes resulting in gross sales

of \$108 million, redemptions of \$3 million and net sales of \$105 million in Mackenzie mutual funds. Excluding these transactions, mutual fund gross sales increased 47.1% and mutual fund redemptions decreased 6.4% in the three months ended June 30, 2017 compared to last year and mutual fund net sales were \$447 million in the current quarter compared to mutual fund net redemptions of \$375 million last year.

Total net sales for the three months ended June 30, 2017 were \$2.1 billion, as compared to net redemptions of \$291 million last year. During the current quarter, investment returns resulted in assets increasing by \$105 million as compared to an increase of \$1.3 billion last year. During the second quarter of 2017, Investors Group awarded a sub-advisory mandate of \$1.4 billion to Mackenzie. Excluding the mutual fund allocation changes and new sub-advisory mandate from Investors Group during the second quarter of 2017, total net sales were \$638 million in the current quarter compared to net redemptions of \$291 million last year.

In the six months ended June 30, 2017, Mackenzie's mutual fund gross sales were \$5.2 billion, an increase of 54.9% from \$3.3 billion in the comparative period last year. Mutual fund redemptions in the current period were \$4.5 billion, an increase of 16.1% from last year. Mutual fund net sales for the six months ended June 30, 2017 were \$628 million, as compared to net redemptions of \$573 million last year. In the six months ended June 30, 2017, ETF net creations were \$503 million, inclusive of \$262 million in investments from Mackenzie mutual funds. Investment fund net sales in the current period were \$869 million compared to net redemptions of \$529 million last year. During the current period, investment returns resulted in investment fund assets increasing by \$1.7 billion as compared to an increase of \$339 million last year.

During the six months ended June 30, 2017, Investors Group mutual funds and certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$421 million, redemptions of \$621 million and net redemptions of \$200 million. Excluding these transactions, mutual fund gross sales increased 42.3% and mutual fund redemptions increased 0.2% in the six months ended June 30, 2017 compared to last year and mutual fund net sales were \$828 million compared to mutual fund net redemptions of \$573 million last year.

Redemptions of long-term mutual funds in the three and six months ended June 30, 2017, were \$1.7 billion and \$4.4 billion, respectively, as compared to \$1.8 billion and \$3.7 billion last year. Redemptions of long-term mutual funds in the six months ended June 30, 2017 excluding the mutual fund allocation changes made by third party programs and Investors Group

mutual funds, were \$3.8 billion. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 12.6% in the second quarter of 2017, compared to 15.1% in the second quarter of 2016. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 15.5% at June 30, 2017, as compared to 15.4% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.3% at June 30, 2017. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.8% at June 30, 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.

Total net sales for the six months ended June 30, 2017 were \$2.6 billion, as compared to net redemptions of \$678 million last year. During the six months ended June 30, 2017, investment returns resulted in assets increasing by \$2.0 billion as compared to an increase of \$692 million last year. Excluding the mutual fund allocation changes made by third party programs and Investors Group mutual funds during the first six months of 2017 and the \$1.4 billion sub-advisory mandate from Investors Group as discussed previously, total net sales were \$1.4 billion in the current period compared to net redemptions of \$678 million last year.

#### CHANGE IN ASSETS UNDER MANAGEMENT – Q2 2017 VS. Q1 2017

Mackenzie's total assets under management at June 30, 2017, were \$68.6 billion, an increase of 3.4% from \$66.3 billion at March 31, 2017. Mackenzie's sub-advisory, institutional and other accounts at June 30, 2017 were \$14.6 billion, an increase of 10.4% from \$13.2 billion at March 31, 2017.

Mackenzie's investment fund assets under management were \$54.0 billion at June 30, 2017, an increase of 1.6% from \$53.1 billion at March 31, 2017. Mackenzie's mutual fund assets under management were \$53.6 billion at June 30, 2017, an increase of 1.3% from \$52.9 billion at March 31, 2017. Mackenzie's ETF assets were \$622 million at June 30, 2017, an increase of 165.8% from \$234 million at March 31, 2017. ETF assets include investments from Mackenzie mutual funds of \$282 million at June 30, 2017 and \$69 million at March 31, 2017.

For the quarter ended June 30, 2017, Mackenzie mutual fund gross sales were \$2.3 billion, a decrease of 19.4% from the first quarter of 2017. Mutual fund redemptions, which totalled

\$1.8 billion for the second quarter, decreased by 37.1% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were \$552 million compared with net sales of \$76 million in the previous quarter. Excluding the mutual fund allocation changes made by Investors Group mutual funds and certain third party programs during the first and second quarter discussed previously, mutual fund gross sales decreased 13.8% and redemptions decreased 19.2% in the three months ended June 30, 2017 compared to the previous quarter and net sales were \$447 million in the current quarter compared to net sales of \$381 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$1.7 billion, compared to \$2.7 billion in the first quarter of 2017. Redemptions of long-term mutual funds in the first 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 12.6% compared to 21.3% for the first quarter of 2017. 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 \$533 million compared to net sales of \$50 million in the previous quarter. Net sales of long-term mutual funds for the previous quarter excluding the mutual fund allocation changes made by third party programs were \$355 million.

For the quarter ended June 30, 2017, Mackenzie ETF net creations were \$389 million, an increase of \$275 million from the first quarter of 2017. In the current quarter, ETF net creations were inclusive of \$211 million in investments from Mackenzie mutual funds compared to \$51 million in the first quarter.

Investment fund net sales in the current quarter were \$730 million compared to net sales of \$139 million in the first quarter.

## REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie's earnings before interest and taxes are presented in Table 14.

### 2017 VS. 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 June 30, 2017, these series had \$6.1 billion in assets, an increase of 55.8% from the prior year.

Management fees were \$177.2 million for the three months ended June 30, 2017, an increase of \$13.7 million or 8.4%

TABLE 14: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 MAR. 31	2016 JUN. 30
<b>Revenues</b>					
Management fees	\$ 177.2	\$ 171.8	\$ 163.5	3.1 %	8.4 %
Administration fees	24.9	24.4	22.8	2.0	9.2
Distribution fees	1.9	2.3	2.5	(17.4)	(24.0)
	<b>204.0</b>	198.5	188.8	2.8	8.1
Net investment income and other	(1.9)	0.1	1.2	N/M	N/M
	<b>202.1</b>	198.6	190.0	1.8	6.4
<b>Expenses</b>					
Commission	11.7	12.6	13.5	(7.1)	(13.3)
Trailing commission	63.8	62.0	58.7	2.9	8.7
Non-commission	83.2	82.5	77.6	0.8	7.2
	<b>158.7</b>	157.1	149.8	1.0	5.9
<b>Earnings before interest and taxes</b>	<b>\$ 43.4</b>	\$ 41.5	\$ 40.2	4.6 %	8.0 %
<b>SIX MONTHS ENDED</b>					
(\$ millions)			2017	2016	% CHANGE
			JUN. 30	JUN. 30	
<b>Revenues</b>					
Management fees			\$ 349.0	\$ 324.0	7.7 %
Administration fees			49.3	45.2	9.1
Distribution fees			4.2	5.0	(16.0)
			<b>402.5</b>	374.2	7.6
Net investment income and other			(1.8)	1.5	N/M
			<b>400.7</b>	375.7	6.7
<b>Expenses</b>					
Commission			24.3	27.8	(12.6)
Trailing commission			125.8	116.1	8.4
Non-commission			165.7	155.2	6.8
			<b>315.8</b>	299.1	5.6
<b>Earnings before interest and taxes</b>			<b>\$ 84.9</b>	\$ 76.6	10.8 %

from \$163.5 million last year. The net increase in management fees in the current quarter was due to an increase in average assets under management of 11.4%, offset by a 2.7% decline in the average management fee rate. Mackenzie's average management fee rate in the second quarter of 2017 was 104.9 basis points compared to 107.8 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, and the impact of automatic switching of qualified investors into its Private Wealth Series.

Management fees were \$349.0 million for the six months ended June 30, 2017, an increase of \$25.0 million or 7.7% from \$324.0 million last year. The net increase in management fees was due to the increase in average assets under management of 10.3% offset by a decline in the average management fee rate. Mackenzie's average management fee rate in the six months ended June 30, 2017 was 105.8 basis points compared to 107.9 basis points in 2016. The decrease in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. In addition, there was one less calendar day in the first six months of 2017 compared to 2016 which resulted in a decrease in management fees.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were \$24.9 million for the three months ended June 30, 2017, an increase of \$2.1 million or 9.2% from \$22.8 million last year. Administration fees were \$49.3 million for the six months ended June 30, 2017, an increase of \$4.1 million or 9.1% from \$45.2 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 June 30, 2017 was \$1.9 million, compared to \$2.5 million last year. Distribution fee income in the six months ended June 30, 2017 was \$4.2 million, a decrease of \$0.8 million from \$5.0 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 (\$1.9) million for the three

months ended June 30, 2017 compared to \$1.2 million last year. Net investment income and other was (\$1.8) million for the six months ended June 30, 2017, a decrease of \$3.3 million from \$1.5 million last year.

## EXPENSES

Mackenzie's expenses were \$158.7 million for the three months ended June 30, 2017, an increase of \$8.9 million or 5.9% from \$149.8 million in 2016. Expenses for the six months ended June 30, 2017 were \$315.8 million, an increase of \$16.7 million or 5.6% from \$299.1 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expense was \$11.7 million in the three months ended June 30, 2017, as compared to \$13.5 million last year. Commission expense in the six months ended June 30, 2017 was \$24.3 million compared to \$27.8 million in 2016. These declines are consistent with the lower amount of deferred sales commissions paid in recent years combined with lower write-offs of the unamortized balance of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$63.8 million in the three months ended June 30, 2017, an increase of \$5.1 million or 8.7% from \$58.7 million last year. Trailing commissions in the six months ended June 30, 2017 were \$125.8 million, an increase of \$9.7 million or 8.4% from \$116.1 million last year. The increase in trailing commissions in the three and six months ended June 30, 2017 resulted from the period over period increase in average mutual fund assets offset, in part, by a decline in the effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 47.4 basis points in both the three months and six months ended June 30, 2017 compared to 49.1 basis points in both the three and six months ended June 30, 2016. This decline is due to a change in composition of mutual fund assets towards series of mutual funds that do not pay trail commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$83.2 million in the three months ended June 30, 2017, an increase of \$5.6 million or 7.2% from \$77.6 million in 2016. Non-commission expenses in the six months ended June 30, 2017 were \$165.7 million, an increase of \$10.5 million or 6.8% from \$155.2 million in 2016. The increase in non-commission expenses in the three and six months ended June 30, 2017 is due to additional sales-based incentives as a result of higher mutual fund sales volumes.

## Q2 2017 VS. Q1 2017

### REVENUES

Mackenzie's revenues were \$202.1 million for the current quarter, an increase of \$3.5 million or 1.8% from \$198.6 million in the first quarter of 2017.

Management fees were \$177.2 million for the current quarter, an increase of \$5.4 million or 3.1% from \$171.8 million in the first quarter of 2017. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were \$67.8 billion in the current quarter compared to \$65.2 billion in the prior quarter, an increase of 4.0%.
- Mackenzie's average management fee rate was 104.9 basis points in the current quarter as compared to 106.9 basis points in the first quarter of 2017 due to a change in the composition of assets under management and the impact of automatic switching of qualified investors into its Private Wealth Series.

- There was one more calendar day in the second quarter of 2017 compared to the first quarter of 2017, which resulted in an increase of \$1.8 million.

Administration fees were \$24.9 million in the current quarter, an increase of \$0.5 million or 2.0% from \$24.4 million in the prior quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. Net investment income and other was (\$1.9) million for the current quarter compared to \$0.1 million in the first quarter of 2017.

### EXPENSES

Mackenzie's expenses were \$158.7 million for the current quarter, an increase of \$1.6 million or 1.0% from \$157.1 million in the first quarter of 2017.

Commission expense related to the amortization of selling commissions was \$11.7 million in the quarter ended June 30, 2017, a decrease of 7.1% from the first quarter of 2017.

Trailing commissions were \$63.8 million in the current quarter, an increase of \$1.8 million or 2.9% from \$62.0 million in the first quarter of 2017. The change in trailing commissions reflects the 3.3% period over period increase in average mutual fund assets under management, offset, in part, by a 0.2% decline in effective trailing commission rate. The effective trailing commission rate for the second quarter was 47.4 basis points, compared to 47.5 basis points in the first quarter.

Non-commission expenses were \$83.2 million in the current quarter, compared to \$82.5 million in the first quarter of 2017.

## 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.

The Company also has investments in Personal Capital Corporation, Wealthsimple Financial Corporation and Portag3 Ventures and has announced the investment in China Asset Management Co., Ltd., which is expected to close subject to customary closing conditions, including Chinese regulatory approvals.

Corporate and other earnings before interest and taxes are presented in Table 15.

#### 2017 VS. 2016

The proportionate share of affiliate's earnings increased by \$1.0 million and \$1.2 million in the three and six months ended June 30, 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 increased to \$5.2 million in the second quarter of 2017 compared to \$2.6 million in 2016. For the six month period, net investment income and other increased to \$6.9 million compared to \$4.4 million in 2016.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.2 million higher in the second quarter of 2017 compared to the same period in 2016.

#### Q2 2017 VS. Q1 2017

The proportionate share of Lifeco's earnings decreased by \$3.1 million to \$24.9 million in the second quarter of 2017 compared to the first quarter of 2017. Net investment income and other increased to \$5.2 million in the second quarter of 2017 compared to \$1.7 million in the first quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.4 million higher in the second quarter of 2017 compared with the previous quarter.

TABLE 15: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2017 JUN. 30	2017 MAR. 31	2016 JUN. 30	2017 MAR. 31	2016 JUN. 30
<b>Revenues</b>					
Fee income	\$ 66.6	\$ 65.3	\$ 63.1	2.0 %	5.5 %
Net investment income and other	5.2	1.7	2.6	205.9	100.0
Proportionate share of affiliate's earnings	24.9	28.0	23.9	(11.1)	4.2
	<b>96.7</b>	<b>95.0</b>	<b>89.6</b>	<b>1.8</b>	<b>7.9</b>
<b>Expenses</b>					
Commission	46.0	45.1	42.8	2.0	7.5
Non-commission	15.6	16.7	15.6	(6.6)	–
	<b>61.6</b>	<b>61.8</b>	<b>58.4</b>	<b>(0.3)</b>	<b>5.5</b>
<b>Earnings before interest and taxes</b>	<b>\$ 35.1</b>	<b>\$ 33.2</b>	<b>\$ 31.2</b>	<b>5.7 %</b>	<b>12.5 %</b>
SIX MONTHS ENDED (\$ millions)			% CHANGE		
	2017 JUN. 30	2016 JUN. 30			
<b>Revenues</b>					
Fee income	\$ 131.9	\$ 125.1			5.4 %
Net investment income and other	6.9	4.4			56.8
Proportionate share of affiliate's earnings	52.9	51.7			2.3
	<b>191.7</b>	<b>181.2</b>			<b>5.8</b>
<b>Expenses</b>					
Commission	91.1	85.2			6.9
Non-commission	32.3	30.9			4.5
	<b>123.4</b>	<b>116.1</b>			<b>6.3</b>
<b>Earnings before interest and taxes</b>	<b>\$ 68.3</b>	<b>\$ 65.1</b>			<b>4.9 %</b>

# IGM FINANCIAL INC.

## CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$16.1 billion at June 30, 2017, compared to \$15.6 billion at December 31, 2016.

### SECURITIES

The composition of the Company's securities holdings is detailed in Table 16.

#### 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 2016, the Company invested \$97.3 million (USD\$75 million) in Personal Capital a market-leading digital wealth advisor that is incorporated in and operates in the U.S.

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 \$633 million (RMB¥3.3 billion). As at June 30, 2017, Other assets included a deposit of \$191.2 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 16: SECURITIES

(\$ millions)	JUNE 30, 2017		DECEMBER 31, 2016	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for sale</b>				
Corporate investments	\$ 186.1	\$ 204.3	\$ 141.6	\$ 152.0
Proprietary investment funds	25.4	26.4	6.1	6.4
	211.5	230.7	147.7	158.4
<b>Fair value through profit or loss</b>				
Equity securities	15.0	13.9	15.5	17.7
Proprietary investment funds	38.2	37.5	49.4	49.1
	53.2	51.4	64.9	66.8
	\$ 264.7	\$ 282.1	\$ 212.6	\$ 225.2

## LOANS

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

Loans consisted of residential mortgages and represented 48.4% of total assets at June 30, 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 \$7.5 billion at June 30, 2017, compared to \$7.7 billion at 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 \$2.5 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 second quarter of 2017, the Company securitized loans through its mortgage banking operations with cash proceeds of \$300.0 million compared to \$978.8 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 5 of the Interim Financial Statements.

TABLE 17: LOANS

(\$ millions)	2017 JUNE 30	2016 DECEMBER 31
<b>Loans and receivables</b>	<b>\$ 7,334.9</b>	<b>\$ 7,644.5</b>
Less: Collective allowance	0.7	0.7
	<b>7,334.2</b>	7,643.8
<b>Held for trading</b>	<b>460.1</b>	339.5
	<b>\$ 7,794.3</b>	<b>\$ 7,983.3</b>

## 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 six months ended June 30, 2017 compared with 2016 are shown in Table 18.

TABLE 18: INVESTMENT IN AFFILIATE

SIX MONTHS ENDED (\$ millions)	2017 JUN. 30	2016 JUN. 30
<b>Carrying value, beginning of period</b>	<b>\$ 888.9</b>	<b>\$ 904.3</b>
Proportionate share of earnings	52.9	51.7
Proportionate share of affiliate's restructuring provision <sup>(1)</sup>	(5.1)	–
Dividends received	(29.2)	(27.5)
Proportionate share of other comprehensive income (loss) and other adjustments	6.7	(30.6)
<b>Carrying value, end of period</b>	<b>\$ 914.2</b>	<b>\$ 897.9</b>
<b>Fair value, end of period</b>	<b>\$ 1,396.4</b>	<b>\$ 1,352.7</b>

(1) Refer to the Summary of Consolidated Operating Results in this MD&A.

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

Cash and cash equivalents totalled \$1,069.3 million at June 30, 2017 compared with \$611.0 million at December 31, 2016 and \$657.6 million at June 30, 2016. Cash and cash equivalents related to the Company's deposit operations were \$2.0 million at June 30, 2017, compared to \$2.7 million at December 31, 2016 and \$3.6 million at June 30, 2016, as shown in Table 19.

Working capital totalled \$1,082.6 million at June 30, 2017 compared with \$557.8 million at December 31, 2016 and \$861.0 million at June 30, 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 \$345.3 million in the second quarter of 2017 compared to \$316.0 million in the second quarter of 2016 and \$324.6 million

in the first quarter of 2017. Adjusted EBITDA totalled \$669.9 million for the six months ended June 30, 2017 compared to \$620.2 million in 2016. Adjusted EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled \$57.4 million in the second quarter of 2017 compared to \$59.0 million in the second quarter of 2016 and \$58.9 million in the first quarter of 2017. 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 20 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and six month periods ended June 30, 2017. Cash and cash equivalents decreased by \$133.6 million in the second quarter of 2017 compared to an increase of \$50.5 million in 2016. For the six month period, cash and cash equivalents increased by \$458.3 million in 2017 compared to a decrease of \$325.4 million in 2016.

Operating activities, before payment of commissions, generated \$170.1 million and \$368.2 million during the three and six month periods ended June 30, 2017, as compared to \$295.7 million and \$400.0 million in 2016. Cash commissions paid were \$66.6 million and \$148.0 million for the three and six month periods in 2017 compared to \$51.6 million and \$125.4 million in 2016. Cash flows from operating activities, net of commissions paid, were

TABLE 19: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2017 JUN. 30	2016 DEC. 31	2016 JUN. 30
<b>Assets</b>			
Cash and cash equivalents	\$ 2.0	\$ 2.7	\$ 3.6
Client funds on deposit	420.4	455.5	275.5
Accounts and other receivables	1.0	0.5	0.4
Loans	27.1	25.1	25.6
<b>Total assets</b>	<b>\$ 450.5</b>	<b>\$ 483.8</b>	<b>\$ 305.1</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 439.3	\$ 471.2	\$ 293.9
Other liabilities	0.5	2.6	0.5
Shareholders' equity	10.7	10.0	10.7
<b>Total liabilities and shareholders' equity</b>	<b>\$ 450.5</b>	<b>\$ 483.8</b>	<b>\$ 305.1</b>

TABLE 20: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED JUNE 30			SIX MONTHS ENDED JUNE 30		
	2017	2016	% CHANGE	2017	2016	% CHANGE
Operating activities						
Before payment of commissions	\$ 170.1	\$ 295.7	(42.5) %	\$ 368.2	\$ 400.0	(8.0) %
Commissions paid	(66.6)	(51.6)	(29.1)	(148.0)	(125.4)	(18.0)
Net of commissions paid	103.5	244.1	(57.6)	220.2	274.6	(19.8)
Financing activities	(257.3)	158.9	N/M	133.8	(19.8)	N/M
Investing activities	20.2	(352.5)	N/M	104.3	(580.2)	N/M
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(133.6)</b>	<b>50.5</b>	<b>N/M</b>	<b>458.3</b>	<b>(325.4)</b>	<b>N/M</b>
Cash and cash equivalents, beginning of period	1,202.9	607.1	98.1	611.0	983.0	(37.8)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,069.3</b>	<b>\$ 657.6</b>	<b>62.6 %</b>	<b>\$ 1,069.3</b>	<b>\$ 657.6</b>	<b>62.6 %</b>

\$103.5 million and \$220.2 million in 2017 as compared to \$244.1 million and \$274.6 million in 2016.

Financing activities during the second quarter of 2017 compared to 2016 related to:

- A net decrease of \$119.7 million in 2017 arising from obligations to securitization entities compared to a net increase of \$342.8 million in 2016.
- There was no purchase of common shares in 2017 under IGM Financial's normal course issuer bid compared with the purchase of 1,227,700 common shares at a cost of \$46.8 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 \$136.1 million in 2016.

Financing activities during the six months ended June 30, 2017 compared to 2016 related to:

- A net decrease of \$193.7 million in 2017 arising from obligations to securitization entities compared to a net increase of \$408.0 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 4,219,600 common shares at a cost of \$151.1 million in 2016.
- The payment of perpetual preferred share dividends which totalled \$4.4 million in 2017, unchanged from 2016.

- The payment of regular common share dividends which totalled \$270.6 million in 2017 compared to \$273.8 million in 2016.

Investing activities during the second quarter of 2017 compared to 2016 primarily related to:

- The purchases of securities totalling \$76.1 million and sales of securities with proceeds of \$11.2 million in 2017 compared to \$99.8 million and \$12.6 million, respectively, in 2016. Included in purchases of securities was an investment of \$42.6 million in Wealthsimple in 2017 and an investment of \$64.5 million in Personal Capital in 2016.
- A net decrease in loans of \$96.2 million in 2017 compared to a net increase of \$232.1 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 \$7.8 million in 2017 compared to \$17.5 million in 2016.

Investing activities during the six months ended June 30, 2017 compared to 2016 primarily related to:

- The purchases of securities totalling \$103.1 million and sales of securities with proceeds of \$36.7 million in 2017 compared to \$124.7 million and \$23.4 million, respectively, in 2016. Included in purchases of securities was an investment of \$42.6 million in Wealthsimple in 2017 and an investment of \$64.5 million in Personal Capital in 2016.
- A net decrease in loans of \$195.8 million in 2017 compared to a net increase of \$415.5 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 \$15.7 million in 2017 compared to \$34.5 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 \$6.8 billion at June 30, 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 June 30, 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 June 30, 2017 remain unchanged from December 31, 2016.

The Company did not purchase any common shares during the six months ended June 30, 2017 under its normal course issuer

bid (refer to Note 8 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 \$4.4 million or \$0.7375 per share and common share dividends of \$135.3 million or \$1.125 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 21 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

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

flows. Wherever possible, observable market inputs are used in the valuation techniques.

- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 13 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 six months ended June 30, 2017.

TABLE 21: FINANCIAL INSTRUMENTS

(\$ millions)	JUNE 30, 2017		DECEMBER 31, 2016	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial assets recorded at fair value</b>				
Securities				
– Available for sale	\$ 230.7	\$ 230.7	\$ 158.4	\$ 158.4
– Held for trading	51.4	51.4	66.8	66.8
Loans				
– Held for trading	460.1	460.1	339.5	339.5
Derivative financial instruments	41.1	41.1	42.8	42.8
<b>Financial assets recorded at amortized cost</b>				
Loans				
– Loans and receivables	7,334.2	7,468.0	7,643.8	7,867.7
<b>Financial liabilities recorded at fair value</b>				
Derivative financial instruments	25.8	25.8	38.2	38.2
Other financial liabilities	7.7	7.7	9.8	9.8
<b>Financial liabilities recorded at amortized cost</b>				
Deposits and certificates	439.3	440.3	471.2	472.2
Obligations to securitization entities	7,535.5	7,588.4	7,721.0	7,873.1
Long-term debt	1,925.0	2,258.8	1,325.0	1,610.9

## 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 22.

TABLE 22: CONTRACTUAL OBLIGATIONS

AS AT JUNE 30, 2017 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 8.8	\$ 16.9	\$ 0.1	\$ 25.8
Deposits and certificates	421.0	8.7	7.7	1.9	439.3
Obligations to securitization entities	-	1,335.6	6,145.6	54.3	7,535.5
Long-term debt	-	150.0	375.0	1,400.0	1,925.0
Operating leases <sup>(1)</sup>	-	29.1	75.4	39.6	144.1
Pension funding <sup>(2)</sup>	-	29.8	-	-	29.8
<b>Total contractual obligations</b>	<b>\$ 421.0</b>	<b>\$ 1,562.0</b>	<b>\$ 6,620.6</b>	<b>\$ 1,495.9</b>	<b>\$ 10,099.5</b>

(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 June 30, 2017, unchanged from December 31, 2016. The lines of credit as at June 30, 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 June 30, 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 \$7.7 million in 2017 (2016 – \$8.1 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 June 30, 2017, cash and cash equivalents of \$1,069.3 million (December 31, 2016 – \$611.0 million) consisted of cash balances of \$48.5 million (December 31, 2016 – \$84.5 million) on deposit with Canadian chartered banks and cash equivalents of \$1,020.8 million (December 31, 2016 – \$526.5 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$66.2 million (December 31, 2016 – \$44.1 million), provincial government treasury bills and promissory notes of \$488.6 million (December 31, 2016 – \$197.1 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$438.0 million (December 31, 2016 – \$246.8 million), and highly rated corporate commercial paper of \$28.0 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 June 30, 2017, residential mortgages, recorded on the Company's balance sheet, of \$7.8 billion (December 31, 2016 – \$8.0 billion) consisted of \$7.3 billion sold to securitization programs (December 31, 2016 – \$7.6 billion), \$460.1 million held pending sale or securitization (December 31, 2016 – \$339.5 million) and \$30.4 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 \$4.6 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 \$58.3 million (December 31, 2016 – \$54.7 million) and \$45.3 million (December 31, 2016 – \$45.0 million), respectively, at June 30, 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 23.7% of mortgages held in ABCP Trusts insured at June 30, 2017 (December 31, 2016 – 29.1%).

At June 30, 2017, residential mortgages recorded on balance sheet were 70.9% insured (December 31, 2016 – 73.9%). As at June 30, 2017, impaired mortgages on these portfolios were \$2.5 million, compared to \$2.6 million at December 31, 2016. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.8 million at June 30, 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 June 30, 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 \$39.4 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 \$3.3 million at June 30, 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 June 30, 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 \$11.0 million (December 31, 2016 – negative \$23.1 million) and an outstanding notional amount of \$0.9 billion at June 30, 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 \$16.0 million (December 31, 2016 – \$30.0 million), on an outstanding notional amount of \$2.0 billion at June 30, 2017 (December 31, 2016 – \$2.1 billion). The net fair value of these swaps of \$5.0 million at June 30, 2017 (December 31, 2016 – \$6.9 million) are recorded on balance sheet and have an outstanding notional amount of \$2.9 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 \$1.8 million (December 31, 2016 – \$0.4 million) on an outstanding notional amount of \$128.0 million at June 30, 2017 (December 31, 2016 – \$123.0 million).

As at June 30, 2017, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$0.5 million (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 \$282.1 million at June 30, 2017 (December 31, 2016 – \$225.2 million), as shown in Table 16.

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 June 30, 2017, IGM Financial's total assets under management were \$148.2 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 23: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT JUNE 30, 2017	INVESTMENT FUNDS	TOTAL
Cash	1.2 %	1.6 %
Short-term fixed income and mortgages	7.1	7.0
Other fixed income	22.9	22.8
Domestic equity	28.6	28.5
Foreign equity	37.0	37.0
Real Property	3.2	3.1
	100.0 %	100.0 %
CAD	61.8 %	61.8 %
USD	24.6	24.4
Other	13.6	13.8
	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

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 provide important information to our clients and build on already required existing disclosure related to distribution and fund management costs. The Company's subsidiaries have implemented CRM2 reporting.

#### BEST INTEREST STANDARD, TARGETED REFORMS AND MUTUAL FUND EMBEDDED COMMISSIONS

In May 2017, the CSA published Staff Notice 33-319 (the Staff Notice) Status Report on CSA Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients (the BIS Consultation Paper), which provided an update on the CSA's proposal for a set of targeted reforms relating to the client-registrant relationship and a regulatory best interest standard. The Company's

subsidiaries submitted comment letters on the BIS Consultation Paper and also participated in a series of roundtables hosted by certain jurisdictions to further explore the proposals in the BIS Consultation Paper.

The Staff Notice specifies that only the Ontario Securities Commission and Financial and Consumer Services Commission of New Brunswick will continue to pursue further work to articulate a regulatory best interest standard.

In January 2017, the CSA published CSA Staff Notice 81-408 Consultation on the Option of Discontinuing Embedded Commissions (the Fees Consultation Paper) which sought input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. The Company's subsidiaries submitted comment letters on the Fees Consultation Paper. The OSC also announced that it will host a roundtable to facilitate further stakeholder input on the Fees Consultation Paper.

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

#### COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM

Since 2013, the Government of Canada and participating provincial jurisdictions have been working to establish a common securities regulator for Canada's capital markets. Of note, there has been opposition from Quebec, Alberta and Manitoba. In response to a reference from the Quebec government, in May 2017 the Quebec Court of Appeal ruled in favour of the Quebec government and held that the governance framework for the pan-Canadian securities regulation under the proposed Capital Markets Regulatory Authority (CMRA) was unconstitutional. There has been no indication of whether this decision will be appealed to the Supreme Court of Canada.

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 24 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.

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

TABLE 24: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2017 JUN. 30	2016 JUN. 30
<b>IGM Financial Inc.</b>		
Investors Group	8.6 %	8.8 %
Mackenzie	15.5 %	15.4 %
Counsel	15.7 %	15.6 %

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

### PEOPLE RISK

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

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

### 6) ENVIRONMENTAL RISK

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

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

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

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement as approved by the Board of Directors and also within the Company's Environmental Policy which commit us to responsibly manage our environmental footprint.

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

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

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

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

## OUTLOOK

### THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$4.1 trillion in discretionary financial assets with financial institutions at December 31, 2016 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% (\$2.7 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 \$1.4 trillion held outside of a financial advisory relationship, approximately 60% 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 41% of Canadian discretionary financial assets or \$1.7 trillion resided in investment funds at December 31, 2016, 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 78% 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 \$143 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 June 30, 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 70% of total mutual fund assets under management at June 30, 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.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2017 financial information and determined there was no impairment in the value of those assets.

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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

### 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. The Company continues to make progress towards finalizing its assessment of IFRS 9 however, 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 standard is currently being assessed, however, no significant impact to the ongoing recognition of the Company's revenues is expected.

### 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 second 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

In 2014 and 2015, the Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings. The Company acquired an aggregate of \$2.0 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation and, as sole consideration for the preferred shares, the Company issued \$2.0 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company had legally enforceable rights to settle these financial instruments on a net basis which were exercised during the second quarter of 2017, resulting in the termination of this arrangement.

The preferred shares and debentures and related dividend income and interest expense had been offset in the Consolidated Financial Statements of the Company. Tax savings, of approximately \$24 million on an annual basis, arose due to the tax deductibility of the interest expense. The Company expects to put in place further arrangements with the Power Corporation group in the third quarter which is expected to provide an annual benefit of approximately \$14 million.

There were no further 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 June 30, 2017 totalled 240,587,923. Outstanding stock options as at June 30, 2017 totalled 9,138,733, of which 4,152,801 were exercisable. As at July 31, 2017, outstanding common shares totalled 240,587,923 and outstanding stock options totalled 9,090,720 of which 4,104,788 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at June 30, 2017, unchanged at July 31, 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](http://www.sedar.com).

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF EARNINGS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars, except shares and per share amounts)</i>	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
<b>Revenues</b>				
Management fees	\$ 547,002	\$ 497,386	\$ 1,074,703	\$ 981,222
Administration fees	111,238	104,328	220,202	204,678
Distribution fees	94,775	96,342	200,035	191,310
Net investment income and other	25,465	22,409	45,222	38,286
Proportionate share of affiliate's earnings	19,758	23,876	47,777	51,684
	<b>798,238</b>	<b>744,341</b>	<b>1,587,939</b>	<b>1,467,180</b>
<b>Expenses</b>				
Commission	284,448	267,128	573,755	528,643
Non-commission	219,075	231,740	465,976	459,607
Interest	28,703	22,913	55,490	45,826
	<b>532,226</b>	<b>521,781</b>	<b>1,095,221</b>	<b>1,034,076</b>
Earnings before income taxes	266,012	222,560	492,718	433,104
Income taxes	62,997	47,457	110,371	88,825
<b>Net earnings</b>	<b>203,015</b>	<b>175,103</b>	<b>382,347</b>	<b>344,279</b>
Perpetual preferred share dividends	2,212	2,212	4,425	4,425
<b>Net earnings available to common shareholders</b>	<b>\$ 200,803</b>	<b>\$ 172,891</b>	<b>\$ 377,922</b>	<b>\$ 339,854</b>
Average number of common shares <i>(in thousands)</i> (Note 14)				
– Basic	240,587	241,071	240,565	242,100
– Diluted	240,840	241,221	240,831	242,197
Earnings per share <i>(in dollars)</i> (Note 14)				
– Basic	\$ 0.83	\$ 0.72	\$ 1.57	\$ 1.40
– Diluted	\$ 0.83	\$ 0.72	\$ 1.57	\$ 1.40

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (in thousands of Canadian dollars)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
<b>Net earnings</b>	<b>\$ 203,015</b>	<b>\$ 175,103</b>	<b>\$ 382,347</b>	<b>\$ 344,279</b>
<b>Other comprehensive income (loss), net of tax</b>				
<b>Items that will not be reclassified to Net earnings</b>				
Employee benefits				
Net actuarial gains (losses), net of tax of \$7,888, \$7,915, \$10,827 and \$16,113	(21,330)	(21,405)	(29,278)	(43,573)
Investment in affiliate – employee benefits and other				
Other comprehensive income (loss), net of tax of nil	(791)	(6,645)	12,799	(2,481)
<b>Items that may be reclassified subsequently to Net earnings</b>				
Available for sale securities				
Net unrealized gains (losses), net of tax of \$(163), \$432, \$(356) and \$239	4,395	(2,498)	5,402	(1,978)
Reclassification of realized (gains) losses to net earnings, net of tax of \$20, \$44, \$27 and \$54	(53)	(121)	(72)	(147)
	<b>4,342</b>	<b>(2,619)</b>	<b>5,330</b>	<b>(2,125)</b>
Investment in affiliate and other				
Other comprehensive income (loss), net of tax of \$538, \$435, \$(1,125) and \$(321)	(3,271)	(34,610)	3,062	(25,199)
	<b>(21,050)</b>	<b>(65,279)</b>	<b>(8,087)</b>	<b>(73,378)</b>
<b>Total comprehensive income</b>	<b>\$ 181,965</b>	<b>\$ 109,824</b>	<b>\$ 374,260</b>	<b>\$ 270,901</b>

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

## CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	JUNE 30 2017	DECEMBER 31 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 1,069,342	\$ 611,032
Securities <i>(Note 3)</i>	282,061	225,184
Client funds on deposit	420,412	455,474
Accounts and other receivables	395,484	287,071
Income taxes recoverable	22,391	13,627
Loans <i>(Note 4)</i>	7,794,309	7,983,269
Derivative financial instruments	41,089	42,821
Other assets	254,644	240,509
Investment in affiliate <i>(Note 6)</i>	914,195	888,851
Capital assets	159,277	161,337
Deferred selling commissions	758,272	726,608
Deferred income taxes	59,208	61,454
Intangible assets	1,272,486	1,267,789
Goodwill	2,660,267	2,660,267
	<b>\$ 16,103,437</b>	<b>\$ 15,625,293</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 403,751	\$ 431,049
Income taxes payable	8,129	3,393
Derivative financial instruments	25,776	38,163
Deposits and certificates	439,304	471,202
Other liabilities	460,814	447,943
Obligations to securitization entities <i>(Note 5)</i>	7,535,496	7,721,024
Deferred income taxes	457,659	440,759
Long-term debt	1,925,000	1,325,000
	<b>11,255,929</b>	<b>10,878,533</b>
<b>Shareholders' Equity</b>		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,599,282	1,597,208
Contributed surplus	41,266	39,552
Retained earnings	3,147,489	3,042,442
Accumulated other comprehensive income (loss)	(90,529)	(82,442)
	<b>4,847,508</b>	<b>4,746,760</b>
	<b>\$ 16,103,437</b>	<b>\$ 15,625,293</b>

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 3, 2017.

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

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30

(unaudited) (in thousands of Canadian dollars)	SHARE CAPITAL				RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 11)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 8)	COMMON SHARES (Note 8)	CONTRIBUTED SURPLUS				
<b>2017</b>							
<b>Balance, beginning of period</b>	\$ 150,000	\$ 1,597,208	\$ 39,552	\$ 3,042,442	\$ (82,442)	\$ 4,746,760	
Net earnings	-	-	-	382,347	-	382,347	
Other comprehensive income (loss), net of tax	-	-	-	-	(8,087)	(8,087)	
<b>Total comprehensive income</b>	-	-	-	382,347	(8,087)	374,260	
Common shares							
Issued under stock option plan	-	2,074	-	-	-	2,074	
Stock options							
Current period expense	-	-	1,824	-	-	1,824	
Exercised	-	-	(110)	-	-	(110)	
Perpetual preferred share dividends	-	-	-	(4,425)	-	(4,425)	
Common share dividends	-	-	-	(270,659)	-	(270,659)	
Common share cancellation excess and other (Note 8)	-	-	-	(2,216)	-	(2,216)	
<b>Balance, end of period</b>	\$ 150,000	\$ 1,599,282	\$ 41,266	\$ 3,147,489	\$ (90,529)	\$ 4,847,508	
<b>2016</b>							
<b>Balance, beginning of period</b>	\$ 150,000	\$ 1,623,948	\$ 35,569	\$ 2,949,182	\$ (31,994)	\$ 4,726,705	
Net earnings	-	-	-	344,279	-	344,279	
Other comprehensive income (loss), net of tax	-	-	-	-	(73,378)	(73,378)	
<b>Total comprehensive income</b>	-	-	-	344,279	(73,378)	270,901	
Common shares							
Issued under stock option plan	-	637	-	-	-	637	
Purchased for cancellation	-	(27,996)	-	-	-	(27,996)	
Stock options							
Current period expense	-	-	2,404	-	-	2,404	
Exercised	-	-	(35)	-	-	(35)	
Perpetual preferred share dividends	-	-	-	(4,425)	-	(4,425)	
Common share dividends	-	-	-	(271,418)	-	(271,418)	
Common share cancellation excess and other (Note 8)	-	-	-	(129,724)	-	(129,724)	
<b>Balance, end of period</b>	\$ 150,000	\$ 1,596,589	\$ 37,938	\$ 2,887,894	\$ (105,372)	\$ 4,567,049	

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)  
(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30

	2017	2016
<b>Operating activities</b>		
Earnings before income taxes	\$ 492,718	\$ 433,104
Income taxes paid	(89,964)	(125,558)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	116,310	118,787
Amortization of capital and intangible assets	26,522	21,257
Changes in operating assets and liabilities and other	(177,379)	(47,595)
	<b>368,207</b>	<b>399,995</b>
Deferred selling commissions paid	(147,974)	(125,433)
	<b>220,233</b>	<b>274,562</b>
<b>Financing activities</b>		
Net increase in deposits and certificates	490	152
Net (decrease) increase in obligations to securitization entities	(193,662)	407,998
Issue of debentures	600,000	–
Issue of common shares	1,964	1,418
Common shares purchased for cancellation	–	(151,096)
Perpetual preferred share dividends paid	(4,425)	(4,425)
Common share dividends paid	(270,619)	(273,829)
	<b>133,748</b>	<b>(19,782)</b>
<b>Investing activities</b>		
Purchase of securities	(103,070)	(124,699)
Proceeds from the sale of securities	36,689	23,355
Net decrease (increase) in loans	195,823	(415,510)
Net additions to capital assets	(9,385)	(28,781)
Net cash used in additions to intangible assets and acquisitions	(15,728)	(34,516)
	<b>104,329</b>	<b>(580,151)</b>
Increase (decrease) in cash and cash equivalents	<b>458,310</b>	<b>(325,371)</b>
Cash and cash equivalents, beginning of period	<b>611,032</b>	<b>983,005</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,069,342</b>	<b>\$ 657,634</b>
Cash	\$ 48,512	\$ 38,521
Cash equivalents	1,020,830	619,113
	<b>\$ 1,069,342</b>	<b>\$ 657,634</b>
<b>Supplemental disclosure of cash flow information related to operating activities</b>		
Interest and dividends received	\$ 133,397	\$ 125,581
Interest paid	\$ 116,416	\$ 107,094

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

## NOTE 1 CORPORATE INFORMATION

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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

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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. The Company continues to make progress towards finalizing its assessment of IFRS 9, however, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual reporting periods beginning on or after January 1, 2018 and the standard is currently being assessed, however, no significant impact to the ongoing recognition of the Company's revenues is expected.

**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 SECURITIES

	JUNE 30, 2017		DECEMBER 31, 2016	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Corporate investments	\$ 186,119	\$ 204,345	\$ 141,641	\$ 151,949
Proprietary investment funds	25,418	26,357	6,097	6,431
	<b>211,537</b>	<b>230,702</b>	147,738	158,380
Fair value through profit or loss:				
Equity securities	15,031	13,905	15,523	17,695
Proprietary investment funds	38,173	37,454	49,407	49,109
	<b>53,204</b>	<b>51,359</b>	64,930	66,804
	<b>\$ 264,741</b>	<b>\$ 282,061</b>	\$ 212,668	\$ 225,184

**AVAILABLE FOR SALE**

**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 2017, the Company invested an additional \$42.6 million in Wealthsimple, an online investment manager that provides financial investment guidance. This investment included the conversion of a loan of \$15.0 million which was recorded in Other assets at March 31, 2017.

## NOTE 4 LOANS

	CONTRACTUAL MATURITY			JUNE 30 2017 TOTAL	DECEMBER 31 2016 TOTAL
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS		
<b>Loans and receivables</b>					
Residential mortgages	\$ 1,193,609	\$ 6,134,303	\$ 6,980	\$ 7,334,892	\$ 7,644,525
Less: Collective allowance				679	722
				<u>7,334,213</u>	<u>7,643,803</u>
<b>Held for trading</b>				<u>460,096</u>	<u>339,466</u>
				<u>\$ 7,794,309</u>	<u>\$ 7,983,269</u>

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

Balance, beginning of period	\$ 722	\$ 705
Write-offs, net of recoveries	(316)	(502)
Provision for credit losses	273	519
Balance, end of period	<u>\$ 679</u>	<u>\$ 722</u>

Total impaired loans as at June 30, 2017 were \$2,470 (December 31, 2016 – \$2,607).

Total interest income on loans classified as loans and receivables was \$99.3 million (2016 – \$95.0 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$66.7 million (2016 – \$63.1 million). Gains realized on the sale of residential mortgages totalled \$6.6 million (2016 – \$8.3 million). Fair value adjustments related to mortgage banking operations totalled \$1.0 million (2016 – negative \$4.3 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

## NOTE 5 SECURITIZATIONS

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

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$11.0 million at June 30, 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.

## NOTE 5 SECURITIZATIONS (continued)

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
<b>JUNE 30, 2017</b>			
Carrying value			
NHA MBS and CMB Program	\$ 4,623,792	\$ 4,760,310	\$ (136,518)
Bank sponsored ABCP	2,680,695	2,775,186	(94,491)
Total	\$ 7,304,487	\$ 7,535,496	\$ (231,009)
Fair value	\$ 7,437,309	\$ 7,588,437	\$ (151,128)
<b>DECEMBER 31, 2016</b>			
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 6 INVESTMENT IN AFFILIATE

	JUNE 30 2017	JUNE 30 2016
Balance, beginning of period	\$ 888,851	\$ 904,257
Proportionate share of earnings	52,875	51,684
Proportionate share of affiliate's provision	(5,098)	–
Dividends received	(29,167)	(27,498)
Proportionate share of other comprehensive income (loss) and other adjustments	6,734	(30,528)
Balance, end of period	\$ 914,195	\$ 897,915
Share of equity, end of period	\$ 790,729	\$ 770,584
Fair value, end of period	\$ 1,396,372	\$ 1,352,661

The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings. At June 30, 2017, the Company held 39,737,388 (December 31, 2016 – 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (December 31, 2016 – 4.0%).

In the second quarter of 2017, Lifeco established a restructuring provision. The Company's after-tax proportionate share was \$5.1 million and is recorded in the Consolidated Statements of Earnings.

## NOTE 7 EMPLOYEE BENEFITS

The Company, at its discretion, may from time to time increase certain benefits paid to retired members of the plan. Under its previous policy, the Company had granted benefit increases in most years and the obligation included an estimate for future increases. The Company has implemented a new policy that limits the possibility of future benefit increases. As a result of this change, the Company revalued its pension obligation and has recognized a reduction to its obligation of \$50.4 million as a decrease to non-commission expense.

## NOTE 8 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

	JUNE 30, 2017		JUNE 30, 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	71,955	2,074	22,600	637
Purchased for cancellation	–	–	(4,219,600)	(27,996)
Balance, end of period	240,587,923	\$ 1,599,282	240,591,138	\$ 1,596,589

### NORMAL COURSE ISSUER BID

In the second quarter of 2017, there were no shares purchased (2016 – 1,227,700 shares purchased at a cost of \$46.8 million). In the six months ended June 30, 2017, there were no shares purchased (2016 – 4,219,600 purchased at a cost of \$151.1 million). Any premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid on March 20, 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 9 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 Second 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 10 SHARE-BASED PAYMENTS

### STOCK OPTION PLAN

	JUNE 30 2017	DECEMBER 31 2016
Common share options		
– Outstanding	9,138,733	8,484,030
– Exercisable	4,152,801	3,858,518

In the second quarter of 2017, the Company granted 22,475 options to employees (2016 – nil). In the six months ended June 30, 2017, the Company granted 1,418,930 options to employees (2016 – 1,575,595). The weighted-average fair value of options granted during the six months ended June 30, 2017 has been estimated at \$2.52 per option (2016 – \$1.61) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$41.67. The assumptions used in these valuation models include:

	SIX MONTHS ENDED JUNE 30	
	2017	2016
Exercise price	\$ 41.70	\$ 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	5.40%	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 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
<b>JUNE 30, 2017</b>				
Balance, beginning of period	\$ (110,913)	\$ 8,617	\$ 19,854	\$ (82,442)
Other comprehensive income (loss)	(29,278)	5,330	15,861	(8,087)
Balance, end of period	\$ (140,191)	\$ 13,947	\$ 35,715	\$ (90,529)
<b>JUNE 30, 2016</b>				
Balance, beginning of period	\$ (111,874)	\$ 2,658	\$ 77,222	\$ (31,994)
Other comprehensive income (loss)	(43,573)	(2,125)	(27,680)	(73,378)
Balance, end of period	\$ (155,447)	\$ 533	\$ 49,542	\$ (105,372)

Amounts are recorded net of tax.

## NOTE 12 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 Second 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 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

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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 13 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	
<b>JUNE 30, 2017</b>					
<b>Financial assets recorded at fair value</b>					
Securities					
– Available for sale	\$ 230,702	\$ 26,357	\$ –	\$ 204,345	\$ 230,702
– Held for trading	51,359	49,589	506	1,264	51,359
Loans					
– Held for trading	460,096	–	460,096	–	460,096
Derivative financial instruments	41,089	–	35,412	5,677	41,089
<b>Financial assets recorded at amortized cost</b>					
Loans					
– Loans and receivables	7,334,213	–	30,645	7,437,309	7,467,954
<b>Financial liabilities recorded at fair value</b>					
Derivative financial instruments	25,776	–	9,090	16,686	25,776
Other financial liabilities	7,707	7,682	25	–	7,707
<b>Financial liabilities recorded at amortized cost</b>					
Deposits and certificates	439,304	–	440,310	–	440,310
Obligations to securitization entities	7,535,496	–	–	7,588,437	7,588,437
Long-term debt	1,925,000	–	2,258,794	–	2,258,794
<b>DECEMBER 31, 2016</b>					
<b>Financial assets recorded at fair value</b>					
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
<b>Financial assets recorded at amortized cost</b>					
Loans					
– Loans and receivables	7,643,803	–	29,452	7,838,295	7,867,747
<b>Financial liabilities recorded at fair value</b>					
Derivative financial instruments	38,163	–	12,263	25,900	38,163
Other financial liabilities	9,781	9,770	11	–	9,781
<b>Financial liabilities recorded at amortized cost</b>					
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

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.

## NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS <sup>(1)</sup>	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME <sup>(2)</sup>	PURCHASES AND ISSUANCES	SETTLEMENTS	BALANCE JUNE 30
<b>JUNE 30, 2017</b>						
<b>Assets</b>						
Securities						
– Available for sale	\$ 151,949	\$ –	\$ 7,918	\$ 44,478	\$ –	\$ 204,345
– Held for trading	1,438	(174)	–	–	–	1,264
<b>Liabilities</b>						
Derivative financial instruments, net	23,055	3,718	–	259	8,587	11,009
<b>JUNE 30, 2016</b>						
<b>Assets</b>						
Securities						
– Available for sale	\$ 9,273	\$ –	\$ (2,669)	\$ 67,260	\$ –	\$ 73,864
– Held for trading	1,288	33	100	–	–	1,421
<b>Liabilities</b>						
Derivative financial instruments, net	47,414	(10,746)	–	2,579	8,947	51,792

(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 14 EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
<b>Earnings</b>				
Net earnings	\$ 203,015	\$ 175,103	\$ 382,347	\$ 344,279
Perpetual preferred share dividends	2,212	2,212	4,425	4,425
Net earnings available to common shareholders	\$ 200,803	\$ 172,891	\$ 377,922	\$ 339,854
<b>Number of common shares (in thousands)</b>				
Average number of common shares outstanding	240,587	241,071	240,565	242,100
Add: Potential exercise of outstanding stock options <sup>(1)</sup>	253	150	266	97
Average number of common shares outstanding – diluted basis	240,840	241,221	240,831	242,197
<b>Earnings per common share (in dollars)</b>				
Basic	\$ 0.83	\$ 0.72	\$ 1.57	\$ 1.40
Diluted	\$ 0.83	\$ 0.72	\$ 1.57	\$ 1.40

(1) Excludes 1,029 thousand shares for the three months ended June 30, 2017 (2016 – 1,655 thousand) related to outstanding stock options that were anti-dilutive. Excludes 980 thousand shares for the six months ended June 30, 2017 (2016 – 1,913 thousand) related to outstanding stock options that were anti-dilutive.

## NOTE 15 RELATED PARTY TRANSACTIONS

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In 2014 and 2015, the Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings. The Company acquired an aggregate of \$2.00 billion of 4.51% preferred shares of a wholly-owned subsidiary of Power Financial Corporation and, as sole consideration for the preferred shares, the Company issued \$2.00 billion of 4.50% secured demand debentures to Power Financial Corporation. The Company had legally enforceable rights to settle these financial instruments on a net basis which were exercised during the second quarter of 2017, resulting in the termination of this arrangement.

The preferred shares and debentures and related dividend income and interest expense had been offset in the Consolidated Financial Statements of the Company. Tax savings arose due to the tax deductibility of the interest expense.

## NOTE 16 SEGMENTED INFORMATION

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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.

NOTE 16 SEGMENTED INFORMATION (continued)

2017

THREE MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 354,583	\$ 177,259	\$ 15,160	\$ 547,002
Administration fees	81,359	24,923	4,956	111,238
Distribution fees	46,485	1,849	46,441	94,775
Net investment income and other	22,080	(1,854)	30,095	50,321
	504,507	202,177	96,652	803,336
Expenses				
Commission	162,918	75,509	46,021	284,448
Non-commission	147,674	83,204	15,638	246,516
	310,592	158,713	61,659	530,964
Earnings before undernoted	\$ 193,915	\$ 43,464	\$ 34,993	272,372
Interest expense				(28,703)
Pension plan				50,381
Restructuring and other charges				(22,940)
Proportionate share of affiliate's provision				(5,098)
Earnings before income taxes				266,012
Income taxes				62,997
Net earnings				203,015
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				\$ 200,803

2016

THREE MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 318,287	\$ 163,544	\$ 15,555	\$ 497,386
Administration fees	76,527	22,846	4,955	104,328
Distribution fees	51,424	2,385	42,533	96,342
Net investment income and other	18,576	1,225	26,484	46,285
	464,814	190,000	89,527	744,341
Expenses				
Commission	152,160	72,234	42,734	267,128
Non-commission	138,522	77,561	15,657	231,740
	290,682	149,795	58,391	498,868
Earnings before undernoted	\$ 174,132	\$ 40,205	\$ 31,136	245,473
Interest expense				(22,913)
Earnings before income taxes				222,560
Income taxes				47,457
Net earnings				175,103
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				\$ 172,891

NOTE 16 SEGMENTED INFORMATION (continued)

2017

SIX MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 695,654	\$ 349,020	\$ 30,029	\$ 1,074,703
Administration fees	161,227	49,323	9,652	220,202
Distribution fees	103,593	4,188	92,254	200,035
Net investment income and other	40,106	(1,774)	59,765	98,097
	1,000,580	400,757	191,700	1,593,037
Expenses				
Commission	332,474	150,094	91,187	573,755
Non-commission	295,433	165,730	32,254	493,417
	627,907	315,824	123,441	1,067,172
Earnings before undernoted	\$ 372,673	\$ 84,933	\$ 68,259	525,865
Interest expense				(55,490)
Pension plan				50,381
Restructuring and other charges				(22,940)
Proportionate share of affiliate's provision				(5,098)
Earnings before income taxes				492,718
Income taxes				110,371
Net earnings				382,347
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				\$ 377,922
Identifiable assets	\$ 9,480,659	\$ 1,307,899	\$ 2,654,612	\$13,443,170
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$10,828,440	\$ 2,476,479	\$ 2,798,518	\$16,103,437

NOTE 16 SEGMENTED INFORMATION (continued)

2016				
SIX MONTHS ENDED JUNE 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 626,505	\$ 324,035	\$ 30,682	\$ 981,222
Administration fees	150,145	45,230	9,303	204,678
Distribution fees	101,302	4,948	85,060	191,310
Net investment income and other	32,353	1,543	56,074	89,970
	910,305	375,756	181,119	1,467,180
<b>Expenses</b>				
Commission	299,548	143,909	85,186	528,643
Non-commission	273,551	155,188	30,868	459,607
	573,099	299,097	116,054	988,250
Earnings before undernoted	\$ 337,206	\$ 76,659	\$ 65,065	478,930
Interest expense				(45,826)
Earnings before income taxes				433,104
Income taxes				88,825
Net earnings				344,279
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				\$ 339,854
<b>Identifiable assets</b>				
Identifiable assets	\$ 9,304,788	\$ 1,323,647	\$ 1,824,362	\$ 12,452,797
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$ 10,652,569	\$ 2,492,227	\$ 1,968,268	\$ 15,113,064

# Pargesa Holding SA

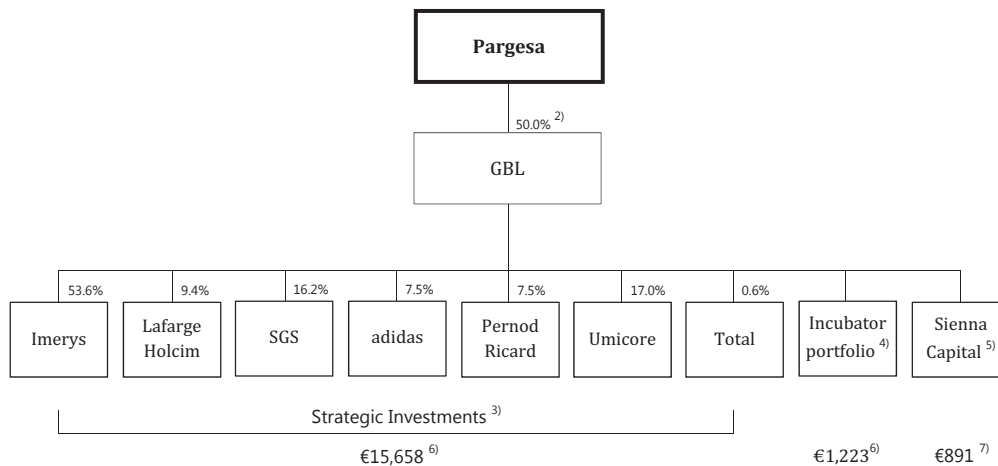
PART E

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 June 30, 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 June 30, 2017, which was primarily composed of seven strategic main shareholdings<sup>1)</sup>.



1) Shareholdings are expressed as a percentage of the capital held.

2) 51.8% of voting rights, taking into account the suspended voting rights relating to treasury shares.

3) Investments generally larger than €1 billion in companies in which the Group can exercise clear influence on the long term. These represent the bulk of the Group's portfolio.

4) Comprising a selection of shareholdings that range in size from €250 million to €1 billion in companies which may be public or private, having the potential to eventually become strategic. At June 30, 2017, this portfolio includes primarily the participations in Ontex, Burberry and Parques Reunidos.

5) Comprising significant investments in private equity, debt or specific thematic funds.

6) Market value in millions of euros of the investments held by GBL at June 30, 2017.

7) Estimated value in millions of euros at June 30, 2017.

As at June 30, 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

- ▶ GBL sold since the beginning of the year almost all of its remaining interest in Engie (0.5% of the company's share capital), for net proceeds of €145 million and generating an accounting gain of €1 million. GBL now holds less than 0.1% of the share capital of Engie, which is no longer considered a strategic investment since the end of 2016.

As already reported, 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.

- ▶ In May 2017, GBL successfully completed a 7-year bond issue for €500 million with a coupon of 1.375%. The proceeds from this issuance are intended to cover GBL's general corporate purposes. This transaction allows GBL to extend its average debt maturity profile and to further diversify its financing sources.
- ▶ On July 18, 2017, Imerys announced that it had completed the acquisition of Kerneos, world leader in high-performance calcium aluminates binders. With this operation, Imerys enhances its specialty offering in high-potential markets and improves its growth and profitability profile while creating value. This acquisition is entirely funded from Imerys's available resources.
- ▶ "Incubator" portfolio:
  - As already reported, Burberry announced in February 2017 that GBL had crossed the 3% threshold of the voting rights of the company. As at June 30, 2017, GBL held 3.95% of Burberry's share capital, worth €327 million. Burberry announced, on July 24, 2017, that GBL had crossed the 4% threshold in the voting rights of the company;
  - 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 Hypermarcas. Following this operation, GBL's ownership in Ontex remains unchanged at 19.98%. Furthermore, the general shareholders' meeting of Ontex on May 24, 2017 approved the election of a GBL representative on the board of directors;
  - GBL announced on April 12, 2017 the acquisition of a 15.0% interest in the capital of Parques Reunidos Servicios Centrales, S.A. ("Parques"). Parques, whose shares are listed on the Madrid Stock Exchange, is a reference 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. The market value of the investment in Parques was €201 million at June 30, 2017.

► Sienna Capital (GBL’s “financial pillar”):

- As already reported, in March 2017 Ergon Capital Partners III (ECP III) sold its majority stake in Golden Goose, an Italian designer of shoes, clothes and contemporary accessories. This transaction generated a gain of €112 million for GBL, or SF62.3 million at the level of Pargesa;

On 25 July 2017, ECP III sold its interest in ELITech, a manufacturer of specialty in-vitro diagnostics equipment and reagents. This transaction will generate a gain estimated at €102 million for GBL (approximately SF57 million at the level of Pargesa, based on the first half of 2017 average exchange rate), which will be recorded in the third quarter of 2017;

- 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. As of June 30, 2017 total commitments received by the fund amounted to €624 million. Kartesia’s objective is to raise an aggregate amount of €750 million by the end of 2017;
- During the second quarter of 2017, Mérieux Participations II (MP II) acquired a minority shareholding in Xeris Pharmaceuticals Inc., a biopharmaceutical company developing injectable therapeutics for multiple indications, including diabetes. MP II has also acquired a minority stake in Ivantis Inc., a company dedicated to the development of new and innovative solutions for glaucoma.

At June 30, 2017, GBL’s commitments under its financial pillar amounted to €565 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 requires 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 contribution from private equity activities and other investment funds (combined under Sienna Capital at GBL) and the impact of net financial income (or expenses) of the holding companies. 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 (with the exception of net results from disposals or impairments recorded by private equity and other investment funds, which are included in the “Contribution from private equity activities and other investment funds” item).

According to this approach, the economic results for the six-month period ended June 30, 2017 can be analyzed as follows:

[in millions of Swiss francs] [unaudited]	FIRST HALF 2017	FIRST HALF 2016	
<b>Operating contribution of the main shareholdings</b>			
<b>Consolidated</b>			
Imerys	share of operating income	57.2	57.1
<b>Non-consolidated:</b>			
LafargeHolcim	net dividend	59.7	44.3
SGS	net dividend	45.9	41.5
adidas	net dividend	14.9	10.7
Pernod Ricard	net dividend	10.4	10.2
Total	net dividend	10.0	12.9
Umicore	net dividend	7.4	7.6
Engie	net dividend	0.1	13.2
<b>Operating contribution of the main shareholdings</b>		<b>205.6</b>	<b>197.5</b>
<i>per share [SF]</i>		<i>2.43</i>	<i>2.33</i>
Contribution from private equity activities and other investment funds		60.1	25.0
Net financial income and expenses		(8.4)	16.4
Other operating income from holding company activities <sup>(1)</sup>		7.9	2.9
General expenses and taxes		(15.9)	(13.5)
<b>Economic operating income</b>		<b>249.3</b>	<b>228.3</b>
<i>per share [SF]</i>		<i>2.94</i>	<i>2.70</i>
Non-operating loss from consolidated shareholdings		(5.3)	(8.0)
Non-operating income (loss) from holding company activities		8.5	(581.5)
<b>Net income (loss)</b>		<b>252.5</b>	<b>(361.2)</b>
<i>per share [SF]</i>		<i>2.98</i>	<i>(4.27)</i>
Average number of shares in circulation [in thousands]		84,659	84,659
€/SF average exchange rate		1.077	1.096

<sup>(1)</sup> This line item represents Pargesa's share of the dividends from GBL's "Incubator" portfolio. The investment in Umicore, which was classified as part of the "Incubator" portfolio until June 30, 2016 is considered since the third quarter of 2016 as a Strategic participation. The line item "Other operating income from holding company activities" in the first half of 2016 has therefore been adjusted accordingly (by -SF7.6 million).

Most of the income comes from GBL, whose results are denominated in euros. In the first half of 2017, the average €/SF exchange rate was 1.077, compared with 1.096 in the first half of 2016, a decrease of 1.8%.

## CONSOLIDATED HOLDINGS

### Imerys

Pargesa's share of Imerys's net income from current operations, in Swiss franc terms, was SF57.2 million in the first half of 2017, compared with SF57.1 million in the first half of 2016. The quasi-stability of Imerys's contribution primarily reflects the increase of the net income from current operations, which is compensated by the decrease in the average €/SF exchange rate in 2017 compared with the first half of 2016.

Imerys reported net income from current operations of €189.7 million in the first half of 2017, an increase of 3.2% over the corresponding period in 2016 (€183.9 million). After taking into account non-recurring items of -€17.5 million<sup>1</sup> net of taxes, net income was €172.2 million in the first half of 2017, compared with €158.1 million in the first half of 2016 (which included non-recurring items net of taxes for -€25.8 million).

## NON-CONSOLIDATED HOLDINGS

The contributions from LafargeHolcim, SGS, adidas, Pernod Ricard, Total, Umicore (now a strategic shareholding since the third quarter of 2016) and Engie represent Pargesa's share of net dividends recorded by GBL from these companies.

### LafargeHolcim

The contribution from LafargeHolcim, which corresponds to Pargesa's share of the dividend received by GBL in the first half of 2017, amounts to SF59.7 million, compared to SF44.3 million for the same period in 2016. The variance in the contribution reflects the increase of the annual dividend paid by the company (SF2.00 per share in 2017, compared to SF1.50 in 2016, a 33% increase).

### SGS

In the first half of 2017, Pargesa's share of SGS's contribution came in at SF45.9 million, compared with SF41.5 million in the first half of 2016. The year-over-year variance in the contribution results 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.

### adidas

The contribution from adidas amounted to SF14.9 million for Pargesa, versus SF10.7 million in the first half of 2016. This increase reflects primarily the increase in the dividend paid by adidas (€2.00 per share, up from €1.60 in 2016, an increase of 25%), as well as the increase of GBL's ownership in the company.

### Pernod Ricard

Pernod Ricard declared an interim dividend of €0.94 per share in the first half of 2017, compared with €0.90 in the first half of 2016. Pernod Ricard's contribution in the first half of 2017 stood at SF10.4 million, versus SF10.2 million in the first half of 2016.

### Total

The contribution from Total was SF10.0 million in the first half of 2017, versus SF12.9 million in the first half of 2016.<sup>2</sup> The final 2016 dividend and the first interim dividend for 2017 amounted to €0.62 per share each, a 1.6% increase over the corresponding amounts in 2016 (€0.61). The smaller contribution from this holding reflects the impact of the disposal of Total shares by GBL.<sup>3</sup>

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<sup>1</sup> 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".

<sup>2</sup> In the second quarter of 2016, GBL sold forward Total shares, and therefore continued to receive the interim dividends paid before the maturity of the contracts in the fourth quarter of 2016. Over the first six months of 2016, this represented a total amount of SF6.4 million at the level of Pargesa.

<sup>3</sup> It is also reminded that the contribution from Total was negative in the first quarter of 2016, as explained in previous press releases.

## Umicore

The contribution from Umicore amounted to SF7.4 million in the first half of 2017, compared to SF7.6 million in the first half of 2016, and represents Pargesa's share of the final dividend payment related to 2016, or €0.70 per share, unchanged from last year. The slight decrease in Umicore's contribution results from a lower average exchange rate in the first half of 2017 compared with the first half of 2016.

## Engie

The significant reduction in Engie's contribution (SF0.1 million, compared to SF13.2 million in 2016) is the result of the sale of shares by GBL in the fourth quarter of 2016 and the first quarter of 2017.

## CONTRIBUTIONS FROM PRIVATE EQUITY ACTIVITIES AND OTHER FUNDS

The contribution from private equity activities and other investment funds comes primarily from investment funds held by GBL through Sienna Capital, and also includes general expenses and management fees. In the first half of 2017, the net contribution from these activities came in at SF60.1 million, including Pargesa's share of the gain recorded by ECP III on the sale of its investment in Golden Goose in the first quarter of 2017 (€112 million for GBL, or SF62.3 million at the level of Pargesa), as well as the contributions from Kartesia (SF6.2 million) and Mérieux Participations II (SF2.3 million). Comparatively, the contribution from these activities came in at SF25.0 million in the first half of 2016, and included Pargesa's share of the gain recorded by ECP III from the sale of its interest in De Boeck group, for an amount of SF29.2 million, as well as the contribution from Kartesia (SF3.9 million).

## 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 -SF8.4 million in the first half of 2017, compared with SF16.4 million in the first half 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 half of 2017 relates only to GBL's convertible bonds, was -SF2.8 million, reflecting in particular the evolution in the price of the underlying shares over the period. In the first half of 2016, the corresponding figure was SF41.1 million (including SF28.2 million related to the bonds exchangeable for Engie shares);
- ▶ 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. In the first half of 2016, the impact of the cancellation of the derivatives embedded in bonds exchangeable for Engie shares repurchased by GBL over the period amounted to -SF9.6 million;
- ▶ 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 SF12.8 million in the first half of 2017, compared with SF1.3 million in the first half of 2016.

## **OTHER OPERATING INCOME FROM HOLDING COMPANY ACTIVITIES**

Other operating income from holding company activities represents Pargesa's share of net dividends booked by GBL on its incubator-type investments. As mentioned above, the figure for the first half of 2016 has been adjusted (by -SF7.6 million), as the investment in Umicore is now considered a strategic shareholding. The increase in 2017 primarily results from the additional investments made by GBL in Ontex and from the increase of the dividend per share paid by that company (€0.55 in 2017, compared to €0.46 in 2016), as well as from the new investment made in Parques.

## **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's non-operating items.

The net non-operating income from holding company activities was SF8.5 million in the first half of 2017, and includes in particular the impact of the redemption at maturity of the balance of the bonds exchangeable for Engie shares.

In the first half of 2016, the net non-operating loss from holding company activities of -SF581.5 million included primarily:

- ▶ Pargesa's -SF959.5 million share of the impairment charge recorded by GBL on its holding in LafargeHolcim at March 31 and June 30, 2016, for an aggregate amount of €1,682 million;
- ▶ Pargesa's SF401.0 million share of the capital gain recorded by GBL on the sale of 1.1% of Total's share capital in the first half of 2016, including an historical exchange rate gain of SF157.5 million for Pargesa;
- ▶ Pargesa's share of a further impairment charge of -SF24.7 million recognized on GBL's holding in Engie at March 31, 2016;
- ▶ The impact of the repurchase and cancellation of around 67% of the bonds exchangeable for Engie shares, for a net amount of SF2.6 million for Pargesa.

## PRESENTATION OF RESULTS IN ACCORDANCE WITH IFRS

The simplified income statement in accordance with IFRS is as follows:

[in millions of Swiss francs] [unaudited]	FIRST HALF 2017	FIRST HALF 2016
Operating income	2,604.0	2,530.8
Operating expenses	(2,332.0)	(2,273.5)
Other income and expenses	139.5	(1,076.9)
<b>Operating profit (loss)</b>	<b>411.5</b>	<b>(819.6)</b>
Dividends and interest from long-term investments	302.3	276.1
Other financial income and expenses	(58.7)	12.3
Taxes	(81.7)	(80.0)
Income from associates and joint ventures	17.1	12.7
<b>Consolidated net profit (loss)</b> [before minority interests]	<b>590.5</b>	<b>(598.5)</b>
Attributable to minority interests	(338.0)	237.3
<b>Attributable to Pargesa shareholders</b> [group share]	<b>252.5</b>	<b>(361.2)</b>
<i>Basic earnings per share attributable to Pargesa shareholders [SF]</i>	<i>2.98</i>	<i>(4.27)</i>
Average number of shares in circulation [in thousands]	84,659	84,659
€/SF average exchange rate	1.077	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 half of 2017, this figure mainly comprised the gain realized on the sale by ECP III of its investment in Golden Goose (SF133.7 million). In the first half of 2016, this item included primarily the impairment charges recorded by GBL on its investments in LafargeHolcim and Engie for an aggregate amount of -SF1,896 million (of which -SF1,848 million was related to LafargeHolcim), as well as the gain recorded by GBL on the sale of 1.1% of Total's share capital (SF775 million, including a historical foreign exchange gain of SF306 million).

The dividends and interest from long-term investments item comprises the net dividends recorded by the group from its non-consolidated investments.

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 SF114.5 at June 30, 2017 (SF104.9 at December 31, 2016 and SF93.0 at June 30, 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 fair value and current exchange rates for private equity and other funds. It is broken down as follows:

<b>Pargesa's flow-through adjusted net asset value</b>					
As at June 30, 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	76.2 €	1,783	18
LafargeHolcim	9.4	4.7	50.3 €	1,573	16
SGS	16.2	8.1	2,322 SF	1,471	15
adidas	7.5	3.8	167.8 €	1,439	15
Pernod Ricard	7.5	3.8	117.3 €	1,275	13
Umicore	17.0	8.5	60.9 €	634	7
Total	0.6	0.3	43.3 €	383	4
Incubator					
Ontex	19.98	10.0	31.1 €	280	3
Burberry	3.95	2.0	16.6 £	179	2
Parques Reunidos	15.2	7.6	16.4 €	110	1
Others				100	1
Financial pillar				487	5
Other Pargesa				28	-
<b>Total portfolio</b>				9,742	100
GBL treasury assets				260	3
Net cash (debt) <sup>(1)</sup>				(312)	(3)
<b>Adjusted net asset value</b>				9,690	100
<i>per Pargesa share</i>			73.0 SF	114.5	
€/SF exchange rate				1.093	

<sup>(1)</sup> This item notably includes Pargesa's share in the market value of GBL's trading portfolio. At June 30, 2017, it also includes Pargesa's share of the value of the remaining stake in Engie (less than 0.1%), valued at SF11 million.

The flow-through adjusted net asset value is published on a weekly basis on the company's website. It was SF119.7 per share on July 28, 2017.