2016 Annual Report

STRONG HISTORY BRIGHT FUTURE

iA Financial Group

125 YEARS

iA Financial Group is turning 125!

iA Financial Group's history begins with two pioneering Canadian insurance companies. The first, Alliance Nationale, was a mutual aid society created in Montreal in 1892. The second, the Industrial Life Insurance Company, was founded in Quebec City in 1905. In 1987, the two merged to form the Industrial-Alliance Life Insurance Company.

Since that time, Industrial Alliance has evolved from a mutual to a publicly-traded company listed on the Toronto Stock Exchange, from a Quebec-based insurer to one operating across Canada and in the United States, and from a life and health insurance company to an integrated financial services firm.

In 2015, Industrial Alliance was re-branded as iA Financial Group, proudly reflecting the Company's position as a major Canadian financial institution, dedicated to ensuring the financial wellbeing of its clients for another 125 years to come!

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Financial Highlights (Consolidated Financial Data[1])

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	Variation
Profitability			
Net income attributed to common shareholders	537.2	364.4	47%
Earnings per common share (diluted)	$5.19	$3.57	$1.62
Return on common shareholders' equity	13.2%	10.2%	300 bps
Business Growth			
Net premiums, premium equivalents and deposits by line of business			
Individual Insurance	1,686.1	1,578.5	7%
Individual Wealth Management	3,334.5	3,140.1	6%
Group Insurance	1,476.4	1,442.3	2%
Group Savings and Retirement	1,455.0	1,293.3	13%
General Insurance	250.5	218.1	15%
Total	8,202.5	7,672.3	7%
Sales by line of business			
Individual Insurance	306.7	254.3	21%
Individual Wealth Management			
General fund	300.6	130.4	131%
Segregated funds	1,559.6	1,581.2	(1%)
Mutual funds	1,474.3	1,428.5	3%
Total	3,334.5	3,140.1	6%
Group Insurance			
Employee Plans	71.4	68.0	5%
Dealer Services – Creditor Insurance	363.0	363.0	0%
Dealer Services – P&C	196.9	197.7	0%
Special Markets Solutions	194.1	190.3	2%
Total	825.4	819.0	1%
Group Savings and Retirement	1,481.4	1,316.2	13%
Assets under management and administration			
Assets under management	84,847.0	78,892.5	8%
Assets under administration	41,387.2	36,920.8	12%
Total	126,234.2	115,813.3	9%
Financial Position (as at December 31)			
Book value per common share	$40.97	$36.76	11%
Equity and debentures	5,759.9	5,030.1	15%
Solvency ratio	225%	213%	1,200 bps
Debt measures			
Debentures/capital structure	17.3%	16.8%	50 bps
Debentures and preferred shares/capital structure	23.8%	24.3%	(50 bps)
Quality of Investments (as at December 31)			
Net impaired investments as a % of investment portfolio	0.08%	0.05%	3 bps
Bonds: BB and lower as a % of the portfolio	0.76%	0.66%	10 bps
Mortgages: delinquency rate	0.27%	0.29%	(2 bps)
Investment properties: occupancy rate	90.2%	90.1%	10 bps
Share Information (as at December 31)			
Number of common shares outstanding (in millions)	106.2	102.4	4%
Weighted average number of common shares – diluted (in millions)	103.4	102.0	1%
Share price	$53.39	$44.13	21%
Market capitalization	5,670.3	4,520.5	25%
Human Resources			
Number of employees	5,350	5,148	202

[1] Refer to the *Ten-Year History* for further detailed financial information and definitions.

2016 in Review

Profitability Above Expectations

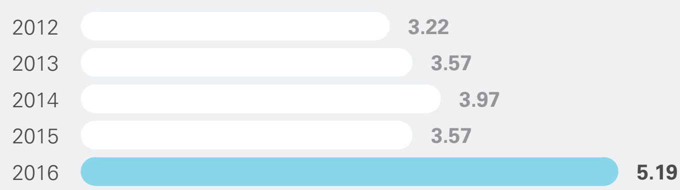
Earnings per common share amounted to $5.19 in 2016.

This was well above guidance given at the beginning of the year ($4.20 to $4.60). Return on equity was 13.2%, which was also above target (11.0% to 12.5%).

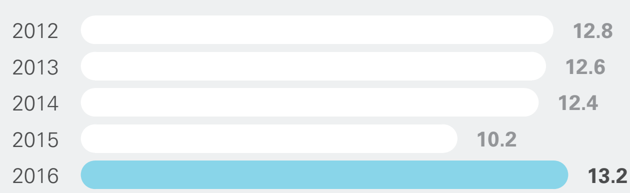
These excellent profitability results come mainly from experience gains in multiple business units, favourable markets and the positive impact of the year-end review of provisions for future policy benefits.

Shareholder value has therefore continued to grow, as reflected in the 7% increase in the quarterly dividend to common shareholders and the 11% increase in book value per common share.

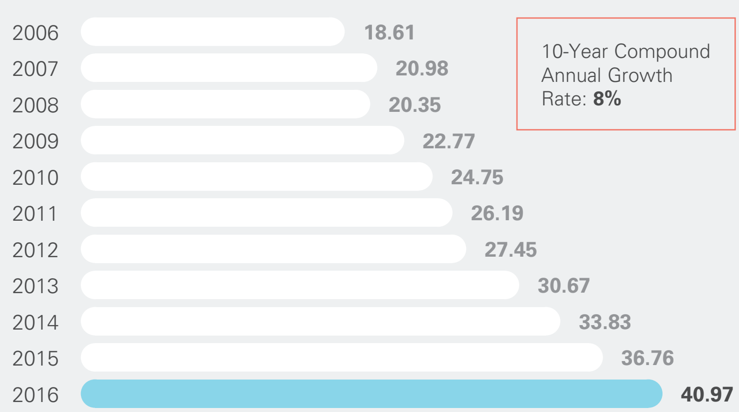
Diluted Earnings per Common Share
($)



Return on Common Shareholders' Equity
(%)



Book Value per Common Share
($, at December 31)



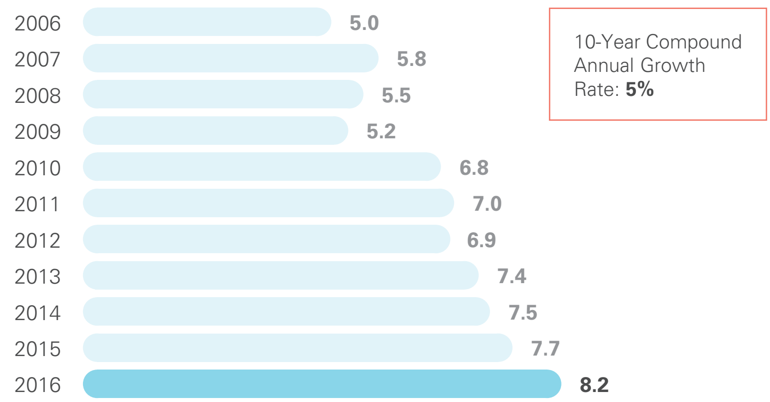
Strong Business Growth in 2016

Both premiums and deposits and assets under management and administration reached record highs in 2016.

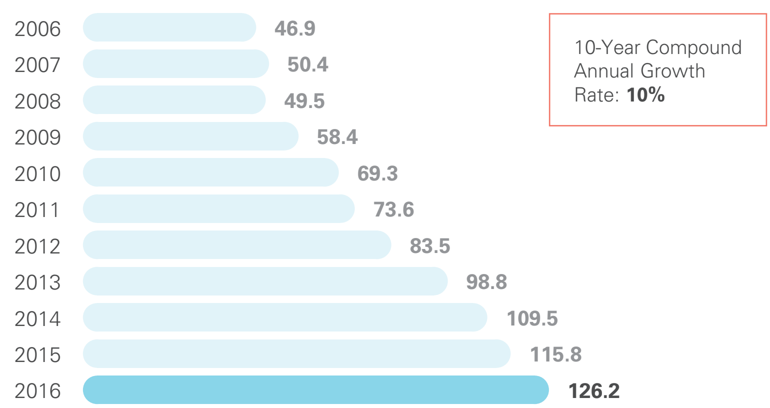
Premiums and deposits were up 7% in 2016. Their sustained growth is driven by good business persistency as well as new sales. 2016 was marked by solid sales growth in Individual Insurance, strong segregated fund deposits, and good improvement in mutual fund sales.

Assets under management and administration were up 9% in 2016. In addition, the Company announced five acquisitions during the year, the largest being an agreement to acquire HollisWealth, expected to close in the third quarter of 2017. This acquisition should increase assets under administration by approximately $34 billion, making iA Financial Group one of Canada's largest non-bank wealth management advisory firms.

Net Premiums, Premium Equivalents and Deposits
($Billion, at December 31)



Assets Under Management and Administration
($Billion, at December 31)



A Solid and Flexible Balance Sheet

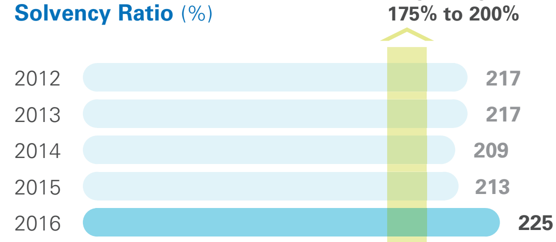
The solvency ratio was 225% at December 31, 2016.

This ratio was above the Company's target range of 175% to 200%. The debt ratio ended the year in a comfortable position, below the 25% mark.

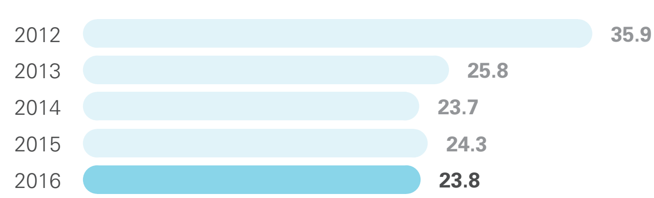
These two ratios indicate a level of financial strength and flexibility that will benefit the Company should additional capital be needed for a significant acquisition.

Solvency Ratio (%)

Target range:
175% to 200%



Debt Ratio (Debt and Preferred Shares/Capital Structure) (%)



Message from the Chairman of the Board

John LeBoutillier
Chairman of the Board

Without a doubt, 2016 was an excellent year for iA Financial Group, with profitability well above expectations and very good business growth in all business lines and subsidiaries.

The macroeconomic environment was favourable for the first time in recent years. Despite dropping for a good part of the year, long-term interest rates rebounded in the last two months to end the year higher than where they began. Stock markets were up as well, boasting very good growth in 2016.

A profitable year

In terms of business growth, the Company's assets under management and administration ended the year at $126.2 billion, a new record.

The Board is also pleased to report that iA Financial Group is well positioned in terms of financial strength, enabling it to make five acquisitions in 2016. The HollisWealth acquisition, the largest in the Company's history, was announced in December with a closing date planned for the third quarter of 2017. This acquisition will make iA Financial Group one of the largest non-bank wealth management advisory firms in Canada.

The Company also increased its quarterly dividend from $0.30 to $0.32 per common share (+7%) in 2016.

On June 14, 2016, the Company held its seventh Investor Day in Toronto. This event, which has been held every two years since 2004, was well attended by financial analysts, finance professionals and institutional investors.

Participants were pleased with the quality of information provided, particularly with regard to the Company's growth objectives, the strength of its balance sheet and greater transparency regarding the actions taken by management to help the Company adapt to the macroeconomic environment.

About the Board

The Board of Directors met eight times in 2016, and the Board's various committees held a total of 15 meetings. The participation rate was 98.4% in Board meetings, and 97.1% in Board committee meetings.

On May 5, 2016, two new directors were elected to the Board: Agathe Côté and Louis Têtu.

Ms. Côté was deputy governor of the Bank of Canada from July 2010 until her retirement in January 2016. As a member of the Governing Council, she had shared responsibility for decisions with respect to monetary policy and financial system stability.

Louis Têtu is the president and CEO and a member of the board of directors of Coveo Solutions, an intelligent search applications company. He co-founded Taleo Corporation, which was acquired by Oracle in 2012, and held the position of chief executive officer and chairman of the board of directors from the company's inception in 1999 through 2007.

Emma Griffin joined the Board of Directors on November 30, 2016. Ms. Griffin has extensive experience in the field of investment banking services. She was the co-founder of Oriel Securities, a mid-market brokerage firm and investment bank headquartered in London, England.

Since they joined us, Ms. Côté, Ms. Griffin and Mr. Têtu have made a valuable contribution to the Board's activities.

Pierre Brodeur announced his decision some time ago not to seek a new term in 2017. Mr. Brodeur became a director in 1999, chaired the Human Resources and Governance Committee from 2005 to 2015, and has been a member of the Investment Committee as well. On behalf of the Board, I'd like to thank him for his considerable contribution to the Company's success.

At December 31, 2016, 40% of the Board's fifteen positions were held by women.

Passing the torch

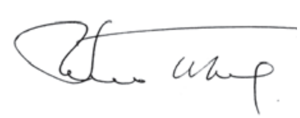
In closing, the time has come for me to relinquish my duties. It has been an immense honour to be a member of the Company's Board of Directors since 1997, and its chairman since 2005.

I've had the opportunity to work with some incredible people who truly care about the Company's success and who work hard, day in and day out, to ensure its growth and development for the benefit of everyone involved.

I've also seen the Company's remarkable transformation over the years. Less than two decades ago, Industrial Alliance was an insurance company with operations mainly in Quebec. It was just starting to expand outside the province with offices in Toronto and Vancouver. Today, iA Financial Group is a full-fledged financial services company with offices Canada-wide and in the United States, and is a key player in Canada in both insurance and wealth management.

I want to take this opportunity to highlight the exceptional work of the management team and all iA Financial Group employees throughout the year. Their commitment, hard work and dedication have contributed to the success of the entire organization and the satisfaction of its shareholders.

Thank you as well to all policyholders and shareholders for their continued confidence in us.



President and Chief Executive Officer's Report

Yvon Charest
President and Chief Executive Officer

2016 was undeniably a very good year for iA Financial Group, highlighted by good business growth and profitability well above expectations.

We successfully met two major challenges in 2016.

The first was with regard to profitability in the Employee Plans division. After a few challenging years, 2016 was a real turning point. Not only did the division exceed its objectives for the year, it also posted additional gains. These are very encouraging results, and we're working hard to keep the momentum going.

The second major challenge pertained to mutual funds. 2016 marked a big improvement in fund flows, resulting in positive net sales in the fourth quarter.

Strong business growth

As a whole, business growth was very good in all lines of business in 2016, with exceptional results for Individual Insurance in both Canada and the United States.

iA Financial Group is still ranked first in Canada for net segregated fund sales. We're extremely proud to be the Canadian leader in this area.

Business growth was also good in Group Insurance and Group Savings and Retirement.

The Company's premiums and deposits were up in all business lines for a total increase of 7% in 2016, reaching a new high of over $8.2 billion.

Assets under management and administration ended the year at over $126 billion, a 9% increase over 2015.

We announced five acquisitions in 2016, the largest being HollisWealth, which was made public in early December. This acquisition will make iA Financial Group one of the leading non-bank financial advisory firms in Canada in terms of geographic presence and assets under administration.

Our auto and home insurance subsidiary also had an excellent year in terms of business growth. Direct written premiums were up 13%, making this subsidiary a leader in its market. This positive result is primarily explained by the contribution of new strategic partnerships.

Solid profitability

Profitability for iA Financial Group was above guidance in 2016, ending the year on an excellent note.

In terms of creating value for our shareholders, I'm pleased to announce that the book value per share was up 11% in 2016 and that we increased our quarterly dividend on common shares by 7% in May 2016. We also announced an additional dividend increase of 9% in February 2017, in keeping with the trend of an increase every three quarters.

The Company's success in 2016 is reflected in a 21% increase in its stock price.

Distribution and technology

We firmly believe that distribution will remain a dominant force for iA Financial Group. As a result, we will continue to develop our distribution networks through targeted acquisitions in the Canadian insurance and wealth management sectors. We're also seeking acquisitions that will help us expand our operations in the United States.

We also believe that technology will change the way financial products and services are sold in the future. With this in mind, our actions are twofold: we're adapting our traditional model to make it easier for clients and distributors to do business with us, and we're remaining open to forces unknown that could cause disruption in the industry.

In the first case, we have digital initiatives in place in all lines of business to simplify both products and sales.

In the second case, we have set up a team that is testing new ways to market and distribute our products and services to clients who use new technologies.

On the strength of our 125 years of growth and success, we're looking to the future with great confidence and enthusiasm.

125th anniversary

Founded in 1892, iA Financial Group is celebrating its 125th anniversary in 2017. Our history begins with two pioneering Canadian insurance companies: Alliance Nationale and Industrial Life.

Alliance Nationale was created in Montreal in 1892 with assets of little more than $10,000. The Industrial Life Insurance Company was founded in Quebec City in 1905.

In 1987, Industrial Life and Alliance Nationale merged to form the Industrial-Alliance Life Insurance Company, which would become better known simply as Industrial Alliance.

The Company's development then continued, progressing notably in three specific areas: from a mutual to a stock company in 2000; from a Quebec company to one operating across Canada and in the United States; and from an insurance company to a financial institution.

Introduced in 2015, our new name, iA Financial Group, represents the culmination of these major transformations. It reflects the growing scope of iA Financial Group and the vast diversity of our products and services.

Sustainable development

iA Financial Group has a solid sustainable development strategy that rests on the following five components:

— Ensuring the wellbeing of our clients
— Actively contributing to communities
— Creating a rewarding work environment
— Effectively managing risks
— Following high standards of governance

We have key projects in place that play a positive role economically, socially and environmentally.

On the strength of our 125 years of growth and success, we're looking to the future with great confidence and enthusiasm. We will continue to focus on operational excellence and the growth of our various business lines and subsidiaries.

We can truly say that iA Financial Group has a strong history and a bright future.

On behalf of the management team and staff of iA Financial Group, I respectfully sign this report.

iA Financial Group Planning Committee

Yvon Charest
FSA, FCIA

President and
Chief Executive Officer

René Chabot
FSA, FCIA

Executive Vice-President,
CFO and Chief Actuary

Renée Laflamme
FCPA, FCA, CFA

Executive Vice-President
Group Benefits and
Retirement Solutions

Carl Mustos
MBA

Executive Vice-President
Wealth Management

Normand Pépin
FSA, FCIA

Executive Vice-President and
Assistant to the President

Denis Ricard
FSA, FCIA

Executive Vice-President
Individual Insurance
and Annuities

Michael L. Stickney
FSA, FCIA, MBA

Executive Vice-President
U.S. Development

Michel Tremblay
FSA, FCIA, CFA

Executive Vice-President
and Chief Investment Officer

Notice

Legal Constitution and General Information

iA Financial Group is a Quebec-chartered life and health insurance company and is regulated by the Autorité des marchés financiers. iA Financial Group and its subsidiaries are authorized by the appropriate regulatory authorities to operate in all provinces and territories of Canada, and most of the United States. iA Financial Group is also an issuer subject to the various securities laws in effect in the provinces of Canada.

In February 2000, iA Financial Group became a public company incorporated under a private law, the *Act respecting Industrial Alliance Life Insurance Company*. The law was enacted by the Quebec National Assembly on November 26, 1999, and stipulates that no shareholder can acquire, either directly or indirectly, 10% or more of the Company's voting shares. In the event the allowable limit is surpassed, the Act provides that the voting rights attached to all of the acquired shares cannot be exercised.

The Company's legal name is "Industrial Alliance Insurance and Financial Services Inc." To simplify the reading of this report, the Company's name is often presented in its abbreviated form ("Industrial Alliance"), a generic form ("the Company"), or its business form ("iA Financial Group").

Note that iA Financial Group acts as both the operating company and as the parent company of a group of subsidiaries. iA Financial Group and its subsidiaries are not controlled by a holding company. Please refer to the Description of iA Financial Group section for a description and overview of the Company.

Please note that regardless of how iA Financial Group is referred to in this report (generic form, legal name, abbreviated name or business name), unless otherwise indicated, all results and operations of iA Financial Group presented in this report refer to the consolidated results and operations, i.e. those of iA Financial Group, as an operating company, and its subsidiaries.

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2016, or for the period ended on that date.

Unless otherwise indicated, all amounts that appear in the Management's Discussion and Analysis are denominated in Canadian dollars. The financial information is presented in accordance with International Financial Reporting Standards (IFRS), as they apply to life insurance companies in Canada, and with the accounting requirements prescribed by the regulatory authorities.

The Management's Discussion and Analysis is dated February 16, 2017.

Non-IFRS Financial Measures

iA Financial Group reports its financial results in accordance with International Financial Reporting Standards (IFRS). It also publishes certain non-IFRS financial measures that do not have an IFRS equivalent, including sales, solvency ratio and loan originations or which have an IFRS equivalent such as data on operating profit and income taxes on earnings presented in the sources of earnings table. The Company also uses non-IFRS adjusted data in relation to net income, earnings per share and return on equity. These non-IFRS financial measures are often accompanied by and reconciled with IFRS financial measures.

The Company believes that these non-IFRS financial measures provide investors and analysts with additional information to better understand the Company's financial results as well as assess its growth and earnings potential. Since non-IFRS financial measures do not have a standardized definition, they may differ from the non-IFRS financial measures used by other institutions. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure.

Forward-Looking Statements

This Management's Discussion and Analysis may contain statements relating to strategies used by iA Financial Group or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may," "could," "should," "would," "suspect," "expect," "anticipate," "intend," "plan," "believe," "estimate," and "continue" (or the negative thereof), as well as words such as "objective" or "goal" or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. Forward-looking statements include, but are not limited to, information concerning the Company's possible or assumed future operating results. These statements are not historical facts; they represent only the Company's expectations, estimates and projections regarding future events.

Although iA Financial Group believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: general business and economic conditions; level of competition and consolidation; changes in laws and regulations including tax laws; liquidity of iA Financial Group including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by iA Financial Group; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or manmade disasters, pandemic diseases and acts of terrorism.

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the Risk Management section of this Management's Discussion and Analysis and in the Management of Risks Associated with Financial Instruments note to iA Financial Group's consolidated financial statements, and elsewhere in iA Financial Group's filings with Canadian securities regulators, which are available for review at sedar.com.

The forward-looking statements in this Management's Discussion and Analysis reflect the Company's expectations as of the date of this document. iA Financial Group does not undertake to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.

Documents Related to the Financial Results

All documents related to the financial results of iA Financial Group are available on the Company's website at ia.ca, under *About iA*, in the *Investor Relations/Financial Reports* section. More information about the Company can be found on the SEDAR website at sedar.com, as well as in the Company's Annual Information Form, which can be found on the Company website or the SEDAR website.

2016 Management's Discussion and Analysis

Description of iA Financial Group

- **Corporate Growth Strategy**
- **Geographic Presence**
- **Business Lines, Divisions and Subsidiaries**
- **Distribution Networks**

Founded in 1892, iA Financial Group (Industrial Alliance Insurance and Financial Services Inc.) celebrates its 125th anniversary this year. This milestone provides an opportunity to look back at the Company's remarkable transformation over the years in three specific areas.

iA Financial Group has gone from being a mutual to a publicly-traded company, from a company based mainly in Quebec to one operating across Canada and in the United States, and from an insurance company to an integrated financial institution. The primary mission of iA Financial Group is to ensure the financial wellbeing of its clients by offering them insurance coverage and investment solutions to help them achieve their personal goals.

The Company has four main lines of business: Individual Insurance, Individual Wealth Management, Group Insurance and Group Savings and Retirement. It also controls a large network of insurance and wealth management subsidiaries and has an extensive distribution network with thousands of representatives in Canada and the United States.

One of the four largest life and health insurance companies in Canada with over $126.2 billion in assets under management and administration at the end of 2016, iA Financial Group serves over 4 million clients and employs over 5,300 people.

The Company's stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. At December 31, 2016, its market capitalization reached nearly $5.7 billion.

Corporate Growth Strategy

iA Financial Group's business model is built on its ability to generate steady organic growth through the diversification of its distribution networks, its geographic presence, its extensive product offering and its market segments. It also rests on its ability to generate growth through strategic acquisitions.

The success of the Company's growth is reflected in the 10% compound annual growth rate of its book value per share since 2000. To sustain its growth, the Company employs a variety of strategies.

In the Individual Insurance and Wealth Management sectors, it competes head-on with all industry players in all markets and geographic regions in Canada. Its key competitive advantage is its product and service distribution capacity.

In Group Insurance Employee Plans, Group Savings and Retirement and through iA Auto and Home, the Company competes selectively by market and region where it can leverage corporate relationships and synergies.

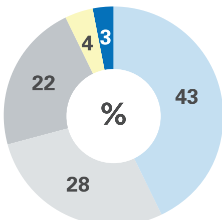
In Group Insurance Dealer Services and Special Markets Solutions, it operates in niche markets where it has few competitors and it holds a leading market position.

Finally, in the United States, iA Financial Group is one of the largest players in its market segment, having adopted an opportunistic attitude in an underserved segment with a limited number of players.

Geographic Presence

Organic growth and acquisitions have enabled iA Financial Group to develop its North American footprint. In Canada, it has a coast-to-coast presence through a very sizeable and diverse distribution network. It also has operations in the United States, where it distributes products in a targeted market segment.

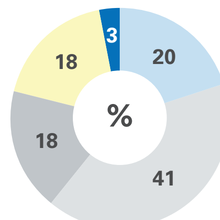
Premiums and Deposits by Region – 2016



Business Lines, Divisions and Subsidiaries

iA Financial Group's four main lines of business are Individual Insurance and Individual Wealth Management, which address the needs of retail customers, and Group Insurance and Group Savings and Retirement, which address the needs of groups and businesses. The Group Insurance line is made up of three divisions: Employee Plans, Dealer Services and Special Markets Solutions. The Company also provides general insurance in Quebec through its iA Auto and Home subsidiary. The table on the following two pages provides an overview of the Company's business activities with related product offerings, distribution networks and operating units.

Premiums and Deposits by Line of Business – 2016



Distribution Networks

iA Financial Group's various distribution networks enable it to provide a vast range of products and services in all market segments in Canada and in a specific niche market in the United States.

In the retail sectors in Canada, the Company distributes insurance and wealth management products through agents in its Career Network, advisors with its distribution affiliates, managing general agents and independent advisors. In the United States, the Company distributes insurance products through independent marketing organizations (IMOs).

In the group sectors, the Company's distribution platform includes specialized advisors and actuarial consulting firms as well as motor vehicle dealers across Canada.

In the Company's general insurance subsidiary (iA Auto and Home), which operates only in Quebec, distribution is carried out through direct sales, referrals from iA Financial Group's distribution networks, and partnership agreements.

The table below provides a summary of the number of active representatives and advisors in the Company's various distribution networks in 2016.

Activities	Network	Number
Individual Insurance	Career Agents	1,975
	Managing General Agent Representatives	16,900
	National Accounts Representatives	750
	Agents with Independent Marketing Organizations in the U.S.	10,500
Individual Wealth Management	Career Agents – Individual Annuities	1,975
	Managing General Agent Representatives – Individual Annuities	16,900
	National Accounts Representatives – Individual Annuities	750
	Independent Advisors – Mutual Funds	3,550
	Advisors with Strategic Associations – Mutual Funds	3,480
	Affiliated Distributors – Mutual Funds and Securities	2,800*
	Private Wealth Management Advisors	65
Group Insurance	Employee Plans Advisors	335
	Dealer Services Representatives	3,025
	Special Markets Solutions Advisors	780
Group Savings and Retirement	Independent Advisors, Career Agents and Managing General Agent Representatives	1,490
General Insurance	Direct Agents	300

* The number for affiliated distributors does not include the approximately 800 advisors to be added subsequent to the HollisWealth acquisition announced in December 2016 and scheduled to close in the third quarter of 2017.

Note that a representative or advisor may be registered under more than one distribution network. The numbers shown are approximations at December 31, 2016 and vary over time.

Business Overview

	Activities	Products and Services
Personal Financial Services	**Individual Insurance**	— Life (Universal, permanent and term) — Critical illness — Short and long-term disability — Accidental death and dismemberment (AD&D) — Creditor (life and disability)
	Individual Wealth Management	— Segregated funds — Mutual funds — Securities — Life and fixed-term annuities — Registered savings and disbursement plans (RRSP, RESP, TFSA and RRIF) — Investment advice — Private wealth management
	General Insurance	— Auto and home insurance
Group Products and Services	**Group Insurance:**	
	• **Employee Plans**	— Life and health, AD&D, dental care, short and long-term disability, critical illness and home care insurance — Voluntary benefits (life, AD&D and critical illness) — Out-of-Canada medical insurance
	• **Dealer Services**	— Creditor insurance (life, disability and critical illness) — Replacement insurance, extended warranties and other ancillary products — Car loans
	• **Special Markets Solutions**	— AD&D, travel medical, term life, critical illness, disability — Other specialized products
	Group Savings and Retirement	— Capital accumulation products — Insured annuities

Distribution Affiliates and Networks	Manufacturers and Subsidiaries
— Career (iA) — Managing General Agents — National Accounts — Independent marketing organizations (U.S.) — Independent advisors — Michel Rhéaume et Associés (MRA) — National Financial Insurance Agency	— iA Financial Group: – iA Excellence – iA American Life Insurance Company – American-Amicable Life Insurance Company of Texas
— Career (iA) — Managing General Agents — National Accounts — Independent advisors — National Financial Insurance Agency — Investia Financial Services — FundEX Investments — iA Securities	— iA Financial Group: – iA Clarington – iA Trust – iA Investment Management – T.E. Financial Consultants – Leon Frazer & Associates – Forstrong Global Asset Management
— Direct sales — Referrals from iA networks	— iA Auto and Home Insurance
— Preferred-partner distribution — White label	— Prysm General Insurance
— Specialized brokers — Actuarial consulting firms	— iA Financial Group
— Direct distribution through automobile and other motor vehicle dealers	— iA Financial Group: – SAL Marketing – National Warranties MRWV Limited – Industrial Alliance Pacific General Insurance Corporation – iA Trust – CTL Corp.
— Distribution partners — Specialized insurance brokers — Actuarial consulting firms — Direct sales	— iA Financial Group
— Specialized brokers — Actuarial consulting firms — Career (iA) — Managing General Agents	— iA Financial Group

2016 Highlights

iA Financial Group had an excellent year in 2016, with strong business growth and earnings per common share (EPS) well above guidance. In addition, the year ended with an agreement to acquire HollisWealth, which will place the Company among Canada's largest non-banking wealth management advisory firms. Moreover, the Company finished the year with a solvency ratio above the target range, and its investment portfolio continued to be of excellent quality. This performance has translated into an 11% increase in book value per share, a 7% increase in the quarterly dividend payable to common shareholders and a 21% increase in the value of the Company's stock (IAG).

Profitability

Net income attributed to common shareholders amounted to $537.2 million in 2016 compared to $364.4 million the year before. This puts EPS well above guidance given at the beginning of 2016. Refer to the Profitability section of this Management's Discussion and Analysis for more information on the Company's profitability in 2016.

Business Growth

Assets under management and administration were up 9% in 2016 to reach $126.2 billion at December 31, while premiums and deposits were up 7% compared to 2015 thanks to increases in every line of business. The year was marked by strong sales growth in Individual Insurance as well as the turnaround in mutual fund sales. Refer to the sections that follow for more information on business growth by line of business.

Sales by Line of Business[1]

(In millions of dollars, unless otherwise indicated)	2016	2015	Variation
Individual Insurance			
Minimum premiums	281.0	232.4	21%
Excess premiums	25.7	21.9	17%
Total	306.7	254.3	21%
Individual Wealth Management			
General fund	300.6	130.4	131%
Segregated funds	1,559.6	1,581.2	(1%)
Mutual funds	1,474.3	1,428.5	3%
Total	3,334.5	3,140.1	6%
Group Insurance			
Employee Plans	71.4	68.0	5%
Dealer Services – Creditor Insurance	363.0	363.0	---
Dealer Services – P&C Insurance[2]	196.9	197.7	---
Special Markets Solutions	194.1	190.3	2%
Total	825.4	819.0	1%
Group Savings and Retirement	1,481.4	1,316.2	13%

Assets Under Management and Administration

	As at December 31		
(In millions of dollars, unless otherwise indicated)	2016	2015	Variation
Assets under management	84,847.0	78,892.5	8%
Assets under administration	41,387.2	36,920.8	12%
Total	126,234.2	115,813.3	9%

Premiums and Deposits[3]

(In millions of dollars, unless otherwise indicated)	2016	2015	Variation
Individual Insurance	1,686.1	1,578.5	7%
Individual Wealth Management	3,334.5	3,140.1	6%
Group Insurance	1,476.4	1,442.3	2%
Group Savings and Retirement	1,455.0	1,293.3	13%
General Insurance	250.5	218.1	15%
Total	8,202.5	7,672.3	7%

Financial Strength

The solvency ratio[4] was 225% at December 31, 2016. This ratio is above the Company's 175% to 200% target range. The HollisWealth acquisition scheduled to close in the third quarter of 2017 will have an estimated impact on the solvency ratio of -14 percentage points. At the end of 2016, the Company's capital totalled nearly $5.8 billion with equity and participating policyholders' accounts representing 83% of total capital.

The coverage ratio, which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, improved considerably due to robust earnings and ended the year at 12.8x. The debt ratio including debentures and preferred shares ended the year in a good position at 23.8%, below the 25% mark.

For detailed comments on financial strength, refer to the Capitalization and Solvency section of this Management's Discussion and Analysis.

Dividends

In 2016, the Company increased its dividend per common share by 7%, from $0.3000 to $0.3200. The dividend payout ratio was 24% for the year, which is just below the 25% to 35% target range given as guidance to the markets at the beginning of 2016. This was due to the high level of net income attributed to common shareholders during the year.

1 Refer to the sections on the Company's different business lines for a definition of sales.
2 Property and casualty
3 Premiums and deposits include all premiums collected by the Company for its insurance and annuity activities (and posted to the Company's general fund), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance and Group Savings and Retirement sectors and mutual fund deposits.
4 The solvency ratio is not an IFRS measure. For more details, refer to the Capitalization and Solvency section of this Management's Discussion and Analysis.

Quality of Investments

The quality of the Company's investment portfolio continued to be very good in 2016. The proportion of net impaired investments continues to be relatively low at 0.08% of total investments, bonds rated BB and lower account for just 0.76% of the bond portfolio, the delinquency rate on mortgages decreased to 0.27% and the occupancy rate of the real estate portfolio remains high at 90.2%. Net impaired investments were higher in 2016 due to a single private bond. The following table shows the main investment quality indices.

Investment Quality Indices

	As at December 31	
(In millions of dollars, unless otherwise indicated)	2016	2015
Net impaired investments	23.4	14.2
Net impaired investments as a % of total investments	0.08%	0.05%
Bonds – Proportion rated BB and lower	0.76%	0.66%
Mortgages – Delinquency rate	0.27%	0.29%
Investment properties – Occupancy rate	90.2%	90.1%

Sensitivity Analysis[1]

The analysis of the Company's sensitivity to macroeconomic fluctuations was updated at the end of 2016. The main results are shown in the table below and explanations regarding the results of this analysis are provided under "Market Risk" in the Risk Management section of this Management's Discussion and Analysis.

Sensitivity Analysis

	As at December 31	
(In millions of dollars, unless otherwise indicated)	2016	2015
Drop in the S&P/TSX[2] index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities	25%	27%
Drop in the S&P/TSX[2] index that would decrease the solvency ratio to 175%	52%	39%
Drop in the S&P/TSX[2] index that would decrease the solvency ratio to 150%	63%	53%
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(28)	(28)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	(24)	(31)
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(62)	(60)

Acquisitions in 2016

The Company announced the acquisition of five companies during the year. The agreement to acquire HollisWealth, a leading Canadian financial network, is by far the most significant, and was announced in December with a closing date expected in the third quarter of 2017. Three of these acquisitions, including HollisWealth, involve wealth management, while the others target retail insurance and dealer services.

Market Guidance for 2017

iA Financial Group's profitability is expected to increase by approximately 10% annually between now and 2020, as announced at the Investor Day held by the Company in June 2016. Consistent with this announcement, EPS guidance for 2017 has been increased by 10% compared to guidance for the previous year.

Earnings per common share – New target of $4.65 to $5.05.

Return on common shareholders' equity – Maintain the 11.0% to 12.5% target range.

Solvency ratio – Maintain the 175% to 200% target range.

Dividend payout ratio – Maintain the 25% to 35% target range. The Company expects the ratio to be in the middle of this range in 2017.

Effective tax rate – New target of 20% to 22%.

New business strain – New annual target of 6% of sales in Individual Insurance with a quarterly range of 0% to 15%.

The guidance for earnings per share and return on equity exclude any variations that could result from changes in actuarial assumptions in 2017.

Outlook for 2017

Earnings growth in 2017 is expected to come from normal, organic growth in expected profit on in-force business, but from other sources as well. The two retail sectors in particular should contribute to earnings growth thanks to a further decrease in new business strain in Individual Insurance and improved results for mutual funds, which have rebounded coming out of 2016.

The balance sheet remains solid and the Company is equipped with protection and resources to adjust to macroeconomic variations. As such, iA Financial Group has the financial flexibility and the means to achieve its ambitions, which include continuing to make acquisitions in specific target markets.

[1] The sensitivity analysis includes measures that have no IFRS equivalents.

[2] Decrease compared to the actual index values at December 31 of the indicated years.

Profitability

Highlights

The Company ended the year with net income attributed to common shareholders of $537.2 million, up $172.8 million from 2015. This increase is mainly attributable to multiple experience gains in the Company's various business units as well as the favourable impact of macroeconomic factors and the annual review of provisions for future policy benefits. Diluted earnings per common share (EPS) was $5.19 ($3.57 in 2015) and return on common shareholders' equity was 13.2% (10.2% in 2015). Both of these results exceeded guidance given to the markets at the beginning of 2016.

Profitability

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Income attributed to shareholders	553.7	386.4	432.9	384.5	333.7
Less: dividends attributed to preferred shares	16.5	18.0	28.5	34.6	30.1
Less: redemption premium on preferred shares	---	4.0	4.0	---	---
Net income attributed to common shareholders	537.2	364.4	400.4	349.9	303.6
Earnings per common share (EPS)					
Basic	$5.22	$3.59	$4.01	$3.60	$3.35
Diluted	$5.19	$3.57	$3.97	$3.57	$3.22[1]
Return on common shareholders' equity[2]	13.2%	10.2%	12.4%	12.6%	12.8%

Comments on the Financial Results

Growth in net income attributed to shareholders by line of business

Individual Insurance – At $357.2 million, net income attributed to shareholders was up $175.1 million in 2016. The increase is primarily explained by the increase in business volume, the positive impact of the stock markets and the positive contribution of changes in assumptions (compared to a negative contribution in 2015).

Individual Wealth Management – Net income amounted to $119.9 million in 2016 (a decrease of $16.2 million compared to 2015). The variations observed in this sector reflect the change in various items during the year, including net premiums paid into the general fund, amounts collected for segregated funds and fees for assets under management and administration, which are included in "Other Revenues" on the consolidated income statement.

Group Insurance – At $55.0 million, net income was up $13.6 million over 2015. The growth in income primarily results from the increase in net premiums less a corresponding increase in net benefits and claims.

Group Savings and Retirement – The sector generated net income of $21.6 million, down $5.2 million from 2015. The variations observed in this sector reflect the change in several items during the year, including net premiums, investment income, amounts collected for segregated funds, benefits and claims based on experience, commissions and other expenses.

Net Income Attributed to Shareholders by Line of Business

(In millions of dollars)	2016	2015	Variation
Net income attributed to shareholders			
Individual Insurance	357.2	182.1	175.1
Individual Wealth Management	119.9	136.1	(16.2)
Group Insurance	55.0	41.4	13.6
Group Savings and Retirement	21.6	26.8	(5.2)
Total	553.7	386.4	167.3
Less: dividends attributed to preferred shares	16.5	18.0	(1.5)
Less: redemption premium on preferred shares	---	4.0	(4.0)
Net income attributed to common shareholders	537.2	364.4	172.8

Comments According to Sources of Earnings

The profitability analysis according to sources of earnings below discusses the main items that had an impact on the financial results for the year in comparison with management's expectations. The measures presented in this analysis are not IFRS measures. They supplement the other information presented in the Comments on the Financial Results section above and provide additional indicators for evaluating financial performance.

Expected profit on in-force – Expected profit on in-force amounted to $558.8 million in 2016, a year-over-year increase of $39.9 million before tax. The increase primarily comes from the Individual Insurance and Group Insurance sectors. The expected profit on in-force reflects the best estimates determined by management when the 2016 budget was prepared. The expected profit for the savings sectors is updated quarterly to reflect the evolution of the stock markets and net fund entries.

Experience gains (losses) compared to expected profit – Experience gains or losses represent the difference between the expected profit on in-force and the realized profit. Gains or losses emerge when actual results differ from those derived from the assumptions used to calculate expected profit.

The Company ended the year with experience gains of $63.7 million before tax, compared to experience gains of $45.2 million in 2015. The gains recorded in 2016 primarily came from the Company's two Individual sectors. The paragraphs that follow comment on the experience gains (losses) for each line of business.

- *Individual Insurance* – The sector posted an experience gain of $44.5 million before tax ($32.7 million after tax or $0.32 per common share) compared to estimates. This variance is the result of several gains realized during the year, particularly with respect to policyholder mortality and morbidity and the growth of Universal Life policy funds.
- *Individual Wealth Management* – A positive variance of $21.7 million before tax was recorded in 2016 ($15.7 million after tax or $0.15 per common share). The sector benefitted from favourable items arising primarily from annuitant longevity, lower than expected expenses and the hedging program. This program is primarily designed to reduce the sensitivity of net income to the volatility of the financial markets with respect to the capital guarantees offered on certain segregated funds.

[1] Diluted EPS was $3.34 in 2012 excluding the dilution for the Industrial Alliance Trust Securities (IATS), which were redeemed on June 30, 2013.

[2] This measure has no IFRS equivalent.

- *Group Insurance* – The sector posted an experience loss of $3.2 million before tax in 2016 ($2.1 million after tax or $0.01 per common share). The Employee Plans division recorded experience gains in 2016, which is an excellent result after several years of losses. These gains were however offset by losses in the Dealer Services division, mainly due to the experience recorded for creditor insurance and car loans.
- *Group Savings and Retirement* – A positive variance of $0.7 million before tax was recorded in 2016 ($0.6 million after tax or $0.01 per common share). The sector's results were therefore very close to expectations.

Gain (strain) on sales – In the Individual Insurance sector, new business strain was $34.5 million in 2016, 48% lower than the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 11% in 2016, compared to 26% in 2015. As such, strain was below the target of 15% given as guidance to the markets for 2016, essentially due to the strong sales recorded in Canada and the U.S.

Strain is a charge incurred by an insurance company mainly resulting from the expense of issuing new policies. Certain products have features that make them more strain-intensive than others, such as products with long-term guarantees. At iA Financial Group, the decrease in strain over the past several years has had a direct favourable impact on the profitability of the Individual Insurance sector.

Changes in assumptions – At the end of each quarter, the Company ensures the adequacy of its provisions given the existing economic environment. It also does a complete update of all of its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience in terms of mortality, morbidity, lapse rates, unit costs and other factors.

At December 31, 2016, changes in actuarial assumptions (for non-participating business) led to a net release of provisions for future policy benefits of $31.7 million before tax ($23.2 million after tax or $0.22 per common share). This result mainly comes from a release resulting from measures taken by management during the year (improvements in portfolio performance and matching) and from the updating of mortality assumptions. These favourable items were partially offset by two actions to increase interest rate protection, namely a drop of 20 bps in the ultimate reinvestment rate (URR), and an increase in the margin on the initial reinvestment rate (IRR). (For more details, refer to Insurance Contract Liabilities and Investment Contract Liabilities in the notes to the financial statements.)

Income on capital – Income on capital represents the income derived from the investments backing the Company's capital, minus any expenses incurred to generate this income. The Company also includes the net profits of subsidiaries that do not operate in one of its four lines of business.

Income on capital amounted to $65.1 million before tax in 2016, down $12.4 million or 16% from the previous year. This decrease is primarily the result of decreased earnings from the iAAH subsidiary due to experience losses and investment in a new subsidiary, as well as increased financing costs following the financing activities carried out in 2015 and 2016.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and include tax payable and deferred income taxes. A life insurer's investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purpose of calculating the operating profit.

Income taxes amounted to $123.4 million in 2016. The effective tax rate of 18.2% for 2016 is at the bottom of the 18% to 20% target range given as guidance to the markets.

Sources of Earnings[1]

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		Total	
(In millions of dollars)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Expected profit on in-force	318.8	291.4	150.9	160.8	68.3	46.2	20.8	20.5	558.8	518.9
Experience gains (losses)	44.5	37.1	21.7	3.9	(3.2)	2.4	0.7	1.8	63.7	45.2
Gain (strain) on sales	(34.5)	(66.1)	(4.5)	(1.7)	0.0	0.0	(3.2)	(2.1)	(42.2)	(69.9)
Changes in assumptions	12.3	(166.2)	10.4	11.8	(0.5)	(2.1)	9.5	9.3	31.7	(147.2)
Operating profit	341.1	96.2	178.5	174.8	64.6	46.5	27.8	29.5	612.0	347.0
Income on capital	69.9	77.0	(8.5)	(8.9)	2.2	6.7	1.5	2.7	65.1	77.5
Income taxes	(53.8)	8.9	(50.1)	(29.8)	(11.8)	(11.8)	(7.7)	(5.4)	(123.4)	(38.1)
Net income attributed to shareholders	357.2	182.1	119.9	136.1	55.0	41.4	21.6	26.8	553.7	386.4
Less: preferred share dividends	10.3	12.4	4.2	3.5	1.6	1.5	0.4	0.6	16.5	18.0
Less: redemption premium on preferred shares	---	2.8	---	0.7	---	0.4	---	0.1	---	4.0
Net income attributed to common shareholders	346.9	166.9	115.7	131.9	53.4	39.5	21.2	26.1	537.2	364.4
Additional information according to the financial statements:										
Net premiums (excluding general insurance)	1,686.1	1,578.5	1,860.2	1,711.6	1,357.1	1,328.3	1,393.6	1,204.5	6,297.0	5,822.9
Net income attributed to shareholders	357.2	182.1	119.9	136.1	55.0	41.4	21.6	26.8	553.7	386.4
Less: preferred share dividends	10.3	12.4	4.2	3.5	1.6	1.5	0.4	0.6	16.5	18.0
Less: redemption premium on preferred shares	---	2.8	---	0.7	---	0.4	---	0.1	---	4.0
Net income attributed to common shareholders	346.9	166.9	115.7	131.9	53.4	39.5	21.2	26.1	537.2	364.4

[1] The operating profit and income taxes presented in this table are not defined by IFRS. Operating profit is an important additional tool to help investors better understand the source of shareholder value creation. A reconciliation between non-IFRS financial measures and IFRS is presented in the Accounting Matters and Additional Information section of this Management's Discussion and Analysis. Comments for each line of business are also presented in other sections of this Management's Discussion and Analysis that describe each sector's activities in detail.

Capitalization and Solvency

Capitalization

iA Financial Group's capital structure can be divided into three categories: equity, debentures, and participating policyholders' accounts. At December 31, 2016, the Company's capital reached nearly $5.8 billion, a year-over-year increase of 15%, with equity and participating policyholders' accounts representing 83% of total capital.

The two main reasons for the increase were the contribution of retained earnings (resulting from the profits realized during the year, net of dividends paid to common shareholders) and the issue of financial instruments as discussed in the Redemption and Issue of Financial Instruments section below.

Capital Structure

	As at December 31				
(In millions of dollars)	2016	2015	2014	2013	2012
Equity					
Common shares	1,498.8	1,310.5	1,243.5	1,183.5	878.6
Preferred shares	375.0	375.0	475.0	575.0	675.0
Retained earnings	2,793.2	2,374.0	2,081.9	1,857.4	1,553.5
Contributed surplus	18.5	21.4	21.1	19.8	23.5
AOCI[1]	40.1	58.1	63.6	(15.3)	39.3
Subtotal	4,725.6	4,139.0	3,885.1	3,620.4	3,169.9
Debentures	995.3	846.1	597.2	498.5	757.9
Participating policyholders' accounts	39.0	45.0	49.4	47.1	44.2
Total	5,759.9	5,030.1	4,531.7	4,166.0	3,972.0

Financial Leverage and Coverage Ratio

The debt ratio measured as debentures over the capital structure was 17.3% at December 31, 2016. With the preferred shares added to the debentures, the ratio amounted to 23.8%. The slight decrease over the 24.3% ratio twelve months earlier stems from the increase in capital due to the contribution of retained earnings and the issue and redemption of financial instruments as discussed in the Redemption and Issue of Financial Instruments section below.

At December 31, 2016, the coverage ratio was 12.8x, compared to 8.2x at December 31, 2015. In 2016, the ratio increased as a result of the strong earnings recorded during the year. The coverage ratio represents the Company's earnings for the last twelve months before interest and income tax expenses divided by its interest and dividend expenses.

Debt Ratios and Coverage Ratio

	As at December 31				
	2016	2015	2014	2013	2012
Debt ratios					
Debentures/capital structure	17.3%	16.8%	13.2%	12.0%	18.9%
Debentures and preferred shares/capital structure	23.8%	24.3%	23.7%	25.8%	35.9%
Coverage ratio (number of times)	12.8	8.2	7.9	6.2	6.1

Solvency

The solvency ratio[2] was 225% at December 31, 2016, 12 percentage points above the December 31, 2015 ratio and still above the Company's 175% to 200% target range.

This change is explained by the following items:

- The issuance of subordinated debentures for a nominal value of $400 million in the third quarter of 2016, the redemption of subordinated debentures for a nominal value of $250 million in the fourth quarter of 2016, and the issuance of common shares for gross proceeds of $153 million in the fourth quarter of 2016 combined to increase the solvency ratio by 14 percentage points.
- Macroeconomic changes, including their impact on required capital for segregated funds, decreased the solvency ratio by 8 percentage points.
- Recurring items, including the contribution of net income to available capital plus a few other items, had a combined positive impact of 6 percentage points.

The acquisition of HollisWealth, scheduled to close in the third quarter of 2017, should reduce the solvency ratio by an estimated 14 percentage points.

Solvency

	As at December 31				
(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Available capital					
Tier 1 (net)	4,054.5	3,426.8	3,217.0	3,166.3	2,956.1
Tier 2 (net)	1,002.6	870.6	667.4	496.7	640.0
Total	5,057.1	4,297.4	3,884.4	3,663.0	3,596.1
Required capital	2,250.6	2,014.0	1,860.6	1,687.2	1,657.7
Solvency ratio[2]	225%	213%	209%	217%	217%

Dividends

In 2016, iA Financial Group increased the dividend per common share by 7%. The Company paid out $0.3000 per common share in the first quarter of 2016 and $0.3200 per common share in the following three quarters. As a result, the dividend for 2016 totalled $1.26 per common share. In total, the Company paid out $129.4 million in dividends to common shareholders in 2016 and the dividend payout ratio for the year was 24% of the net income attributed to common shareholders.

Dividends

	2016	2015	2014	2013	2012
Dividends paid per common share	$1.26	$1.16	$1.06	$0.98	$0.98
Dividend payout ratio	24%	32%	26%	27%	29%

[1] AOCI: Accumulated other comprehensive income

[2] This measure, which has no IFRS equivalent, is established in accordance with regulatory requirements.

Outstanding Shares

The Company has only one class of common shares and all common shares contain a single voting right. In addition, no shareholder may acquire, directly or indirectly, 10% or more of the Company's voting shares. The common shares of Industrial Alliance are traded on the Toronto Stock Exchange under the ticker symbol IAG.

The number of issued and outstanding common shares at December 31, 2016 was 106,205,142, an increase of 3,770,200 compared to December 31, 2015. This increase is explained by the issuance of 2,750,000 common shares in December 2016 and the issuance of 1,020,200 common shares following the exercise of options under the Stock Option Plan for executives.

The Company did not buy back any of its common shares in 2016.

Common Shares

	As at December 31				
(In millions)	2016	2015	2014	2013	2012
Number of common shares outstanding	106.2	102.4	100.8	99.3	91.0

Stock Price and Market Capitalization

Industrial Alliance became a stock company in February 2000. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of $7.88, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005.

The Company's stock closed the year at $53.39, for a market capitalization of nearly $5.7 billion.

Stock Price and Market Capitalization

	End of period				
(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Stock price	$53.39	$44.13	$44.43	$46.95	$31.38
Market capitalization	5,670.3	4,520.5	4,477.4	4,664.1	2,856.3

Book Value per Common Share

The book value per common share was $40.97 at the end of 2016, up 11% during the year. This increase stems mainly from the contribution of retained earnings and the issuance of common shares during the year.

Book Value per Common Share

	As at December 31				
	2016	2015	2014	2013	2012
Book value per common share	$40.97	$36.76	$33.83	$30.67	$27.45

Redemption and Issue of Financial Instruments

The Company issued subordinated debentures at 3.30% on September 13, 2016 that will mature on September 15, 2028, for a nominal value of $400 million. A portion of the proceeds from this issue was used on December 14, 2016 to redeem the subordinated debentures at 4.75%, set to mature December 14, 2021, for a nominal value of $250 million. In addition, on December 5, 2016, the Company announced the issuance of 2,750,000 common shares for gross proceeds of $153 million. The net proceeds of these transactions were added to the Company's general fund and should serve to finance the HollisWealth acquisition scheduled to close in the third quarter of 2017.

Preferred Shares

In 2016, the Company paid $16.5 million in dividends to preferred shareholders with Class A Shares, Series B and G. The Company's capital currently includes these two series of Class A Preferred Shares, as shown in the table on the following page.

Debentures

The Company had four series of debentures on its balance sheet at December 31, 2016, with a total book value of $995.3 million, as shown in the table on the following page. These debentures were classified as financial liabilities at amortized cost. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors. In 2016, the financing expense, made up of interest only, amounted to $36.0 million.

Stock Option Plan

In accordance with the Stock Option Plan adopted by the Board of Directors in 2001, the Human Resources and Governance Committee granted 491,000 new share purchase options in 2016. These new options, which will expire in 2026, were granted at an exercise price of $40.91. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 2,797,800, or 2.6% of the number of issued and outstanding shares at December 31, 2016.

Dividend Reinvestment and Share Purchase Plan for Common Shareholders

The Dividend Reinvestment and Share Purchase Plan for Common Shareholders allows participants to have their dividend payments automatically reinvested in Industrial Alliance common shares and to make cash purchases of additional common shares from the Company. As of February 11, 2016, the Company no longer issues common shares for the purposes of this plan. The shares issued under the plan are now acquired on the secondary market.

Preferred Shares and Debentures

Class A Preferred Shares – Series B	
Number:	5,000,000
Nominal value:	$125.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Fixed non-cumulative quarterly dividend of $0.2875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the Autorité des marchés financiers (AMF), on or after March 31, 2011
Class A Preferred Shares – Series G	
Number:	10,000,000
Nominal value:	$250.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend in cash at an initial annual rate of $1.0750 per preferred share
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Shares – Series H on or after June 30, 2017 and on June 30 every 5 years thereafter
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on or after June 30, 2017
Subordinated debentures issued on August 1, 2008 and maturing on August 1, 2023	
Nominal value:	$100.0 million
Book value:	$99.9 million
Interest:	For the principal debenture of $88.0 million: 5.63% payable semi-annually until August 1, 2018; for the secondary debenture of $12.0 million: 7.00% payable semi-annually until August 1, 2013, and interest of 5.63% payable semi-annually until August 1, 2018. After that date, the interest rate on the principal and secondary debentures will be equal to the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of the quarter, and payable semi-annually.
Redemption and repayment:	Redeemable at par by the Company on or after August 1, 2018, in whole but not in part, subject to prior approval by the AMF.
Subordinated debentures issued on May 16, 2014 and maturing on May 16, 2024	
Nominal value:	$250.0 million
Book value:	$248.9 million
Interest:	2.80% until May 16, 2019. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 0.79%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after May 16, 2019, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.4 million.
Subordinated debentures issued on February 23, 2015 and maturing on February 23, 2027	
Nominal value:	$250.0 million
Book value:	$248.8 million
Interest:	2.64% until February 23, 2022. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 1.08%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after February 23, 2022, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.4 million.
Subordinated debentures issued on September 16, 2016 and maturing on September 15, 2028	
Nominal value:	$400.0 million
Book value:	$397.7 million
Interest:	3.30% until September 15, 2023. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 2.14%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 15, 2023, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $2.3 million.

More information about the features of the preferred shares and debentures can be found in the prospectus documents, which are available on the Company's website at ia.ca in the *Investor Relations* section under *About iA*.

Declaration of Fourth Quarter Dividends

Following are the amounts and dates of payment and closing of registers for the Company's common shares and the various categories of its preferred shares.

The Board of Directors has declared the payment of a quarterly dividend of $0.3500 per common share. The dividend is payable in cash on March 15, 2017, to the common shareholders of record as at February 28, 2017.

The Board of Directors has declared the payment of a quarterly dividend of $0.2875 per non-cumulative Class A Preferred Share – Series B. The dividend is payable in cash on March 31, 2017, to the preferred shareholders of record as at February 28, 2017.

The Board of Directors has declared the payment of a quarterly dividend of $0.26875 per non-cumulative Class A Preferred Share – Series G. The dividend is payable in cash on March 31, 2017, to the preferred shareholders of record as at February 28, 2017.

For the purposes of the *Income Tax Act* (Canada) and any corresponding provincial and territorial tax legislation, all dividends paid by the Company on its common and preferred shares are considered to be eligible dividends.

Credit Ratings

The Company receives credit ratings from three independent rating agencies. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

In 2016, the credit ratings assigned by Standard & Poor's, DBRS and A.M. Best remained unchanged, with a stable outlook.

Credit Ratings

Agency	Type of Evaluation	Rating
Standard & Poor's	Financial Strength	A+ (Strong)
	Issuer Credit Rating	A+ (Strong)
	Subordinated Debentures	A
	Preferred Shares	
	Canadian scale	P-1 (Low)
	Global scale	A-
DBRS	Financial Strength	A (high)
	Subordinated Debentures	A
	Preferred Shares	Pfd-2 (high)
A.M. Best	Financial Strength	A+ (Superior)
	Issuer Credit Rating	aa-
	Subordinated Debentures	a
	Preferred Shares	a-

Personal Financial Services

iA Financial Group offers insurance and wealth management products to individuals through two major lines of business: Individual Insurance and Individual Wealth Management. It also markets its auto and home insurance products in Quebec through its iA Auto and Home Insurance subsidiary.

Individual Insurance

Description of Sector

The Individual Insurance sector generated 56% of the Company's operating profit[1] in 2016, the largest contribution of the four business lines.

In this sector, iA Financial Group has large subsidiaries in the U.S. and Canada, including iA Excellence. The Company also relies on an extensive network of representatives, enabling it to serve a vast client base.

The Company distributes a wide range of life insurance (universal, whole life and term), critical illness insurance, disability insurance and mortgage insurance products. This wide range of products plays a key role in the Company's success. The Company regularly fine-tunes its offering to ensure that it remains competitive and profitable.

As of January 1, 2017, new tax rules for insurance contracts came into effect for the first time since 1982. Consequently, Universal Life insurance premiums were increased in order to cover, among other things, the additional tax expense brought about by the reform. Premiums were also raised on traditional whole life insurance.

Business Growth

Individual Insurance
Business Growth

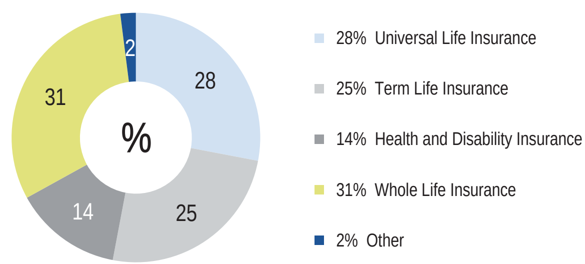
(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Sales[2]					
Minimum premiums[3]	281.0	232.4	195.1	193.7	200.9
Excess premiums[3,4]	25.7	21.9	20.9	40.6	42.4
Total	306.7	254.3	216.0	234.3	243.3
Growth	21%	18%	(8%)	(4%)	16%
Number of policies	118,312	108,643	100,848	105,927	112,618
Growth	9%	8%	(5%)	(6%)	(1%)
Premiums	1,686.1	1,578.5	1,495.1	1,425.2	1,339.3
Growth	7%	6%	5%	6%	7%

The sector ended the year with $306.7 million in sales, up 21% from the previous year. This positive performance can be explained by:

- The 20% increase in Canadian sales, in part thanks to advisors who sped up the implementation of policies under the previous tax rules. The anticipated withdrawal of certain products and the expected increase in permanent life insurance premiums also contributed to business growth.
- The number of policies sold, which was up 9%.
- Sustained sales momentum in the U.S., where sales were up 22% in Canadian dollars.

Carried by new sales and good business persistency, premium income grew 7% in 2016 to just under $1.7 billion. Premium income is the key long-term profitability driver for the sector.

Sales by Product 2016



Sales of whole life insurance were up 25% over 2015 and now account for 31% of the sector's sales, making it the Company's biggest seller. Both Canadian and U.S. sales growth were very good for the year.

Universal Life insurance had a very good year, with sales increasing by 26% in 2016. EquiBuild, a Universal Life insurance product offering superior surrender values that was launched in September 2015, contributed to this growth. This product carries less interest risk for the company than traditional level-cost Universal Life insurance or whole life insurance products.

Term insurance sales were up 11%, accounting for 25% of the sector's sales. The U.S. subsidiaries played a major role in this growth.

In terms of health and disability insurance, sales grew by 14% in 2016. This growth was supported by the Company's critical illness product, which is highly competitive. In addition, the iA Excellence subsidiary has seen sustained growth in its disability insurance sales for few years now.

1 Operating profit is derived from the sources of earnings analysis and is not an IFRS measure. The Company considers this measure an important additional tool to help investors better understand the source of shareholder value creation. The figure excludes changes in assumptions and management actions.

2 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Insurance sector, sales are defined as first-year annualized premiums. The net premiums presented in the Consolidated Financial Statements include both fund entries on new business written during the period and on in-force contracts, less premiums ceded to reinsurers.

3 Minimum premiums are the portion of the premium used to cover the insurance risks under an individual insurance contract and are an important way to measure the sector's performance. Excess premiums are the portion of the premium allocated to additional savings. The option to pay an excess premium is only available with Universal Life insurance products.

4 The 2014 figure was corrected downward by $9.5 million.

On an industry basis, according to the Canadian data published by LIMRA for the first nine months of the year, iA Financial Group ranked:

- Fourth for life insurance sales with a market share of 8.6%.
- Third for Universal Life insurance sales with a market share of 13.6%.
- Second for critical illness insurance sales with a market share of 19.5%.
- First for guaranteed renewal disability product sales with a market share of 26.4%.

Profitability

Net income attributed to shareholders for the Individual Insurance sector amounted to $357.2 million in 2016, compared to $182.1 million the year before. The results in 2015 included a reserve strengthening of $107.9 million. For more details, refer to the Profitability section of this Management's Discussion and Analysis.

Individual Wealth Management

Description of Sector

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products, including mutual funds, segregated funds (investment funds with guaranteed capital at death or at maturity), securities, guaranteed interest investments, life annuities and fixed-term annuities. Clients can invest in these products through registered retirement savings plans (RRSPs), registered education savings plans (RESPs), tax-free savings accounts (TFSAs), registered retirement income funds (RRIFs) or non-registered plans.

Business Growth

In 2016, guaranteed interest fund sales[1] achieved excellent growth, while segregated fund sales saw a slight decline compared to 2015. Mutual fund sales grew 3% compared to 2015. In total, gross sales for the Individual Wealth Management sector amounted to $3.3 billion in 2016, up 6% from the previous year. By product category:

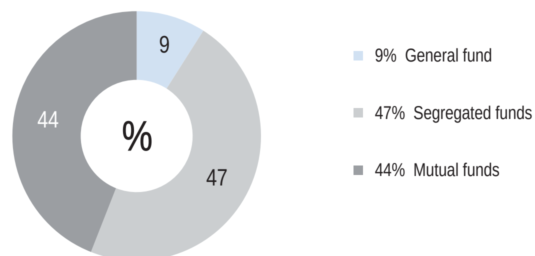
- Sales of guaranteed return products (essentially guaranteed interest investments and annuities), which are found in the Company's general fund, were up 131%, primarily due to a significant improvement in competitive positioning in the market.
- Gross segregated fund sales remained more or less stable in 2016, down 1% compared to 2015. Segregated fund sales for the industry were down 10% during the year.[2] In 2016, a new education savings product was introduced and the issuance process was simplified; this simplification has been completed in early 2017 with the addition of electronic signature, thus providing our distribution networks with a first fully electronic sales process.
- Gross mutual fund sales were up 3% from 2015. During the year, the iA Clarington subsidiary implemented two sales strategies, each adapted to its two main distribution networks: distribution affiliates and independent brokers. A positive impact on sales was observed, particularly in the second half of the year.

Individual Wealth Management Sales[1]

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
General fund	300.6	130.4	111.9	119.2	325.1
Segregated funds	1,559.6	1,581.2	1,352.6	987.7	1,126.0
Mutual funds	1,474.3	1,428.5	1,897.6	2,251.9	1,649.5
Total	3,334.5	3,140.1	3,362.1	3,358.8	3,100.6
Growth	6%	(7%)	0%	8%	(13%)

The following chart shows the breakdown of gross sales by product.

Gross Sales by Product 2016



Net sales[3] are made up of gross sales minus fund outflows. By product category:

- Net segregated fund sales amounted to $341.7 million in 2016, down 19% compared to 2015. This performance is nonetheless appreciable considering that in 2016, the segregated fund industry posted negative net sales of $763 million, compared with positive net sales of $88 million in 2015.[2]
- Net mutual fund sales were positive in the fourth quarter, but remained negative for the year overall. After 10 quarters of negative net sales, the most recent result is encouraging and attests to the efforts deployed to increase these sales and minimize fund outflows.

Investment Funds Net Sales[3]

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Segregated funds	341.7	422.4	288.7	(88.7)	308.7
Mutual funds	(404.4)	(995.3)	(119.3)	673.9	455.7
Total	(62.7)	(572.9)	169.4	585.2	764.4
As a percentage of sales	(2%)	(19%)	5%	18%	28%

1 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Wealth Management sector, total sales (or gross sales) for general fund and segregated fund products correspond to the net premiums presented in the Consolidated Financial Statements. Sales for mutual funds are defined as deposits.
2 Source: Investor Economics

3 Net sales are not an IFRS measure. In the Individual Wealth Management sector, net sales are a useful measure because they provide a more detailed understanding of the source of growth in assets under management. The change in assets under management is important because it determines the management fees recorded in the Consolidated Income Statements under "Other revenues". Sales for segregated funds and mutual funds correspond to net fund entries (gross sales less withdrawals and transfers).

The sector's total assets amounted to $70.8 billion at December 31, 2016, up 10% from the end of the previous year. The portion of these assets under management increased 7% in 2016. The growth is mainly due to favourable market conditions during the year.

The Other category of funds under management mainly includes assets from the Company's private wealth management activities through the T.E. Wealth, Leon Frazer and Forstrong Global Asset Management subsidiaries.

Lastly, as at December 31, 2016, the Company was ranked first in Canada for net segregated fund sales, and third for assets with 11.6% of the market (third at December 31, 2015 with 11.2% of the market).[1]

Individual Wealth Management
Funds Under Management and Administration

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2016	2015	2014	2013	2012
Funds under management					
General fund	1,186.1	1,089.0	1,162.0	1,226.9	1,274.5
Segregated funds	13,347.7	12,292.2	11,826.0	10,809.0	9,858.1
Mutual funds	10,937.5	10,428.3	11,832.9	11,413.2	8,978.9
Other[2]	3,998.3	3,709.3	3,576.6	3,061.7	---
Subtotal	29,469.6	27,518.8	28,397.5	26,510.8	20,111.5
Growth	7%	(3%)	7%	32%	5%
Funds under administration[2]	41,354.5	36,881.1	32,659.2	29,264.6	23,813.8
Growth	12%	13%	12%	23%	9%
Total	70,824.1	64,399.9	61,056.7	55,775.4	43,925.3
Growth	10%	5%	9%	27%	7%

Growth in assets under management, which is reliant on gross sales, in-force business persistency and the return on assets, is the key long-term profitability driver for the sector.

Profitability

The Individual Wealth Management sector generated net income attributed to shareholders of $119.9 million in 2016, a decrease of $16.2 million compared to 2015. This decrease is explained by the increase in the effective tax rate in 2016 compared to 2015. For more details, refer to the Profitability section of this Management's Discussion and Analysis.

Auto and Home Insurance Operations

Description of Activities

iA Financial Group markets its auto and home insurance products in Quebec through its iA Auto and Home Insurance (iAAH) subsidiary.

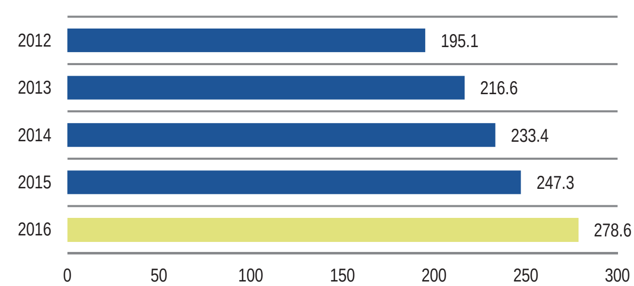
One of the advantages that sets iAAH apart is the referral of clients by iA Financial Group's distribution networks, providing a business development opportunity that's unique in the industry.

The highlight of 2016 was the expansion of the new auto and home insurance subsidiary under iAAH called Prysm General Insurance Inc. (Prysm). The first policies were underwritten in November 2015. Through this subsidiary, preferred distributors can sell auto and home insurance products to their clients under their own banner. This approach paved the way for Prysm's first big partnership entered into with CAA-Quebec, a well-known organization with a solid, trusted brand.

Business Growth

For the last five years, compound annual growth rate in direct written premiums was close to 10% (compared to 3% for the industry), bringing iAAH business volume to $278.6 million in 2016, up 13% over the previous year, primarily attributable to Prysm.

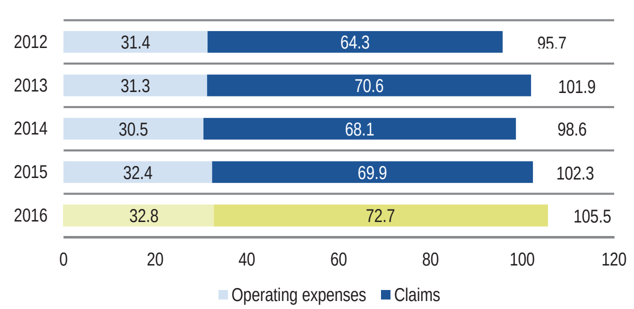
Direct Written Premiums
(Excluding Warranties and Replacement Insurance)[3] ($Million)



Profitability

In auto insurance, inflation related to the cost of parts and labour exceeded the decrease in claims frequency, unlike in past years. In home insurance, the first half of the year was impacted by an exceptional number of major fires. These events pushed up the claims ratio and kept the combined ratio (claims plus operating expenses) up above 100%. In addition, the costs relative to the creation of the Prysm subsidiary put downward pressure on the consolidated claims experience.

Combined Ratio (%)

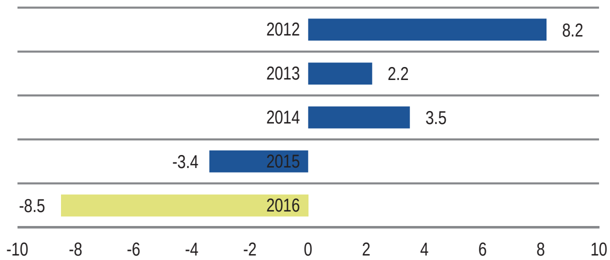


[1] Sources: Investor Economics and IFIC
[2] Includes assets related to affiliated dealers.

[3] The 2015 results were revised to include the Prysm General Insurance Inc. subsidiary, which began operations in November 2015.

Given the startup of the Prysm subsidiary and the increase in claims, iAAH ended the year with a loss of $8.5 million. Note that the loss is included in the Company's income on capital since iAAH is not a separate line of business for financial reporting purposes.

Net Income (Loss)[1] ($Million)



1 Before accumulated other comprehensive income

Group Products and Services

The Company offers a wide range of products to businesses and groups through the Group Insurance sector, which includes three divisions (Employee Plans, Dealer Services and Special Markets Solutions), and through the Group Savings and Retirement sector.

Group Insurance Employee Plans

Description of Division

The Company's Group Insurance Employee Plans division distributes a broad range of life and health insurance, accidental death and dismemberment (AD&D) insurance, dental care insurance, short and long-term disability insurance, critical illness and home care insurance, and out-of-Canada medical insurance. In addition, a suite of optional insurance products is available to plan members, making it easy for them to enrol in additional life, AD&D and critical illness coverage.

The products are marketed Canada-wide through specialized brokers and actuarial consulting firms. The division has nearly 500 employees, has signed agreements with some 1,600 groups, and serves over 500,000 plan members.

To help manage plans more effectively and promote the health and wellness of insureds, the Company offers a number of services and technology tools for plan administrators, members and benefits advisors. These include a workforce management program and a drug management program called PharmAssist. In addition, the division's transactional site gives members access to WebRx, an online tool that members can use to check their drug coverage, locate pharmacies, compare drug prices, estimate their reimbursement amount and get personalized money-saving tips.

Business Growth

Total sales[1] for the Group Insurance Employee Plans division amounted to $71.4 million in 2016, up 5% from the previous year.

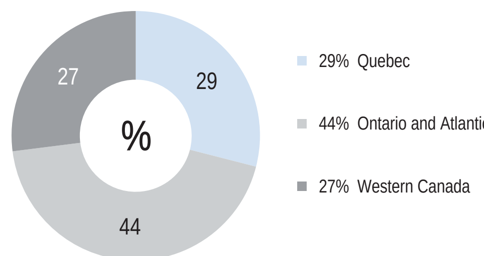
Premiums, premium equivalents and investment contracts totalled $968.4 million in 2016, slightly higher than in 2015. Growth in premiums and premium equivalents is a key long-term profitability driver and is a function of the increase in gross sales, in-force business persistency and growth in premiums from renewed contracts.

Group Insurance – Employee Plans
Business Growth

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Sales[1]	71.4	68.0	70.2	59.4	46.1
Growth	5%	(3%)	18%	29%	(65%)
Premiums	849.1	818.4	801.6	809.0	788.7
Premium equivalents[2]	45.0	42.8	42.0	43.9	48.2
Investment contracts[3]	74.3	71.2	70.6	73.0	128.1
Total	968.4	932.4	914.2	925.9	965.0
Growth	4%	2%	(1%)	(4%)	1%

The following chart shows a breakdown of the Company's sales by region in Canada.

Sales by Region in Canada 2016



For the first nine months of the year, industry sales[4] for groups with 50 to 1,000 employees, the market closest to the division's target market, were up 16%. This left iA Financial Group in sixth position, with 6% of the market (fifth in 2015, with 7% of the market).

Profitability

The division's profitability was very favourable in 2016, which is a distinct improvement over 2015. Experience results were favourable in long-term disability and life insurance, in particular. This positive result reflects the corrective measures taken over the past several years.

1 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Group Insurance Employee Plans division, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only). The net premiums presented in the Consolidated Financial Statements are net of reinsurance and include both fund entries on new business written during the period and on in-force contracts. Net premiums for the Employee Plans division are included in the net premiums for the Group Insurance sector, along with those of the sector's two other divisions, Dealer Services and Special Markets Solutions.
2 Premium equivalents are income from administrative services only (ASO) contracts.
3 Premiums from Hold Harmless Agreements
4 Source: LIMRA

Group Insurance
Dealer Services

Description of Division

The Dealer Services division distributes creditor insurance products (life, disability and critical illness), car loan financing and property and casualty (P&C) protections, including extended warranties, replacement insurance and a full range of P&C ancillary products.

The Dealer Services division has over 360 employees, has signed agreements with more than 3,000 organizations and insures over 2.1 million individuals. The products are offered through an exclusive Canada-wide direct distribution network to automobile and other motor vehicle dealers.

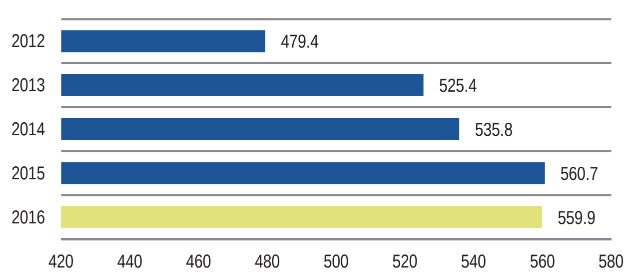
The division's success is based on several competitive advantages, including an excellent reputation, strong brand recognition, an extensive distribution network, low unit costs and a comprehensive range of products, services and training programs. Dealers and distributors demand "one-stop shopping" for their aftermarket needs and iA is one of the few companies that can meet this demand. The division also benefits from synergies with other iA entities.

Through the 2015 acquisition of CTL Corp. (CTL), a non-traditional credit lender, iA expanded the breadth of financial and insurance products currently offered through car dealers. This acquisition is accelerating the development of the Dealer Services division across Canada.

Business Growth

Dealer Services division sales totalled $559.9 million, slightly under the sales figure for 2015. Creditor insurance sales amounted to $363.0 million and P&C sales were $196.9 million. Car loan originations[1] were $391.1 million in 2016

Dealer Services – Creditor Insurance and P&C Total Sales[2] ($Million)



Dealer Services – Creditor Insurance[3]

Creditor insurance sales in 2016 remained at the same level as in 2015, totalling $363.0 million. Sales growth underperformed auto industry growth, which is explained by lower market penetration, especially in Western regions due to the economic situation. The Company also lost a few large dealers. The Canadian light vehicle industry shows light vehicle sales up 3.2%[4] compared to 2015.

Dealer Services – Creditor Insurance[2]
Business Growth

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Sales	363.0	363.0	378.6	382.4	351.7
Growth	0%	(4%)	(1%)	9%	23%
Net premiums	233.2	252.5	292.6	303.9	286.5

Dealer Services – P&C

P&C sales with motor vehicle dealers decreased slightly from 2015 to reach $196.9 million.

Dealer Services – P&C[5]
Business Growth

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Underwritten	190.6	192.0	151.9	138.4	122.8
Non-Underwritten	6.3	5.7	5.3	4.6	4.9
Total	196.9	197.7	157.2	143.0	127.7
Growth	0%	26%	10%	12%	55%

Profitability

Sales and car loan originations are the main profitability drivers for the Dealer Services division. Sales are mainly reliant on the number of new vehicles sold, the expansion of the distribution network and, to a lesser extent, the demand for credit products. The profitability of the division increased in 2016, driven mainly by the integration of CTL, which was acquired in October 2015.

Group Insurance
Special Markets Solutions

Description of Division

Special Markets Solutions is a division of iA Financial Group that specializes in niche insurance markets that are underserved by traditional group insurance carriers. The division primarily offers accidental death & dismemberment (AD&D) insurance, critical illness insurance and other specialized insurance products to employers and associations, as well as travel and health insurance through distribution partners and term life insurance to alumni associations and other affinity groups.

1 Loan originations are not an IFRS measure. Loan originations refer to new car loans disbursed in a given period. They measure the Company's ability to generate new business.
2 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. Creditor insurance sales are defined as premiums before reinsurance and cancellations. P&C sales are defined as direct written premiums (before reinsurance).
3 Includes all creditor insurance business sold by the Company.
4 Source: DesRosiers Automotive Consultants Inc., December 2016 year-to-date information.
5 P&C premiums include replacement insurance business, which was underwritten by iAAH from October 2010 to April 2013.

Special Markets Solutions has over 80 employees, has signed agreements with over 4,000 groups and associations, and insures millions of Canadians.

Business Growth

Special Markets Solutions achieved $194.1 million in sales in 2016, which represents 2% growth over 2015. Good sales growth in group medical, critical illness and disability more than mitigated a downturn in travel medical sales and economic pressures across the Prairies which slowed AD&D sales growth.

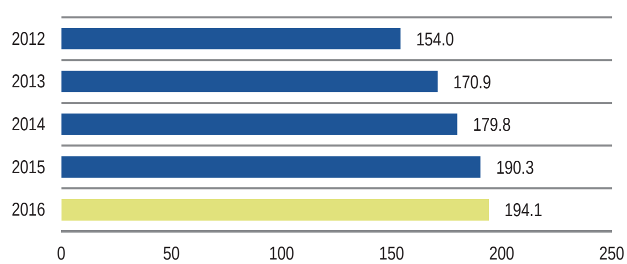
Similarly, net sales, defined as gross premiums net of reinsurance, experienced 2% growth in 2016. Reinsurance treaty negotiations resulted in various savings.

Efforts to maintain a competitive edge were ongoing throughout 2016, including the implementation and further development of product enhancements and various marketing activities.

Special Markets Solutions
Business Growth

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Sales (gross premiums)[1]	194.1	190.3	179.8	170.9	154.0
Growth	2%	6%	5%	11%	16%
Net sales[2]	180.0	176.9	167.8	159.7	143.8

Sales (Gross Premiums)[1] ($Million)



Profitability

Profitability was positive in 2016 for Special Markets Solutions, with several business segments posting high profit ratios. The group medical and life segments suffered modest losses, respectively due to higher than anticipated claims and strengthening of reserves. Sales in conjunction with solid underwriting and AD&D claims experience are the main profitability drivers for the Special Markets Solutions division.

Profitability for Entire Group Insurance Sector

The Group Insurance sector ended the year with net income attributed to shareholders of $55.0 million compared to $41.4 million the year before. The Employee Plans division is mostly responsible for this increase. For more information, refer to the Profitability section of this Management's Discussion and Analysis.

Group Savings and Retirement

Description of Sector

The Group Savings and Retirement sector offers a wide range of products and services that are adapted to the needs of companies and their employees. The products offered can be broken down into two categories: accumulation products (savings products, such as defined contribution or defined benefit plans, and institutional money management services) and disbursement products (essentially insured annuities).

Products are marketed Canada-wide through specialized brokers, actuarial consulting firms and representatives from the Career and Managing General Agents networks (in the Personal Financial Services sectors).

The Group Savings and Retirement sector has approximately 200 employees, has signed agreements with nearly 11,200 groups and serves approximately 350,000 plan members. The Company has regional offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

The sector's efforts to improve competitiveness in 2016 included strengthening synergies with the Group Insurance sector, improving processes and technology tools, and continuing to enhance the digital experience for plan members, employers and intermediaries.

Business Growth

Group Savings and Retirement ended the year with $1,481.4 million in sales, an increase of 13% over the previous year.

Group Savings and Retirement
Premiums (Sales)[3]

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
Accumulation Products					
Recurring premiums	727.1	638.8	582.5	550.7	482.9
Transfers	607.8	476.0	229.2	344.6	276.2
Premium equivalents	61.4	88.8	44.1	57.4	82.3
Subtotal	1,396.3	1,203.6	855.8	952.7	841.4
Insured Annuities	85.1	112.6	131.9	72.3	27.0
Total	1,481.4	1,316.2	987.7	1,025.0	868.4
Growth	13%	33%	(4%)	18%	19%

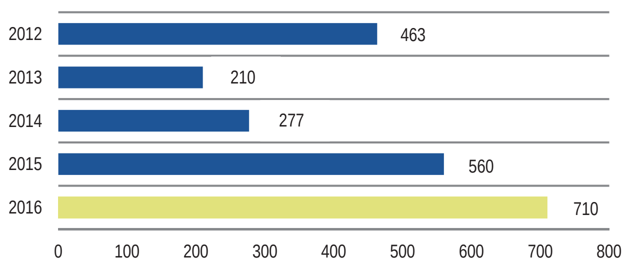
[1] Sales (gross premiums) are before reinsurance.
[2] Net sales in Special Markets Solutions are equivalent to net premiums (an IFRS measure). Net premiums for this division are included in the net premiums for the Group Insurance sector.
[3] Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Group Savings and Retirement sector, sales include gross premiums (before reinsurance) and premium equivalents, or deposits. The net premiums presented in the Consolidated Financial Statements are after reinsurance and exclude premium equivalents.

Accumulation Products

At $1,396.3 million, accumulation product sales were up considerably from 2015. New group transfers and premium equivalents were up 18%, benefitting from the acquisition of an accumulation product business block with over $120 million in assets under management, some 60 contracts and 5,000 plan members. Recurring premiums, which represent sustainable business development and are the core of the sector's strategy, were up 14%. They correspond to regular member contributions collected from in-force group clients.

For the sector to successfully grow its business volume, it is essential to sell new plans and maintain existing ones. New plan sales were up considerably in 2016, totalling $710.4 million in annualized premiums[1] for an increase of 27% over the previous year.

Accumulation Products
New Plan Sales[1] ($Million)



Net fund entries[2] totalled $385.1 million in 2016, up 63% from the previous year. This is mainly explained by the increase in fund entries from new groups.

Accumulation Products
Net Fund Entries[2]

(In millions of dollars)	2016	2015	2014	2013	2012
Entries	1,396.3	1,203.6	855.8	952.7	841.4
Disbursements	1,011.2	968.0	896.3	632.5	604.1
Net entries	385.1	235.6	(40.5)	320.2	237.3

Insured Annuities

In the insured annuities segment, the year ended with $85.1 million in sales, compared to $112.6 million in 2015. The Company continues to aim for selective, prudent growth by focusing on appropriate risk management, primarily in terms of longevity.

Funds Under Management

Funds under management totalled nearly $12.7 billion at year-end, an increase of 8% over the previous year. This is primarily due to realized returns and net fund entries. Growth in assets under management is important because it is the key long-term profitability driver for the sector.

Group Savings and Retirement
Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2016	2015	2014	2013	2012
Accumulation Products	9,517.7	8,544.5	8,070.0	7,234.6	6,285.4
Insured Annuities	3,196.0	3,213.0	3,213.3	2,998.4	3,128.7
Total	12,713.7	11,757.5	11,283.3	10,233.0	9,414.1
Growth	8%	4%	10%	9%	11%

Profitability

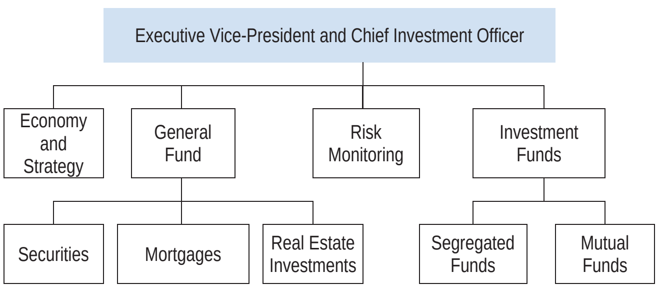
The sector recorded net income attributed to shareholders of $21.6 million in 2016, compared to $26.8 million the year before. The decrease is explained by a slight decrease in operating profit, a slight decrease in income on capital and a slight increase in the income tax expense. For more details, refer to the Profitability section of this Management's Discussion and Analysis.

1 New plan sales are measured by first-year annualized premiums, which equal the total of the initial asset transfer and recurring first-year annualized premiums.
2 Net fund entries are not an IFRS measure. In the Group Savings and Retirement sector, net fund entries are a useful measure because they provide a more detailed understanding of the source of growth in assets under management. The change in assets under management is important because it determines the management fees recorded in the Consolidated Financial Statements under "Other revenues".

Investments

Description of Sector

The Investments sector has two main functions: managing the Company's general fund investments and managing the segregated and mutual fund investments offered to its clients. All of iA Financial Group's investment activities, including those associated with the U.S. business, are combined under a single authority and share a common philosophy. The investment management structure is illustrated below.



The general fund experts manage a diverse range of investments, including bonds, stocks, residential and commercial mortgages, real estate investments, short-term investments and derivatives.

The risk monitoring team is responsible for developing a global vision for the control and monitoring of the various investment risks (interest rate, stock market, foreign currency, credit, liquidity, etc.). In addition to quantifying the risks, the team helps develop strategies for managing these risks effectively.

Most of iA Financial Group's investment professionals work for iA Investment Management, where they look after asset allocation and securities selection for the general fund and for a number of segregated and mutual funds, in addition to overseeing all external managers.

Assets Under Management and Administration

At December 31, 2016, iA Financial Group had $126.2 billion in assets under management and administration, an increase of $10.4 billion, or 9%, over the previous year.

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as "Other"), were up $6.0 billion (+8%) in 2016. All components of assets under management contributed to this growth.

Assets under administration were up $4.5 billion (+12%) thanks to the positive contribution of the financial product subsidiaries. Assets under administration essentially include third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services and FundEX Investments, among others), the securities brokerage company (iA Securities) and the trust company (iA Trust).

Assets Under Management and Administration

	As at December 31				
(In millions of dollars)	2016	2015	2014	2013	2012
Assets under management					
General fund[1]	35,223.8	33,161.4	31,591.2	27,195.5	26,697.3
Segregated funds	21,825.8	19,776.7	18,748.2	16,921.4	15,021.2
Mutual funds	10,937.5	10,428.3	11,832.9	11,413.2	8,978.9
Other	16,859.9	15,526.1	14,621.3	13,960.5	8,934.5
Subtotal	84,847.0	78,892.5	76,793.6	69,490.6	59,631.9
Assets under administration	41,387.2	36,920.8	32,687.2	29,289.7	23,833.3
Total	126,234.2	115,813.3	109,480.8	98,780.3	83,465.2

General Fund

General Fund Investments

The Company uses a prudent, disciplined approach to investing and aims to achieve an optimal balance between risk and return. In addition to ensuring that its investments are well diversified among issuers and operating sectors, as well as geographically, the Company closely monitors its asset/liability matching and maintains a sufficient level of liquidity at all times. For more information about liquidity risk and how it is managed and about the asset/liability matching process and the measures used by the Company to reduce the risks associated with this process, refer to the Risk Management section of this Management's Discussion and Analysis.

Most of the assets related to the Company's insurance and annuity operations are invested in fixed-income securities, such as bonds and mortgages, and to a lesser extent, in equity securities (stocks). The assets related to the Company's capital are solely invested in fixed-income securities and preferred shares.

Composition of General Fund Investments

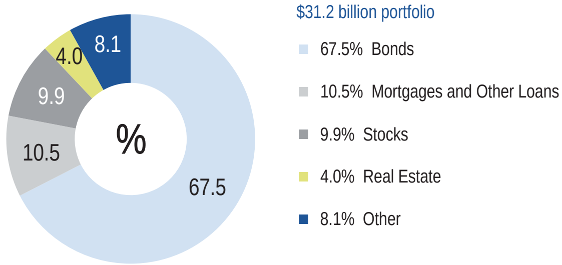
At the end of 2016, 67.5% of the Company's investments were invested in bonds and 10.5% in mortgages and other loans, for a total of 78.0% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 75% and 78% over the last five years, while stocks have varied between 10% and 14%.

General Fund Investments

	As at December 31				
(In millions of dollars)	2016	2015	2014	2013	2012
Bonds	21,086.8	19,278.1	18,575.3	15,106.7	14,643.1
Mortgages and other loans	3,292.3	3,169.3	2,886.0	2,596.6	2,603.6
Stocks	3,083.0	2,924.1	3,242.0	3,120.2	2,794.6
Real estate	1,237.8	1,215.9	1,190.1	1,079.2	953.1
Other invested assets	2,537.1	2,479.1	1,515.7	1,287.1	1,989.1
Total	31,237.0	29,066.5	27,409.1	23,189.8	22,983.5

[1] At December 31, 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.

Investments by Asset Category — As at December 31, 2016



Overall Quality of Investments

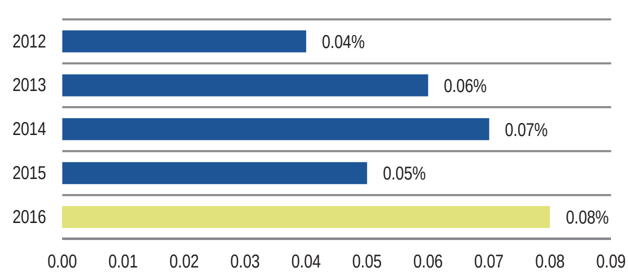
The overall quality of investments continued to be very good in 2016, despite an increase in net impaired investments from $14.2 million at December 31, 2015 to $23.4 million at December 31, 2016. On a $31.2 billion portfolio, this represents just 0.08% of total investments (0.05% at December 31, 2015).

Net Impaired Investments (Excluding Insured Loans)

	As at December 31				
(In millions of dollars)	2016	2015	2014	2013	2012
Bonds	16.9	6.0	7.2	7.3	8.0
Mortgages	6.5	8.2	11.5	6.5	1.0
Total	23.4	14.2	18.7	13.8	9.0

Net impaired investments are made up of bonds and conventional mortgages that are three or more months in arrears, as well as restructured loans and other defaulted investment securities, taking into account any specific provisions for losses set up in consideration of these assets.

Net Impaired Investments as a Percentage of Total Investments — As at December 31



For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as "available for sale" amounted to $5.5 million at December 31, 2016 ($5.7 million at December 31, 2015).

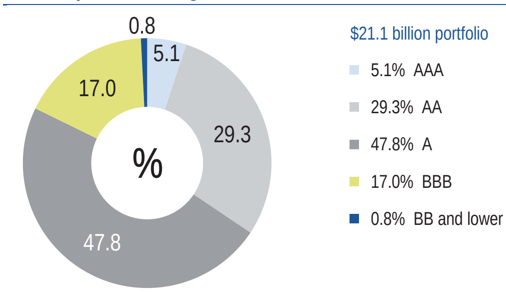
Bond Portfolio

The quality of the Company's bond portfolio is very good, totalling $21.1 billion at December 31, 2016.

In accordance with the rules defined in the investment policies, the Company largely invests in bonds whose credit rating from a recognized rating agency is BBB low or higher at the time of acquisition. In the event no evaluation is available from a recognized rating agency, the Company uses an in-house method to evaluate the quality of the bonds in question.

The proportion of bonds rated A or higher represented 82.2% of the portfolio at the end of 2016, compared to 82.6% at the end of 2015. At December 31, 2016, bonds rated BB and lower (high-yield bonds) represented just $160.7 million (0.8% of the portfolio), compared to $128.1 million at December 31, 2015 (0.7% of the portfolio).

Bonds by Credit Rating — As at December 31, 2016



In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2016, private issue bonds totalled $3.8 billion, which represents 18.0% of the bond portfolio ($3.6 billion or 18.9% of the bond portfolio at December 31, 2015).

Bond Portfolio

	As at December 31				
	2016	2015	2014	2013	2012
Book value of the portfolio ($Million)	21,086.8	19,278.1	18,575.3	15,106.7	14,643.1
Distribution by category of issuer (%)					
Governments[1]	51.4	50.0	49.7	55.2	60.5
Municipalities	4.4	5.2	5.2	4.1	3.9
Corporates – Public issues	26.2	25.9	27.4	24.2	20.3
Corporates – Private issues	18.0	18.9	17.7	16.5	15.3
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.00	0.00	0.00	0.00	0.01

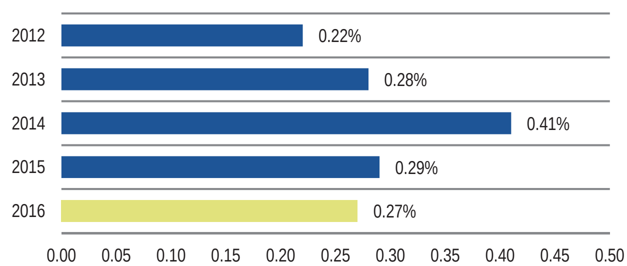
[1] Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

Mortgages and Other Loans Portfolio

The mortgages and other loans portfolio amounted to $3.3 billion at December 31, 2016, a $123.0 million increase over December 31, 2015.

Mortgages as such totalled $2.8 billion at the end of 2016, and they were of excellent quality. The delinquency rate, which includes both insured and uninsured mortgages, decreased during the year, from 0.29% at December 31, 2015 to 0.27% at December 31, 2016. In total, delinquent mortgages represented just $7.4 million at December 31, 2016 ($8.5 million at December 31, 2015).

Delinquency Rate
as a Percentage of Mortgages — As at December 31



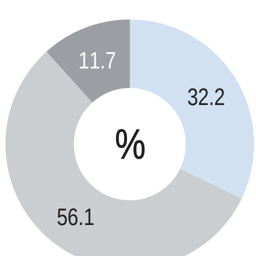
As shown in the table below, insured mortgages have represented approximately three-quarters of total mortgages in recent years (77.1% in 2016).

Mortgages and Other Loans Portfolio

	As at December 31				
	2016	2015	2014	2013	2012
Book value of the portfolio ($Million)					
Mortgages	2,776.5	2,877.2	2,759.7	2,537.8	2,589.0
Other loans	515.8	292.1	126.3	58.8	14.6
Total	3,292.3	3,169.3	2,886.0	2,596.6	2,603.6
Distribution of mortgages by type of loan (%)					
Insured loans	77.1	76.0	75.9	74.7	73.4
Conventional loans	22.9	24.0	24.1	25.3	26.6
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.27	0.29	0.41	0.28	0.22

At December 31, 2016, the proportion of mortgages secured by single-family and multi-unit residential properties was 88.3% (86.1% at December 31, 2015). This number has been above 80% for several years.

Mortgages by Type of Property — As at December 31, 2016



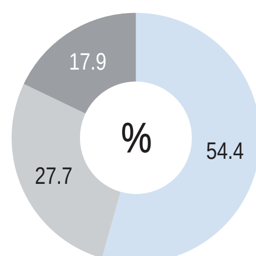
In addition to its mortgages and other loans, the Company also manages assets for third parties. In total, the Company's portfolio of mortgages and other loans plus assets managed for third parties amounted to $12.7 billion at December 31, 2016 ($11.7 billion at December 31, 2015). Loans managed for third parties have grown considerably in the past few years as the Company capitalizes on its underwriting, compliance, customer service and management expertise.

Stock Portfolio

At December 31, 2016, investments in equity securities amounted to $3.1 billion, or 9.9% of the Company's total investments, compared to $2.9 billion or 10.1% a year earlier.

Investments in equity securities are used to match long-term insurance contract liabilities and to cover the commitments on certain Universal Life policies. Preferred shares are used to invest a portion of the Company's capital. The stock portfolio matching long-term commitments delivered a return of over 15% in 2016. The Company's preferred shares increased in value in 2016, mainly due to the marked increase in interest rates as well as a growing appetite among institutional investors for this asset class. Private equities occupy an increasingly growing proportion of the portfolio. This equity category offers opportunities in terms of diversification, returns and matching of long-term commitments.

Stock Portfolio by Type of Matching — As at December 31, 2016



The management strategy used for the stock portfolio aims to optimize return through investments in preferred shares, high dividend shares, market indices and investment funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its exposure to concentration risk and to participate in the growth of all primary economic sectors.

Stock Portfolio

	As at December 31				
	2016	2015	2014	2013	2012
Book value of the portfolio ($Million)	3,083.0	2,924.1	3,242.0	3,120.2	2,794.6
Distribution by category of stock (%)					
Common shares and investment fund units	43.3	50.3	59.4	60.4	59.8
Preferred shares	19.7	19.1	16.6	16.7	15.5
Market indices	13.7	13.0	14.2	18.4	21.2
Private equities	23.3	17.6	9.8	4.5	3.5
Total	100.0	100.0	100.0	100.0	100.0

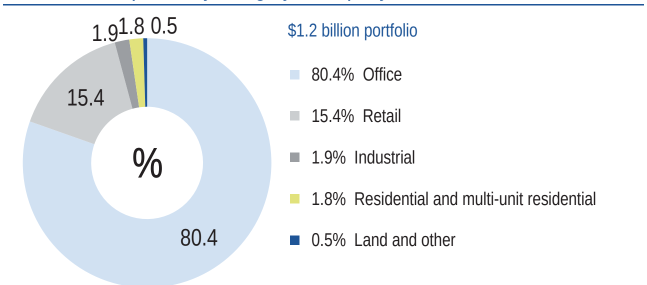
Real Estate Portfolio

The Company recognizes investment properties at fair value. The book value of investment properties increased by $21.9 million in the past year to reach $1.2 billion at December 31, 2016. Changes in the book value are normally due to the net amount of acquisitions and dispositions, the increase in the fair value of investment properties that were reappraised during the year and any renovations to the properties. Real estate investments represented 4.0% of total investments at December 31, 2016, compared with 4.2% at December 31, 2015.

The occupancy rate of investment properties increased slightly during the year (90.2% at December 31, 2016, compared to 90.1% at December 31, 2015). It continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for over 80% of the Company's real estate investments.

Investment Properties by Category of Property — As at December 31, 2016



Investment Properties

(In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012
	As at December 31				
Book value of the portfolio	1,237.8	1,215.9	1,190.1	1,079.2	953.1
Occupancy rate	90.2%	90.1%	91.0%	93.5%	95.2%

Derivative Financial Instruments

The Company uses derivative financial instruments in the normal course of managing the risk arising from fluctuations in interest rates, equity markets, currencies and credit. These instruments are primarily made up of interest rate, equity and foreign exchange swaps, as well as options and futures and forward contracts.

Derivative financial instruments are used primarily as part of the Company's hedging program. This program aims to alleviate the sensitivity of the capital guarantees on certain segregated fund products to interest rate and stock market fluctuations.

The Company also uses derivatives in the implementation of strategies to improve the long-term return on the investment portfolio and to hedge the risk associated with the Universal Life policy funds.

The table below presents certain values pertaining to the Company's financial instruments. For more information, refer to note 8 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

(In millions of dollars)	2016	2015
	As at December 31	
Net fair value[1]	(70.7)	(65.7)
Notional amount[2]	12,338	12,199

Other Invested Assets

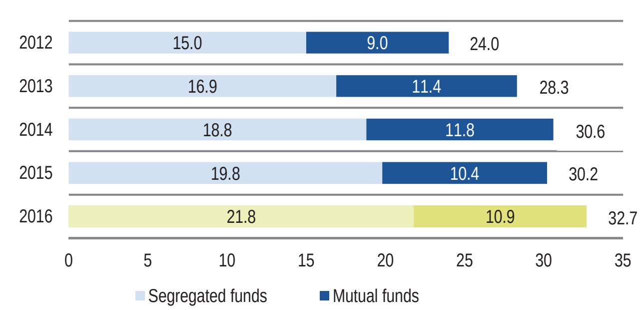
The Other Invested Assets category is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), derivatives, short-term investments and other investments. These investments totalled $2.5 billion at December 31, 2016 ($2.5 billion at December 31, 2015).

Investment Funds
(Segregated Funds and Mutual Funds)

Investment Fund Assets

Investment fund assets for iA Financial Group totalled $32.7 billion at December 31, 2016 ($21.8 billion in segregated funds and $10.9 billion in mutual funds), up 8% from the previous year. This increase is mainly explained by favourable financial markets.

Segregated Fund and Mutual Fund Assets as at December 31 ($Billion)



Range of Funds

iA Financial Group offers a broad, diverse range of investment funds. At December 31, 2016, the Company offered over 200 funds to its individual and group clients. Over half of the assets in these funds are managed in-house.

The Company continued to redesign its offer in 2016 to provide greater diversity and more complementary management styles. Some innovative new options were also introduced for certain market segments, in particular for education savings plans.

1 Positive fair value of the derivative financial instruments presented under Assets in the Consolidated Statements of Financial Position, minus the negative fair value presented under Liabilities.

2 Amount used to determine the contractual amount of the cash flows to be exchanged.

On the mutual fund front, iA Clarington added a number of funds during the year. The most notable additions are its new managed solution funds offering the expertise of multiple managers and dynamic asset allocation.

Lastly, in the Group Savings and Retirement sector, the Company added several funds in certain high-demand categories and in response to the addition of new major clients.

iA Financial Group's Active Investment Funds

	As at December 31, 2016	
	Assets ($Billion)	Distribution of assets
Segregated funds	21.8	67%
Mutual funds	10.9	33%
Total	32.7	100%

Investment Fund Performance

After a start to the year largely dominated by fears surrounding the drop in oil prices, the slowdown of the Chinese economy and the start of interest rate normalization by the U.S. Federal Reserve, the performance of North American stock markets rebounded strongly and generated solid returns in 2016. These results were impacted at year-end by a wave of enthusiasm following the election of Donald Trump in the United States.

The Canadian market benefitted from the sharp rebound of financials, materials and energy to climb into the rankings of the top markets of 2016 with a total return (including dividends) of 21.1% for the S&P/TSX. In the U.S., the S&P 500 posted a return of 12.0% in local currency and 8.6% in Canadian dollars. On the bond markets, the increase in interest rates during the final months of the year slowed performance for several market segments. The FTSE TMX Canada Universe Bond Index nonetheless finished the year in positive territory with a return of 1.7%.

In this context, our diversified investment funds and portfolios with a Canadian equity bias ended up realizing attractive nominal returns.

Compared to the competition, our funds posted above-average returns for the year in 2016. Overall, 55% of the assets held in funds offered by the Company surpassed their respective one-year medians. This percentage increases to 67% when looking at two- and three-year periods.

The returns on all of the Company's investment funds and detailed financial information associated with these funds are presented in the investment fund financial reports prepared by iA Financial Group.

Risk Management

The Risk Management section of the Management's Discussion and Analysis contains certain information required under IFRS-7 *Financial Instruments: Disclosures* of the International Financial Reporting Standards (IFRS) regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2016, given that the standard permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally what is found in the financial statements.

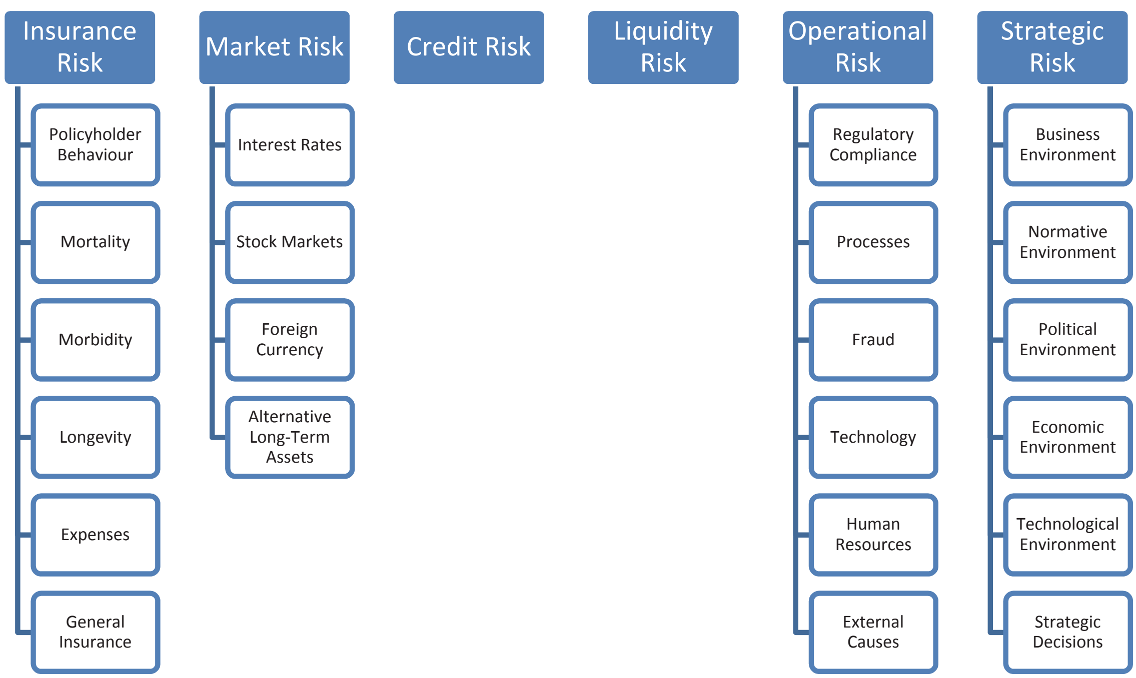
As a financial institution, iA Financial Group assumes a variety of risks inherent in the conduct of its business. The Company's goal is to manage these risks as effectively as possible in order to enhance long-term profitability and shareholder value, while continuing to meet the needs of policyholders and comply with regulatory requirements.

The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required by the regulatory authorities.

Risk Categories

The diagram below illustrates the categories of risk the Company is exposed to in the course of pursuing its strategic objectives. A summary of these risks and the processes for managing them is outlined in the following pages.

The Company is also exposed to reputation risk. This risk can arise from the occurrence of one or more risks that appear in the six categories illustrated below. It may result from negligence or unauthorized actions by an employee or other individual affiliated with the Company, inappropriate behaviour by one of its representatives, or some other event that may, rightly or wrongly, have a negative impact on the public's perception of the Company and potentially lead to fewer clients, lost revenues or considerable litigation costs.



Risk Management Principles and Responsibilities

Effective risk management rests on identifying, understanding and communicating the risks the Company is exposed to in the course of its operations.

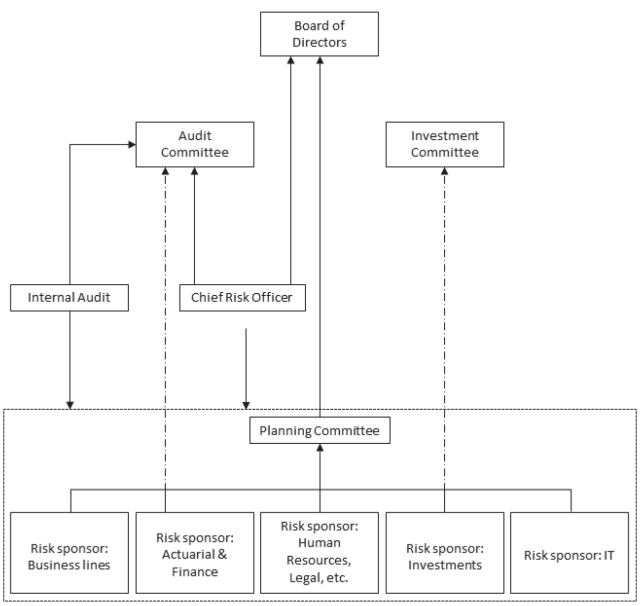
In accordance with this principle, the Company has implemented an enterprise risk management framework that is consistently applied and that is taken into account in developing the Company's business strategies and in all of its operations.

The goal of the enterprise risk management framework is to identify, assess, manage and monitor the risks the Company is exposed to in the course of its operations and to ensure that any pertinent information regarding these risks is communicated and shared on a regular and timely basis with the various people involved in the framework.

The enterprise risk management framework is also designed to provide the Board of Directors with reasonable assurance that sufficient resources and appropriate procedures are in place within the Company to ensure sound risk management.

The framework is governed by a global policy designed to classify and define the risks the Company is exposed to, outline the risk management organizational structure, including the roles and responsibilities of the various people involved in the risk management process, and identify the key steps in the process, particularly in terms of identifying, assessing, communicating and monitoring the risks.

The diagram that follows illustrates the responsibility levels with respect to enterprise risk management within the Company.



The risk sponsors are made up of senior managers who are responsible for the various organizational units such as the business lines and the Actuarial and Finance, Human Resources, Legal, Investment and IT departments. These people are responsible for managing the risks that could adversely affect the achievement of the objectives identified in their respective areas of responsibility. The risk sponsors are responsible for producing a report at regular intervals on the material risks to which the Company is exposed. Ongoing communication with the Chief Risk Officer is also established to ensure that the entire Company manages risk in an appropriate, effective and consistent manner.

The Chief Risk Officer is responsible for coordinating the framework within the Company and ensuring that appropriate policies and procedures are defined and implemented by the risk sponsors. He is also responsible for summarizing and communicating the risk-related information to the Board of Directors. The Chief Risk Officer and his team work closely with the risk sponsors to ensure effective management of the risks in their respective areas of responsibility. They also play a key role in ensuring good communication among the various managers and promoting a general culture of sound risk management.

The Planning Committee, which includes the President and Chief Executive Officer as well as the senior executives, ensures that the policies and procedures are enforced and keeps the Board of Directors apprised of the key risks to which the Company is exposed and the measures being taken to manage them. It also ensures that risk sponsors carefully assess the material risks to which the Company is exposed, and that they act with prudence and discipline within the established limits for risk tolerance.

The Board of Directors monitors the effectiveness of the risk management framework. It verifies and approves the global policy governing this framework as well as any changes that are made to it. The Board also approves the overall level of risk the Company is willing to take as well as how far the Company is willing to deviate financially from its objectives.

The internal auditors assess the effectiveness of the enterprise risk management framework, recommend improvements to the people involved in the process and report on the situation to the Board of Directors' Audit Committee.

The enterprise risk management framework is also applied in the Company's subsidiaries. The boards of directors of the subsidiaries, which are made up of members renowned for their expertise in their respective fields and may also include senior executives from the parent company, also play an important role in risk management.

Strategic Risk

Strategic risk may arise from poor strategic decisions or not adapting well to changes in the business, normative, political, economic or technological environment.

Risk Associated with the Business Environment – The insurance and wealth management sectors are highly competitive. There is a risk that competitive pressures could lead to increased pressure on the business model and harm the Company's overall profitability. Changes in client needs and spending habits could also have an adverse effect on the Company's results if it doesn't adapt accordingly.

Risk Associated with the Normative Environment – Financial institutions are subject to a vast number of laws and regulations. As a result, legislative and regulatory changes could increase the amount of time and resources needed to ensure ongoing compliance. The Company is also exposed to risk related to changes in accounting and actuarial standards.

Risk Associated with the Political Environment – Political events or decisions could have an adverse impact on the competitiveness of the Company's products or on its general profitability.

Risk Associated with the Economic Environment – Changes in the economic environment like increased credit risk or a deterioration in financial market conditions that leads to increased volatility could increase pressure on the business model or adversely affect the Company's profitability, financial strength and access to capital.

Risk Associated with the Technological Environment – Not adapting well to changes in the technological environment could impact the integrity of our information systems and technology infrastructure or generally disrupt the Company's business plan.

Insurance Risk

Insurance risk is the risk of loss arising from higher claims than anticipated during product pricing and design. This category includes risk factors associated with policyholder behaviour, mortality, morbidity, longevity, expenses and general insurance. Insurance risk can occur at various stages of a product's life cycle, for example during product design and pricing, during underwriting or claims adjudication or when calculating the provisions for future policy benefits. The Company has put controls and processes in place at each of these stages to ensure appropriate management of these risks.

Product design and pricing – For certain types of contracts, the insurance risk may be shared with or transferred to the policyholder through dividend and experience refund policies, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

At this stage of a product's life cycle, the risk is primarily managed by regularly analyzing the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed or the various options offered by the reinsurance market are utilized.

Underwriting and Claims Adjudication – Given the geographic diversity of its clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company's mortality risk is in Canada.

The Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. It has adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured. One of these agreements apply to events that may produce losses in excess of $50 million, up to a maximum of $150 million, which is equivalent to a maximum claim of up to $100 million.

Calculating Provisions for Future Policy Benefits – In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. In-house studies on evolving claims experience as well as external sources of information are used to revise the assumptions, which may lead to changes in the provisions for future policy benefits.

The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the Canadian Institute of Actuaries (or any other relevant body), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

The Company's Sensitivity to Certain Insurance Risks – The table that follows provides an overview of the impact on the net income attributed to common shareholders of adverse deviations from assumptions with regard to certain insurance risks.

Decrease in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations from the Assumptions

(In millions of dollars)	2016	2015
Insurance risk: adverse deviation of 5%		
Mortality rate[1]	173	162
Lapse rate[2]	152	144
Unit costs[3]	44	43
Morbidity rate[4]	52	49

Favourable variances from the assumptions would have the same impact, but in the opposite direction.

Market Risk

The Company is exposed to market risk, which is the risk that the fair value/future cash flows of an insurance contract/financial instrument will fluctuate due to variations in market risk factors. This category includes risk factors related to interest rates, stock markets, foreign currency and return on alternative long-term assets.

1 The adverse deviation is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products.
2 The adverse deviation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.
3 Adjusted to reflect the adjustability of certain products.
4 The adverse deviation is expressed assuming 95% of the expected termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active, adjusted to reflect the adjustability of certain products.

The Company has established investment policies that contain a variety of quantitative measures designed to limit the impact of these risks. The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors' Investment Committee at least quarterly.

Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. Interest rate risk is the risk of loss associated with fluctuations in benchmark interest rates and/or rate spreads. It can occur if the asset cash flows cannot be reinvested at high enough interest rates compared to the interest rates on the corresponding liabilities, or if an asset needs to be liquidated in order to match the liability cash flows and a loss in market value of the liquidated asset occurs due to rising interest rates. This risk depends on asset allocation as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

In order to mitigate this risk, the Company has developed a strict matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

The Company's investment policy clearly defines the type of matching that is appropriate for each type of liability, as well as the constraints and guidelines to follow for choosing the assets. To illustrate the application of this policy, the liabilities are divided into three main categories, as presented below, based on the structure of the underlying financial commitments.

Net Liabilities According to Type of Matching

	As at December 31			
	2016		2015	
	$M	%	$M	%
Immunized liabilities				
On a cash flow basis	6,116	27%	7,663	35%
Universal Life policy accounts	1,510	6%	1,477	7%
Subtotal	7,626	33%	9,140	42%
Non-immunized liabilities	15,279	67%	12,551	58%
Total	22,905	100%	21,691	100%

1› Liabilities Immunized on a Cash Flow Basis

This category represents 27% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than thirty years.

For liabilities immunized on a cash flow basis, the primary objective of the matching is to minimize the volatility of the deviations that can occur between the returns realized on the assets and those expected for the liabilities. In terms of the liabilities, the expected returns include the interest rates credited to client contracts and the fluctuation margins set out in the actuarial valuation of the policy liabilities. To appropriately monitor matching, investments are segmented by blocks based on the cash flow structure of the liabilities, and these blocks are grouped together by line of business. A careful examination of these matching blocks is carried out once a month, and a number of techniques are used to assess the quality of the matching in order to guide the selection of investments.

To measure the sensitivity to interest rate fluctuations, the Company uses metrics recognized by immunization experts, such as duration and dispersion. The investment policy sets out a maximum spread between the result of the measures applied to the assets and the corresponding result obtained for the liabilities. These results are provided to the Investment Committee on a quarterly basis.

The Company also carries out sensitivity analyses to assess the financial impact that would result from various types of fluctuations in the interest rate yield curve. These analyses are carried out using stochastic scenarios that are used to quantify the residual risks that may remain in the portfolios. Simulations based on predefined scenarios are also analyzed to measure the impact of specific fluctuations. The sensitivity analyses are also used to assess the behaviour of the future fluctuation margins projected in the actuarial valuation of the policy liabilities. The matching policy sets limits as to the sensitivity of these margins.

In addition, in order to minimize the reinvestment risk that can arise when the maturity of the assets does not match the maturity of the corresponding liabilities, the investment policy also requires that an effort be made to ensure that the asset cash flows correspond to the liability cash flows. To this end, the policy sets relative and absolute limits regarding the size of the cumulative net cash flows, both for all the matching blocks combined and for each individual block.

For this liability category, the use of a very strict immunization approach means that the impact on net income of a decrease or increase in interest rates would be negligible.

2› Immunized Liabilities Linked to Universal Life Policy Accounts

This category represents 6% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities are determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

For accounts where the return varies based on an index, the impact on net income of a change in the stock markets applied to the assets would be negligible, since an equivalent change would be applied to the corresponding liabilities.

3› Non-Immunized Liabilities

This category corresponds to 67% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets by using the various types of leverage available to limit its exposure to reinvestment risk.

The Company uses high-quality assets, primarily made up of long-term fixed-income securities, equity securities (common and preferred shares, market indexes and investment fund units), and real estate. The asset class allocation aims to achieve an optimal return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and performance of the stock markets. At the same time, the strategy takes into account the constraints imposed by the investment policy, particularly with regard to diversification of the portfolio.

The Company uses various types of leverage, including an inter-segment note program that allows cash flows to be exchanged among activity sectors and interest rate swaps to reduce the reinvestment risk.

For this liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the attendant increase in policy liabilities. If interest rates were to decrease, the reinvested cash flows would generate lower investment income for the total duration of the investment. A decrease in interest rates could lead to a downward adjustment of the initial reinvestment rate (IRR) assumption or the ultimate reinvestment rate (URR) assumption used to calculate the policy liabilities.

During the period ended December 31, 2016, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate fluctuations, the Company used hedge accounting through derivative instruments with a nominal value of $665 million in 2016 ($380 million in 2015). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2016.

The following tables provide a summary of the impact on net income attributed to common shareholders and on accumulated other comprehensive income of matching and interest rate risk.

Decrease in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations

(In millions of dollars)	2016	2015
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)[1]	60	78
10 basis point decrease in the ultimate reinvestment rate (URR)	62	60

Increase in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

(In millions of dollars)	2016	2015
Interest rate risk		
25 basis point drop in interest rates[2]	7	(6)

Similar increases in the IRR, URR and interest rates would have the same impact as corresponding decreases, but in the opposite direction.

The impact of this variance in interest rates does not take into consideration the protection for the IRR and the URR in the actuarial reserves. The initial investment rate (IRR), based on the long-term rate at December 31, 2016, was set at 2.35% to which a protection of 75 basis points was added. The ultimate re-investment rate (URR) was strengthened by 20 basis points and was set at 3.10%. The URR currently prescribed by the Canadian Institute of Actuaries is 3.30%.

To test for market sensitivity, the Company uses an interest rate variance of 25 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2016.

Stock Market Risk – Stock market risk represents the risk of loss resulting from a downturn in the stock markets. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) a strengthening of provisions for future policy benefits; and 4) the income on capital generated by the assets backing the Company's capital. For these items, the Company estimates that a sudden 10% drop in the markets as at December 31, 2016 would have led to a $28 million decrease in net income and a $41 million decrease in other comprehensive income. A 25% drop in the markets as at December 31, 2016 would have reduced net income by approximately $75 million, and other comprehensive income by $102 million.

[1] These estimates do not take into account any compensatory measures to alleviate the impact of an interest rate decrease. The Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

[2] Excluding any downward adjustment of the IRR or URR.

If the markets were to drop more than 25% from their levels at December 31, 2016, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

In addition to the impact on the Company's income, a stock market downturn could also have an impact on the Company's solvency ratio.

Sensitivity of the Solvency Ratio to Variances in the S&P/TSX Index

	2016	2015
Solvency ratio as at December 31	225%	213%
S&P/TSX Index as at December 31	15,288	13,010
Level of S&P/TSX index for the solvency ratio to be at 175%	7,400	7,900
Level of S&P/TSX index for the solvency ratio to be at 150%	5,600	6,100

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2016, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

Segregated funds expose the Company significantly to the risk of a stock market downturn. In order to mitigate some of the risk associated with this exposure, the Company has set up a dynamic hedging program, which is described a little later in this section.

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Some products may also offer a guarantee for partial withdrawals. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. In order to get an overview of its exposure to the risk associated with the segregated fund guarantees, the Company determines the net amount at risk, which is the amount by which the guaranteed minimum value exceeds the market value for all contracts in this situation at a given point in time. The net amount at risk does not constitute a payable benefit as such, since in reality, benefits that might have to be paid in the future will depend on various eventualities, including market performance and contract holder longevity and behaviour.

The following table provides information on the segregated fund assets under management in the Individual Wealth Management sector.

Individual Wealth Management
Segregated Fund Assets Under Management

(In millions of dollars)		2016	2015
Assets under management	(a)	13,348	12,292
Guaranteed minimum value		11,597	11,009
Value of assets underlying the hedged guarantees	(b)	8,802	8,761
Value of assets underlying the minimum guarantees[1]	(c)	3,465	2,585
Proportion of assets under management covered by the hedging program	(b) ÷ ((a) – (c))	89%	90%

The dynamic hedging program involves short selling futures contracts on market indices traded on stock exchanges, as well as signing agreements for forward exchange contracts for currencies traded on stock exchanges, interest rate swaps and internal total-rate-of-return swaps for indices traded on stock exchanges. This program is used to hedge a good portion of the sensitivity of net income to the performance of the bond and equity funds and to the interest rate fluctuations arising from the segregated fund guarantees. In order for the Company's strategy to adequately cover the risks related to the hedged guarantees, a dynamic rebalancing of the hedging instruments is carried out based on changes in financial market conditions.

Hence, the variations in the economic worth of the liabilities are largely offset by variations in assets held under the hedging program. In the last eight quarters, the quarterly effectiveness of our dynamic hedging program fluctuated between 90% and 97% depending on the volatility of the financial markets. In addition, it has had a 93% effectiveness rate since it was implemented in October 2010, which is excellent.

Under the dynamic hedging program, the value of the liabilities associated with the guarantees is updated weekly to reflect differences between expected experience and actual results. In the process of calculating expected experience, the Company uses certain assumptions regarding policyholder longevity and future redemptions. The redemption assumption, however, has certain limitations. The timing and size of the withdrawals and fund transfers cannot be hedged using derivative financial instruments since these are factors decided by the contract holder, and adverse deviation from expected experience can alter the quality of the hedge.

The dynamic hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss on the income statement. The hedging program itself entails certain risks that may limit the program's effectiveness, in particular:

- The program is based on dynamic rebalancing of the derivative hedging instruments. A decrease in the liquidity of these instruments would have an adverse impact on the effectiveness of the program.

[1] Represents the value of assets for which the risk of the guarantees is limited and which the Company has decided not to include in the dynamic hedging program.

- The use of derivative hedging instruments entails a counterparty risk, which is mitigated by the presence of collateral agreements.
- There may be a favourable or unfavourable variance between the returns realized on the segregated funds and those realized on the hedge positions held to cover the guarantees associated with these funds.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies clearly define quantitative and qualitative limits for the use of equity securities. The target asset mix in the form of equity securities is designed to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

The investment policy allows the Company to use derivative financial instruments. The use of these instruments, however, must comply with the risk tolerance limits and the prudential requirements set out in the investment policy, including a minimum credit rating for the counterparty financial institution.

During the period ended December 31, 2016, derivative financial instruments were used as part of the hedging program for segregated fund guarantees and to hedge the risk associated with Universal Life policy funds.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exchange rates on foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2016, the Company was not exposed to any material foreign currency risk.

Risk Associated with the Return on Alternative Long-Term Assets – This is the risk of loss arising from fluctuations in the value of private equity, real estate, infrastructure, timberland and farmland.

To mitigate this risk, the Company's investment policy authorizes prudent investments in the real estate market, private equity and infrastructure within certain clearly defined limits, both globally and by geographic region. Real estate investments are used to back long-term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

Credit Risk

Credit risk represents the risk of loss arising from a deterioration in credit quality (downgrading) or counterparty default. This risk originates mainly from credit granted in the form of loans, private placements and corporate bonds, but also from exposure to derivative financial instruments and to reinsurers that share our policyholder commitments.

The Company uses derivative products under its investment policy, primarily swaps and futures contracts. These contracts are not used for speculation purposes but for matching assets and liabilities and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

The derivative products used under the hedging program for segregated fund guarantees expose the Company to credit risk due to the presence of counterparties involved in the program. As indicated earlier, the counterparty financial institutions for derivative products must meet certain well-established criteria, and collateral exchange agreements have been reached with these institutions in order to minimize and control the credit risk.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. More information about concentration risk is presented in note 7 of the consolidated financial statements as at December 31, 2016.

The Company's investment policies aim to mitigate concentration risk by promoting the sound diversification of investments, by limiting exposure to any one issuer and by seeking a relatively high quality of issuers. They also impose limits by groups of related issuers, by activity sector and by geographic region. These limits depend on the credit quality of the issuers.

The Company also has a specific credit policy for private placements and loans that stipulates the assignment of internal credit ratings for investments that do not have a credit rating assigned by a recognized rating agency. The policy and procedures in place establish certain selection criteria and define the credit authorization limits based on the scope and degree of risk. In order to manage the credit risk associated with these investments, the Company may require collateral, particularly for real estate, residential or commercial mortgages.

Lastly, although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations. The reinsurance risk management policy describes the processes and criteria the Company uses to minimize this risk.

Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

This risk is managed through strict matching of assets with financial liabilities, and strict cash flow management. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable securities.

The use of derivatives requires that securities be sent as collateral to clearing houses and derivative counterparties in order to mitigate the credit risk. Simulations are carried out to measure the liquidity needs that could arise due to interest rate and stock market turmoil in order to assess the liquidity that needs to be maintained to meet those requirements.

In addition to the requirements mentioned above, the Company needs to have additional liquidity available for possible surrenders and contract terminations. A number of scenarios are analyzed in order to plan for all eventualities.

To monitor liquidity risk, the Investment Department's managers prepare a monthly report indicating that the Company will be able to meet all of these commitments over a minimum three-month horizon based on various adverse scenarios affecting inflows and outflows of liabilities, asset liquidity, collateral needs and the capacity of the various liquidity channels. This report is sent to the Investment Committee on a quarterly basis.

Given the quality of its investment portfolio, and despite the financial market volatility, the Company does not believe its current liquidity level to be an issue.

Operational Risk

Operational risk is the risk of loss arising from deficiencies or errors attributable to processes, people, systems or external events.

This risk is present in all the Company's activities and can be related to regulatory compliance, financial reporting, process execution, clients and distribution networks, fraud, technology and information security, human resources, external events or outsourcing and contractual relationships. The impact of one of these risks occurring can take the form of financial losses, loss of competitive position or injury to reputation.

To manage operational risk, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are implemented, and by utilizing competent, well-trained employees at all levels. The Company also makes it a priority to revise its policies and develop stricter standards, where necessary, in light of any new expertise it acquires in the course of its operations.

In addition, through its enterprise and operational risk management frameworks, the Company makes all managers accountable by asking them to confirm their sector's compliance with procedures, describe the processes in place for ensuring this compliance, and confirm that policies and procedures are up to date. The risks that could arise are also assessed and quantified, as well as the measures taken to manage the most material risks.

Reliable, secure and sophisticated information and communications technologies (ICTs) are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. In fact, it has set up a comprehensive plan for controlling the risk of ICT failure. Inspired by the ISO international standard on information technologies, the Company has broken down the main risks that could adversely affect its operations into four main categories: risk associated with the non-availability of essential components (this risk is controlled by the implementation of technology solutions to ensure the availability of the components and by the development of a detailed business continuity plan); risk of loss of data integrity (this risk is controlled through malware management and the use of proven data management solutions); risk of unauthorized access to information (this risk is controlled by the strict management and periodic review of access privileges and clearance); and risk of outside penetration of systems (this risk is controlled by multiple ICT security and detection measures to protect ICTs from cyber attacks). The management of these risks is reviewed at regular intervals in order to adapt to changing technologies and Company needs.

The Company's crisis management structure for business continuity covers all the potential risks the Company may be exposed to, including the risk associated with the physical occupancy of the premises and disruptions in service in the event of a natural disaster, cyber attack, pandemic or other type of disaster. The Company has implemented an extensive business continuity plan and has procedures in place in its primary business offices to minimize service recovery wait times. Both the business continuity plan and the related procedures are reviewed and tested on a regular basis.

The Company has adopted a detailed communication plan designed to protect its corporate image in a crisis situation and to reassure the public about its ability to manage this kind of situation. The plan outlines the communication strategies to use in a crisis situation in order to notify the public of the causes and consequences of the crisis, the procedures in place to resolve it and the measures taken to reduce the risk of the same thing happening again. In addition, the Company continually monitors the Web for elements that could have a negative impact on the Company's reputation and produces a report on the subject once a year. It also keeps a log of complaints found on social media.

Preserving the environment is of fundamental importance to the Company. An environmental policy has been developed and programs have been set up to achieve a balance between the changing ecological and economic factors that are necessary to the Company's growth.

The competency of human resources is an essential factor in implementing business strategies. In this regard, the Company follows best practices and has well defined policies and procedures in place with respect to compensation, recruitment, training, employment equity and occupational health and safety. These policies are continually kept up to date in order to attract and retain the best candidates at every level of the Company. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Regulatory Non-Compliance Risk – The Company and its subsidiaries are subject to regulation and supervision in the provinces and territories of Canada and in the states where they conduct business.

Regulatory non-compliance risk arises from the possibility that instances of non-compliance with laws, regulations, directives or guidelines issued by the applicable regulators could occur.

The Company has adopted a *Regulatory Risk Management Policy* that is used as a basis for a regulatory non-compliance risk management program. The Chief Compliance Officer is responsible for coordinating the program within the Company and ensuring that it is defined and implemented consistently in the various business lines.

The Company's sound management of regulatory non-compliance risk enables it to assess the impacts of non-compliance with the regulations and the effect this could have on the operations and reputation of the Company and its subsidiaries, so it can then put strategies in place to mitigate these impacts. In this regard, the Company uses a methodology that focuses on identifying, assessing and quantifying risk and putting effective, efficient and appropriate controls in place in its day-to-day activities to mitigate and monitor regulatory non-compliance risk.

The controls help to proactively mitigate the risk of regulatory non-compliance as much as possible. The Company also emphasizes regular communication to remind employees about the importance of legal and regulatory compliance issues.

The Company monitors new regulatory risks and communicates them to the appropriate business lines to ensure that any procedures required to comply with new laws or directives are put in place in a timely manner.

The Company also maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). This program uses a "risk-based" approach where the level of attention received by the Company's activities is proportional to their relative level of risk. Under this program, the managers of each business line of the parent company and its subsidiaries evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A summary report is submitted annually to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

Accounting Matters and Additional Information

Fourth Quarter 2016

In the fourth quarter, the Company posted net income attributed to common shareholders of $155.0 million, compared to a net income of $4.2 million in the fourth quarter of 2015. Diluted earnings per common share (EPS) amounted to $1.48 ($0.04 in the fourth quarter of 2015). The annualized return on common shareholders' equity was 14.9% for the quarter, compared to 0.4% in the fourth quarter of 2015.

The increase in net income for the fourth quarter of 2016 is due to the increased business volume and the positive contribution of the assumption changes compared to a negative contribution in the fourth quarter of 2015.

In terms of business growth, the total of net premiums, deposits and premium equivalents was up 12% in the fourth quarter compared to the same period in 2015.

Highlights

	Fourth quarter		Year	
(In millions of dollars, unless otherwise indicated)	2016	2015	2016	2015
Net income attributed to shareholders	159.2	8.3	553.7	386.4
Less: dividends on preferred shares	4.2	4.1	16.5	18.0
Less: premium on preferred share redemption	---	---	---	4.0
Net income attributed to common shareholders	155.0	4.2	537.2	364.4
Earnings per common share (diluted)	$1.48	$0.04	$5.19	$3.57
Return on common shareholders' equity[1]	14.9%	0.4%	13.2%	10.2%
Net premiums, premium equivalents and deposits	2,252.4	2,004.7	8,202.5	7,672.3

	December 31, 2016	December 31, 2015	December 31, 2014
Assets under management and administration	126,234.2	115,813.3	109,480.8

Quarterly Results

Following is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters. Generally speaking, the terminology used in the following sections is the same terminology used in the financial statements.

Net premiums (which include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds) are generally higher in the first quarter of each year due to the tendency of clients to concentrate their deposits in registered retirement savings products during the first 60 days of each calendar year. However, other factors can cause premiums to fluctuate from one quarter to another, including stock market behaviour and the signing of new agreements with large groups in the sectors that distribute their products to groups and businesses.

Net premiums remained stable year over year at nearly $1.7 billion. This was primarily due to an increase in in-force business and higher sales of GICs, offset by a decrease in net premiums in Group Savings and Retirement. At year-end, net premiums were up 8% over 2015.

In the fourth quarter of 2016, investment income was down $1.7 billion from 2015. This decrease is primarily due to a drop in the fair value of bond investments and derivative financial instruments caused by the fourth quarter interest rate hike. The fair value of investments varies based on changes in interest rates, the stock markets and issuer spreads, particularly for bonds, equities and derivatives. Generally speaking, the variation in the fair value of investments is largely responsible for the variation in investment income from one period to another. From an accounting standpoint, the majority of stocks and bonds are classified as "Designated at fair value through profit or loss" and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities. Investment income is made up of investment income as such (including interest income, dividends and rental income from real estate), gains and losses on the disposition of assets available for sale and changes in the fair value of assets designated at fair value through profit or loss.

Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and assets managed for third parties.

Other revenues varied between $288.3 million and $309.4 million for the four quarters of the year, totalling $1,206.2 million in 2016 compared to $1,158.4 million in 2015. This increase is essentially due to higher fees generated by the growth in assets under management and administration.

[1] Annualized for the quarter. Trailing twelve months for the year.

Quarterly Results

(In millions of dollars, unless otherwise indicated)	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Revenues								
Net premiums	1,673.9	1,680.8	1,569.9	1,622.9	1,670.5	1,402.9	1,491.5	1,476.1
Investment income	(1,299.2)	762.2	1,255.5	874.7	412.6	66.8	(721.8)	1,278.2
Other revenues	309.4	302.6	305.9	288.3	289.9	281.2	291.5	295.8
Total	684.1	2,745.6	3,131.3	2,785.9	2,373.0	1,750.9	1,061.2	3,050.1
Income before income taxes	183.0	190.6	191.5	129.0	(7.9)	145.9	166.2	117.1
Income taxes	30.5	41.8	47.5	26.6	(10.9)	28.4	19.9	1.9
Net income	152.5	148.8	144.0	102.4	3.0	117.5	146.3	115.2
Less: net income attributed to participating policyholders	(6.7)	0.3	0.4	0.0	(5.3)	(0.1)	0.2	0.8
Net income attributed to shareholders	159.2	148.5	143.6	102.4	8.3	117.6	146.1	114.4
Less: dividends attributed to preferred shares	4.2	4.1	4.1	4.1	4.1	4.5	3.9	5.5
Less: redemption premium on preferred shares	---	---	---	---	---	---	---	4.0
Net income attributed to common shareholders	155.0	144.4	139.5	98.3	4.2	113.1	142.2	104.9
Earnings per common share								
Basic	$1.50	$1.41	$1.36	$0.96	$0.04	$1.11	$1.40	$1.04
Diluted	$1.48	$1.40	$1.35	$0.96	$0.04	$1.11	$1.40	$1.03
Net transfers to segregated funds	88.9	240.0	183.5	231.4	274.0	149.3	132.2	185.6
Increase (decrease) in insurance contract liabilities	(1,620.0)	642.9	1,212.5	863.7	273.5	(27.4)	(850.3)	1,118.3
Increase (decrease) in investment contract liabilities	(11.4)	6.3	12.0	5.1	7.0	1.1	(5.8)	19.1
Total general fund assets	35,223.8	37,109.5	35,971.9	34,375.0	33,161.4	32,604.8	32,335.6	33,427.7
Segregated fund net assets	21,825.8	21,511.3	20,634.9	20,007.5	19,776.7	19,112.4	19,632.4	19,795.8

Cash Flows

A review of the cash flows allows us to determine the Company's sources of funds and how these funds are used. The Company's main sources of funds are premiums collected under in-force insurance and annuity contracts, proceeds from the sale or recovery of investments, income collected on the investment portfolio and other revenues primarily composed of management fees for segregated funds and mutual funds.

The funds are primarily used for claims that become payable under policies, including annuities and surrender values, the purchase of new investments, mortgage disbursements, net transfers from the general fund to segregated funds, the payment of dividends to policyholders and the payment of operating expenses, including income and other taxes. The table opposite summarizes the Company's consolidated cash flows.

In 2016, operating activities required cash flows of $96.1 million compared to cash flows of $536.5 million generated in 2015. This difference reflects the increase in net income and the normal evolution of regular investment activities (purchase and sale of securities) and working capital during the period.

Investing activities required net cash flows of $111.8 million in 2016, compared to $115.4 million in 2015. These cash flows reflect smaller disbursements for acquisitions compared to 2015 and larger disbursements for fixed assets.

Financing activities generated cash flows of $152.0 million in 2016, compared to $44.4 million in 2015. The $107.6 million increase in generated cash flows can be explained by the issuance of debentures for a nominal value of $400.0 million followed by the redemption of debentures for a nominal value of $250.0 million. The Company also issued common shares for a net amount of $148 million for the purpose of acquiring HollisWealth in the third quarter of 2017, when the transaction is expected to close. In 2015, the Company had issued debentures for a nominal value of $250.0 million and redeemed Class A Preferred Shares, Series F with a book value of $100.0 million.

Cash Flows

(In millions of dollars)	2016	2015
Cash flows related to the following activities:		
Operating	(96.1)	536.5
Investing	(111.8)	(115.4)
Financing	152.0	44.4
Foreign currency gains (losses) on cash	(1.2)	5.3
Increase (decrease) in cash and short-term investments	(57.1)	470.8
Cash and short-term investments at beginning of year	969.0	498.2
Cash and short-term investments at end of year	911.9	969.0

Related Party Transactions

The value of the related party transactions is presented in note 27 of the Company's consolidated financial statements.

Significant Accounting and Actuarial Policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For more information on significant accounting policies, refer to note 2 of the Company's consolidated financial statements.

The preparation of the financial statements requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results may differ from management's estimates. The estimates and assumptions are revised periodically based on changes in relevant facts and circumstances. The changes are then accounted for in the period in which the revisions are made and in all subsequent periods affected by the revisions. The most significant estimates and judgments pertain to the classification of contracts and the determination of policy liabilities. These estimates are described below.

Policy Liabilities

Policy liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries. Policy liabilities represent the estimated value of assets that the Company must hold to be able to honour its future commitments to holders of all in-force policies and to pay the related expenses, commissions and other charges. The calculation of policy liabilities takes into account estimated future premiums, fees and investment income.

Policy liabilities are comprised of insurance contract liabilities and investment contract liabilities as presented in the financial statements.

The Company evaluates its provisions for future policy benefits using the Canadian Asset Liability Method, which is in accordance with accepted actuarial practice in Canada. This method involves the projection of future events and the use of best estimate assumptions with respect to a certain number of key factors, including future mortality and morbidity rates, investment income, lapse rates, operating expenses, as well as certain taxes.

To account for the uncertainty involved in defining the best estimate assumptions and the potential deterioration in expected claims experience, the Company applies a margin for adverse deviation to each of its assumptions. These margins lead to an increase in the provisions for future policy benefits and provide a reasonable degree of assurance that the amount of assets backing the liabilities is sufficient to honour the Company's future commitments. The margins for adverse deviation used by the Company are within the target range established by the Canadian Institute of Actuaries.

The margins for adverse deviation reduce the income that is recognized when a new contract is sold. Over time, the uncertainty regarding the estimates decreases and the provisions for adverse deviation that are no longer required are released to the income statement, thereby increasing the income recognized in future periods.

According to the standards established by the Canadian Institute of Actuaries, the assumptions and margins underlying the calculation of the provisions for future policy benefits are examined periodically and modified when deemed necessary and prudent, in light of the most recent trends in claims experience and any changes in the Company's risk profile.

Best Estimate Assumptions and Main Risk Factors

The Company uses a well-established method to determine the assumptions to be used in the valuation of policy liabilities. The nature of each risk factor and the process for setting the assumptions used for the valuation are analyzed below. A summary of the impact on the Company's net income of a variance in actual results compared to the assumptions is presented in the Risk Management section of this Management's Discussion and Analysis.

Mortality – Mortality refers to the occurrence of death in a given population. The Company establishes its mortality assumptions based on its own claims experience of the last few years and those of the insurance industry, and based on changes in mortality. The assumptions vary according to sex, risk category, policy type and geographic market. Actual mortality rates are compared to the assumptions separately for each sector. The calculation of the liabilities takes into account a future decrease in mortality rates.

In the normal course of business and risk management, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amounts, which vary by line of business, are established for life and health insurance. In addition, the longevity risk associated with the insured annuities portfolio is partially reinsured. The Company also has reinsurance treaties covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured.

Reinsurance assets are posted on the balance sheet. These assets totalled $1,121.9 million at December 31, 2016, compared to $1,279.8 million at the end of 2015.

The Company's recent mortality studies show a significant decrease in mortality rates. The results of these studies are in line with the trends observed in the most recent work done by the industry, including work by the Canadian Institute of Actuaries. This decrease in mortality rates has major, but diverging effects on the Company's various blocks of business, benefiting the Individual Insurance business, but adversely affecting the annuity business (Group Savings and Retirement and Individual Wealth Management). Overall, since the Company's insurance operations are much larger than its annuity operations, the Company benefits from lower mortality rates. The Company also retains a higher proportion of mortality risk than other industry players relative to its size, which adds to the income that the Company draws from improved life expectancy. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this Management's Discussion and Analysis.

Morbidity – Morbidity refers to the occurrence of accidents and sickness in a given population. The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect Company experience. Compared to the assumptions, the Company's morbidity experience in 2016 was slightly positive in Individual Insurance and negative in Group Insurance Employee Plans.

Lapse – Lapse refers to the lapse rate of contracts, or in other words, the termination of policies due to non-payment of premiums. Policies may also be terminated by their policyholders through a policy surrender. Lapse rate assumptions are generally based on the Company's recent lapse experience. These assumptions are adjusted, however, to take into account industry experience where the Company's experience is limited, and include margins for conservatism. The assumptions are determined based on the type of product contained in each policy. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this Management's Discussion and Analysis.

Expenses and Taxes – The operating expense assumptions reflect the projected costs for servicing and maintaining in-force policies, including any associated overhead expenses. The expenses are calculated based on the Company's internal expense studies.

Expenses are projected based on a provision for inflation, whereas no productivity gains are projected. Actual expenses are compared to the assumptions separately for each sector. Overall, 2016 results were favourable in comparison with the Company's assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this Management's Discussion and Analysis.

Premium and other taxes, and in some cases income taxes, are taken into account in the valuation of policy liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries. The modelling of these taxes is determined based on the maintenance of the tax plan in effect on the valuation date and definitive or nearly definitive decisions regarding the amendment of this plan. For more details concerning the Company's accounting method for income taxes, refer to note 22 of Industrial Alliance's consolidated financial statements.

Investment Return – The Company segments the assets backing liabilities by sector and geographic market, and establishes investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with the projected cash flows from the future asset purchases/sales to determine expected rates of return for future periods. The reinvestment strategies are based on the Company's target investment policies for each segment, and are derived from current market rates for fixed interest investments and the Company's projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed-income assets. In 2016, the losses on mortgages and defaults on bonds were lower than those projected in the Company's assumptions.

A decrease in interest rates or a stock market downturn can have a negative impact on the Company's income. Overall, the impact of interest rates and the stock markets on the Company's 2016 income was favourable compared to the assumptions. The sensitivity of the Company's net income to an unfavourable variance in interest rates or the stock markets compared to the assumptions is described in the Risk Management section of this Management's Discussion and Analysis.

Adjustable Features of Contracts – When policies have features that allow the impact of changes in experience to be passed on to the policyholders through dividends, experience rating refunds, credited rates or other adjustable features, the projected benefits used to evaluate policy liabilities are adjusted accordingly.

Accounting Standards and Policies

Changes to Accounting Policies in 2016 and Future Changes in Accounting

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2016. None of these standards had an impact on the Company's financial statements. For more information on the impact of these amendments and new standards, refer to note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies".

Reconciliation of Certain Non-IFRS Measures With IFRS Measures

The following table reconciles the operating profit and income taxes indicated in the Sources of Earnings table in the Profitability section of this report with IFRS.

Reconciliation of the Sources of Earnings with IFRS

(In millions of dollars)	2016	2015
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	612.0	347.0
Income on capital (according to sources of earnings)	65.1	77.5
Income attributable to participating contracts and other items	(8.7)	(6.5)
Tax items reallocated for sources of earnings and other items	25.7	3.3
Earnings before taxes according to the financial statements	694.1	421.3
Income taxes:		
On the operating profit and on income on capital	(123.4)	(38.1)
Amount for participating contracts and other items	2.7	2.1
Tax items reallocated for sources of earnings and other items	(25.7)	(3.3)
Income taxes according to financial statements	(146.4)	(39.3)
Net income according to financial statements	547.7	382.0

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary in order that appropriate decisions may be made regarding disclosure. These controls and procedures are also designed to ensure that the information is gathered, recorded, processed, condensed and reported within the time frames prescribed by the Canadian Securities Act.

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2016, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance that the Company's financial reporting is reliable and that, for the purposes of publishing its financial information, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of Disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2016, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the *Internal Control – Integrated Framework* report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the period, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

Long-Term Financial Liabilities

The following table presents information taken from Industrial Alliance's consolidated financial statements.

Long-Term Financial Liabilities

	As at December 31		
(In millions of dollars)	2016	2015	2014
Debentures	995.3	846.1	597.2
Preferred shares	375.0	375.0	475.0
Total	1,370.3	1,221.1	1,072.2

Acquisitions of Business in 2016

During the year, either directly or through its subsidiaries, the Company acquired insurance and mutual fund brokerage firms as well as financial planning and extended warranty services firms.

For more information on acquisitions, refer to note 4 of Industrial Alliance's consolidated financial statements.

Dispositions of Business in 2016

No material dispositions were made during the year.

Business Mergers in 2016

No material mergers took place during the year.

Guarantees, Commitments and Contingencies

In the normal course of business, the Company frequently signs various types of contracts or agreements which, in certain cases, can be considered to be guarantees, commitments or contingencies.

As at December 31, 2016, the Company's contractual obligations and commitments were as follows:

Contractual Obligations
Payments Due by Period

	As at December 31, 2016			
(In millions of dollars)	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures[1]	995.3	---	---	995.3
Capital lease	0.9	0.5	0.3	0.1
Operating lease	74.9	22.6	49.4	2.9
Purchasing commitments	319.3	52.4	151.9	115.0
Other long-term commitments[2]	3,601.9	1,857.4	1,181.9	562.6
Total of contractual obligations	4,992.3	1,932.9	1,383.5	1,675.9

The Company has a commitment to a third party for one of its subsidiaries for a maximum amount of $48.0 million ($57.0 million in 2015). The Company also has third-party commitments to guarantee the funds offered by one of its subsidiaries.

The Company has lines of credit to facilitate the financing of its day-to-day operations and meet its temporary working capital requirements. At December 31, 2016, the maximum amount authorized for these lines of credit was $56.7 million ($56.7 million at December 31, 2015). As at December 31, 2016, none of the lines of credit had been used.

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2016, these investment commitments totalled $624.4 million ($466.1 million in 2015), including $327.2 million that will be maturing in the next year ($242.8 million in 2015), and $297.2 million that will be maturing in more than one year ($223.3 million in 2015).

Preferred Shares

No preferred shares were issued or redeemed during the year.

Outstanding Shares

On December 14, 2016, the Company completed the closing of a common share issue. Under this offering, a total of 2,500,000 common shares were issued for a net cash amount of $135 million. In addition, on December 22, 2016, 250,000 additional common shares were issued for a net cash amount of $13 million.

On February 15, 2017, Industrial Alliance had 106,217,892 issued and outstanding common shares.

For more information on these shares, refer to note 17 of Industrial Alliance's consolidated financial statements.

[1] The debentures can be redeemed at the Company's option on various dates. Interest is payable semi-annually. Refer to note 16 of Industrial Alliance's consolidated financial statements for more information on debentures.

[2] Includes long-term financial liabilities only.

Analysis of Income According to the Financial Statements

Following is the presentation of the Company's financial results according to the financial statements.

Consolidated Income Statement

(In millions of dollars, unless otherwise indicated)	2016	2015	2014
Revenues	9,346.9	8,235.2	9,680.2
Policy benefits and expenses	8,652.8	7,813.9	9,245.2
Income before income taxes	694.1	421.3	435.0
Less: income taxes	146.4	39.3	(0.2)
Net income	547.7	382.0	435.2
Less: net income attributed to participating policyholders	(6.0)	(4.4)	2.3
Net income attributed to shareholders	553.7	386.4	432.9
Less: dividends attributed to preferred shares	16.5	18.0	28.5
Less: redemption premium on preferred shares	---	4.0	4.0
Net income attributed to common shareholders	537.2	364.4	400.4
Earnings per common share			
Basic	$5.22	$3.59	$4.01
Diluted	$5.19	$3.57	$3.97

Revenues

Revenues, whose components are indicated in the following table, totalled over $9.3 billion in 2016, an increase of 13% over 2015. This increase was primarily due to net premiums and investment income, as explained below.

Revenues

(In millions of dollars)	2016	2015	2014
Net premiums	6,547.5	6,041.0	5,426.2
Investment income	1,593.2	1,035.8	3,170.0
Other revenues	1,206.2	1,158.4	1,084.0
Total	9,346.9	8,235.2	9,680.2

The following table provides more details about the composition of revenues by sector.

Revenues by Sector

	Year ended December 31, 2016					
(In millions of dollars)	Ind. Ins.	Ind. Wealth Mgmt	Grp Ins.	Grp Sav. and Rtmt	Other[1]	Total
Net premiums	1,686.1	1,860.2	1,357.1	1,393.6	250.5	6,547.5
Variation vs. 2015	*107.6*	*148.6*	*28.8*	*189.1*	*32.4*	*506.5*
Investment income	1,231.3	(6.4)	83.5	154.4	130.4	1,593.2
Variation vs. 2015	*705.4*	*(147.4)*	*2.1*	*(6.1)*	*3.4*	*557.4*
Other revenues	147.5	1,017.2	51.2	76.1	(85.8)	1,206.2
Variation vs. 2015	*(0.6)*	*18.8*	*(2.4)*	*7.2*	*24.8*	*47.8*
Total	3,064.9	2,871.0	1,491.8	1,624.1	295.1	9,346.9
Variation vs. 2015	*812.4*	*20.0*	*28.5*	*190.2*	*60.6*	*1,111.7*

Net premiums totalled $6.5 billion in 2016, an increase of 8% over the previous year. This increase is primarily due to the increase in segregated fund premiums in Group Savings and Retirement.

Investment income amounted to $1.6 billion in 2016, compared to $1.0 billion in 2015. This increase for all sectors was primarily due to the variation in the fair value of investments as indicated in the table on investment income below. The fair value of investments varies based on changes in interest rates, the stock markets and issuer spreads, particularly for bonds, equities and derivatives. Generally speaking, variations in the fair value of investments are largely neutralized by corresponding variations in insurance contract liabilities so their impact on net income is fairly minimal.

Other revenues totalled $1,206.2 million in 2016, an increase of $47.8 million. This increase is mainly explained by higher income from the brokerage subsidiaries in the Individual Wealth Management sector. Other revenues are made up of fees earned from the management of investment funds (segregated funds and mutual funds), income from administrative services only (ASO) contracts as well as fee income from the Company's brokerage subsidiaries and loans managed for third parties.

The tables below provide an overview of the composition of net premiums and investment income.

Net Premiums

(In millions of dollars)	2016	2015	2014
Net Premiums			
General fund	3,697.6	3,382.9	3,290.8
Segregated funds	2,849.9	2,658.1	2,135.4
Total	6,547.5	6,041.0	5,426.2

Investment Income

(In millions of dollars)	2016	2015	2014
Investment income	1,135.1	1,083.7	992.3
Variation in the fair value of investment properties	(23.3)	13.4	(0.8)
Realized profits on available-for-sale assets	(2.2)	17.1	14.8
Variation in the fair value of assets designated at fair value through profit or loss	501.4	(74.6)	2,163.7
Change in provisions for losses	(17.8)	(3.8)	0.0
Total	1,593.2	1,035.8	3,170.0

Policy Benefits and Expenses

Policy benefits and expenses totalled $8.7 billion in 2016, up $0.9 billion from the previous year. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses

(In millions of dollars)	2016	2015	2014
Net policy benefits	4,186.5	3,933.7	3,741.4
Net transfers to segregated funds	743.8	741.1	425.5
Increase (decrease) in insurance contract liabilities	1,099.1	514.1	2,571.9
Increase (decrease) in investment contract liabilities	12.0	21.4	38.2
Decrease (increase) in reinsurance assets	122.2	265.9	316.5
Commissions	1,282.1	1,196.6	1,118.9
General expenses	1,018.0	972.7	897.9
Other	189.1	168.4	134.9
Total	8,652.8	7,813.9	9,245.2

[1] Includes general insurance revenues, revenues from car insurance, subsidiaries not related to the insurance sector, and assets and liabilities unallocated and allocated to the surplus as well as eliminations and consolidation entries.

Net policy benefits in 2016 were $252.8 million higher than in 2015, which reflects the normal course of business. Net policy benefits include benefits paid due to death, disability, illness or contract terminations, as well as annuity payments.

Net transfers to segregated funds totalled $743.8 million in 2016, a slight increase of $2.7 million compared to 2015. Net transfers to segregated funds can fluctuate for various reasons. Certain contracts contain funds that can be invested in segregated portfolios according to the choices made by policyholders. As a result, net transfers to segregated funds are made up of amounts invested in segregated portfolios, less any amounts withdrawn from these portfolios. Net transfers to segregated funds can vary from one period to another depending on the demand from clients, who at times favour products that generally offer guaranteed returns, and at other times are more attracted by segregated fund products, whose return fluctuates with the markets. Also, in a sector like Group Savings and Retirement, segregated fund deposits can fluctuate substantially from one quarter to another according to the size of the mandates granted by certain groups.

Insurance contract liabilities increased by $1,099.1 million in 2016 compared to a $514.1 million increase in 2015, which represents an expense variation of $585.0 million for this item on the consolidated income statement. The increase (decrease) in insurance contract liabilities can vary significantly from one period to another. The increase (decrease) in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the increase (decrease) in net policy premiums and benefits, net transfers to segregated funds and the strengthening (release) of the provisions for future policy benefits due to assumption changes.

Investment contract liabilities increased by $12.0 million in 2016, compared to a $21.4 million increase in 2015. This variation is the result of the normal evolution of business.

The Company reports reinsurance assets separately from insurance contract liabilities. However, the factors that have an impact on the change in insurance and investment contract liabilities generally impact reinsurance assets as well. In 2016, a positive amount of $122.2 million was posted as a change in reinsurance assets, compared to $265.9 million in 2015. This represents a difference of $143.7 million.

Commissions increased by $85.5 million in 2016, which primarily reflects the growth of the in-force block of business. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.

General expenses increased by $45.3 million compared to 2015, totalling $1,018.0 million in 2016. This increase reflects the increase in salaries and employee benefits that accompanies normal business growth.

Income Taxes

The consolidated financial statements indicate an income tax expense of $146.4 million in 2016, compared to $39.3 million in 2015. These amounts represent the Company's tax expense net of all adjustments for prior years. This variation is primarily due to the increase in pre-tax earnings.

Ten-Year History

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
PROFITABILITY										
Net income										
Net income	547.7	382.0	435.2	387.5	336.9	141.6	277.3	218.3	74.8	249.2
Net income attributed to participating policyholders	(6.0)	(4.4)	2.3	3.0	3.2	14.4	1.0	(1.3)	2.9	1.2
Net income attributed to shareholders	553.7	386.4	432.9	384.5	333.7	127.2	276.3	219.6	71.9	248.0
Dividends attributed to preferred shares	16.5	18.0	28.5	34.6	30.1	23.9	22.9	13.8	5.8	5.8
Redemption premium on preferred shares	---	4.0	4.0	---	---	---	---	---	---	---
Net income attributed to common shareholders	537.2	364.4	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2
Less: gain on unusual items[3,4]	---	---	---	---	37.4	---	---	---	---	---
Net income attributed to common shareholders excluding unusual items[4]	537.2	364.4	400.4	349.9	266.2	103.3	253.4	205.8	66.1	242.2
Earnings per common share										
Basic	$5.22	$3.59	$4.01	$3.60	$3.35	$1.20	$3.04	$2.56	$0.82	$3.02
Diluted	$5.19	$3.57	$3.97	$3.57	$3.22	$1.18	$2.93	$2.55	$0.82	$2.99
Diluted - adjusted for IATS[4,5]	---	---	---	---	$3.34	$1.19	$3.01	---	---	---
Diluted - adjusted for IATS[4,5] and unusual items[3,4]	---	---	---	---	$2.93	$1.19	$3.01	---	---	---
Return on common shareholders' equity[4,5,6]	13.2%	10.2%	12.4%	12.6%	12.8%	4.7%	12.8%	11.9%	4.0%	15.1%
Net income (loss) attributed to common shareholders by line of business										
Individual Insurance	346.9	166.9	249.6	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3
Individual Wealth Management	115.7	131.9	106.2	100.9	116.8	69.5	69.4	22.9	57.3	72.1
Group Insurance	53.4	39.5	26.8	36.0	20.4	22.4	42.4	34.8	42.6	45.3
Group Savings and Retirement	21.2	26.1	17.8	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5
Total	537.2	364.4	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2
SPECIFIED ITEMS										
Impact on net income to common shareholders										
Impact of credit										
Provision on investments	---	---	---	---	---	---	---	(2.6)	(3.6)	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	---	---	---	(0.1)	(10.8)	---
Decrease in value of non-bank-sponsored ABCP[7]	---	---	---	---	---	---	---	---	(10.6)	(7.3)
Impact of market on expected earnings[8,9]										
Increase (decrease) in income on UL policies	2.7	(1.0)	6.9	12.0	2.7	(8.8)	2.2	3.8	(9.8)	---
Higher (lower) than expected management fees	0.6	1.7	3.8	10.4	(2.2)	(9.8)	(1.0)	8.7	(23.9)	---
Higher (lower) than expected income on capital	---	---	---	---	---	---	0.2	0.8	(4.6)	---
Impact of dynamic hedging	6.8	9.9	(2.5)	28.5	11.5	(8.8)	0.6	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	---	---	---	(5.4)	7.6	0.6
Changes in assumptions and management actions	23.2	(107.9)	(3.2)	(6.1)	(21.2)	(152.3)	(8.4)	(0.8)	(138.2)	(0.7)
Restructuring charges[10]	---	---	---	(4.6)	---	---	---	---	---	---
Impact on earnings per common share[11]										
Impact of credit										
Provision on investments	---	---	---	---	---	---	---	($0.04)	($0.04)	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	---	---	---	---	($0.14)	---
Decrease in value of non-bank-sponsored ABCP[7]	---	---	---	---	---	---	---	---	($0.13)	($0.09)

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
SPECIFIED ITEMS (continued)										
Impact of market on expected earnings[8,9]										
Increase (decrease) in income on UL policies	$0.03	($0.01)	$0.07	$0.12	$0.03	($0.10)	$0.03	$0.05	($0.12)	---
Higher (lower) than expected management fees	$0.01	$0.02	$0.04	$0.11	($0.02)	($0.11)	($0.01)	$0.11	($0.30)	---
Higher (lower) than expected income on capital	---	---	---	---	---	---	---	$0.01	($0.05)	---
Impact of dynamic hedging	$0.07	$0.09	($0.02)	$0.30	$0.13	($0.09)	$0.01	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	---	---	---	($0.07)	$0.09	$0.01
Changes in assumptions and management actions	$0.22	($1.05)	($0.03)	($0.06)	($0.22)	($1.65)	($0.10)	($0.01)	($1.71)	($0.01)
Restructuring charges[10]	---	---	---	($0.05)	---	---	---	---	---	---
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit (loss)[4]										
Expected profit on in-force	318.8	291.4	236.8	233.6	219.0	233.5	211.0	197.4	200.4	184.5
Experience gain (loss)	44.5	37.1	6.4	16.6	0.4	(27.4)	(4.7)	17.4	(34.2)	(8.9)
Strain on sales	(34.5)	(66.1)	(58.7)	(49.2)	(95.6)	(111.4)	(104.3)	(89.0)	(81.6)	(83.0)
Changes in assumptions and management actions	12.3	(166.2)	(2.9)	(2.8)	(39.8)	(194.1)	(2.2)	68.6	(175.6)	(1.6)
Total	341.1	96.2	181.6	198.2	84.0	(99.4)	99.8	194.4	(91.0)	91.0
Income on capital	69.9	77.0	82.2	59.6	84.0	89.3	80.5	51.3	41.5	57.2
Income taxes[4]	(53.8)	8.9	8.4	(41.9)	(0.2)	23.5	(40.7)	(68.1)	17.8	(42.2)
Net income (loss) attributed to shareholders, before other items	357.2	182.1	272.2	215.9	167.8	13.4	139.6	177.6	(31.7)	106.0
Dividends attributed to preferred shares	10.3	12.4	19.7	24.0	25.1	18.5	16.1	8.0	---	---
Redemption premium on preferred shares	---	2.8	2.9	---	---	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	346.9	166.9	249.6	191.9	142.7	(5.1)	123.5	169.6	(31.7)	106.0
Other items[12]	---	---	---	---	8.9	---	---	(3.4)	4.8	0.3
Net income (loss) attributed to common shareholders	346.9	166.9	249.6	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3
Individual Wealth Management										
Operating profit[4]										
Expected profit on in-force[9]	150.9	160.8	149.2	111.4	97.0	128.5	103.3	59.2	117.9	106.0
Experience gain (loss)	21.7	3.9	(0.2)	36.1	20.3	(15.9)	4.5	(4.4)	(32.1)	6.1
Strain on sales	(4.5)	(1.7)	(1.6)	(2.5)	(9.7)	(8.3)	(7.7)	(5.5)	(3.7)	(4.6)
Changes in assumptions and management actions	10.4	11.8	(0.7)	(0.3)	10.3	(16.5)	(6.8)	(16.9)	(1.9)	(0.9)
Total	178.5	174.8	146.7	144.7	117.9	87.8	93.3	32.4	80.2	106.6
Income on capital	(8.5)	(8.9)	(3.2)	2.1	(1.0)	0.2	2.4	8.4	5.9	5.4
Income taxes[4]	(50.1)	(29.8)	(31.3)	(39.9)	(27.7)	(16.5)	(22.3)	(11.7)	(23.6)	(34.2)
Net income attributed to shareholders, before other items	119.9	136.1	112.2	106.9	89.2	71.5	73.4	29.1	62.5	77.8
Dividends attributed to preferred shares	4.2	3.5	5.3	6.0	0.9	2.0	4.0	5.8	5.8	5.8
Redemption premium on preferred shares	---	0.7	0.7	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	115.7	131.9	106.2	100.9	88.3	69.5	69.4	23.3	56.7	72.0
Other items[12]	---	---	---	---	28.5	---	---	(0.4)	0.6	0.1
Net income attributed to common shareholders	115.7	131.9	106.2	100.9	116.8	69.5	69.4	22.9	57.3	72.1

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Group Insurance										
Operating profit[4]										
Expected profit on in-force	68.3	46.2	49.2	37.7	47.1	45.7	39.1	48.1	53.4	46.0
Experience gain (loss)	(3.2)	2.4	(22.2)	4.3	(24.1)	(15.0)	11.1	(10.4)	(8.3)	0.4
Strain on sales	---	---	---	---	---	---	---	---	---	---
Changes in assumptions and management actions	(0.5)	(2.1)	(0.7)	(5.0)	(0.3)	(8.2)	(2.3)	(0.9)	(1.0)	1.5
Total	64.6	46.5	26.3	37.0	22.7	22.5	47.9	36.8	44.1	47.9
Income on capital	2.2	6.7	8.6	14.4	8.9	10.8	11.4	12.6	9.0	15.1
Income taxes[4]	(11.8)	(11.8)	(5.3)	(12.4)	(8.5)	(8.8)	(15.3)	(13.6)	(11.9)	(17.8)
Net income attributed to shareholders, before other items	55.0	41.4	29.6	39.0	23.1	24.5	44.0	35.8	41.2	45.2
Dividends attributed to preferred shares	1.6	1.5	2.5	3.0	2.7	2.1	1.6	---	---	---
Redemption premium on preferred shares	---	0.4	0.3	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	53.4	39.5	26.8	36.0	20.4	22.4	42.4	35.8	41.2	45.2
Other items[12]	---	---	---	---	---	---	---	(1.0)	1.4	0.1
Net income attributed to common shareholders	53.4	39.5	26.8	36.0	20.4	22.4	42.4	34.8	42.6	45.3
Group Savings and Retirement										
Operating profit (loss)[4]										
Expected profit on in-force[9]	20.8	20.5	21.8	15.9	13.7	17.0	14.4	15.8	19.7	16.2
Experience gain (loss)	0.7	1.8	(0.5)	9.6	1.0	1.4	3.5	1.3	(17.8)	1.7
Strain on sales	(3.2)	(2.1)	(1.8)	(3.1)	(0.6)	(1.2)	(0.2)	(1.1)	(2.7)	(2.1)
Changes in assumptions and management actions	9.5	9.3	(0.7)	0.2	0.2	(0.9)	---	(51.9)	(16.7)	---
Total	27.8	29.5	18.8	22.6	14.3	16.3	17.7	(35.9)	(17.5)	15.8
Income on capital	1.5	2.7	3.8	7.8	7.0	5.9	8.2	7.4	6.0	9.2
Income taxes[4]	(7.7)	(5.4)	(3.7)	(7.7)	(5.1)	(4.4)	(6.6)	11.0	3.8	(6.6)
Net income (loss) attributed to shareholders, before other items	21.6	26.8	18.9	22.7	16.2	17.8	19.3	(17.5)	(7.7)	18.4
Dividends attributed to preferred shares	0.4	0.6	1.0	1.6	1.4	1.3	1.2	---	---	---
Redemption premium on preferred shares	---	0.1	0.1	---	---	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	21.2	26.1	17.8	21.1	14.8	16.5	18.1	(17.5)	(7.7)	18.4
Other items[12]	---	---	---	---	---	---	---	(0.6)	0.8	0.1
Net income (loss) attributed to common shareholders	21.2	26.1	17.8	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5
Total Company										
Operating profit[4]										
Expected profit on in-force	558.8	518.9	457.0	398.6	376.8	424.7	367.8	320.5	391.4	352.7
Experience gain (loss)	63.7	45.2	(16.5)	66.6	(2.4)	(56.9)	14.4	3.9	(92.4)	(0.7)
Strain on sales	(42.2)	(69.9)	(62.1)	(54.8)	(105.9)	(120.9)	(112.2)	(95.6)	(88.0)	(89.7)
Changes in assumptions and management actions	31.7	(147.2)	(5.0)	(7.9)	(29.6)	(219.7)	(11.3)	(1.1)	(195.2)	(1.0)
Total	612.0	347.0	373.4	402.5	238.9	27.2	258.7	227.7	15.8	261.3
Income on capital	65.1	77.5	91.4	83.9	98.9	106.2	102.5	79.7	62.4	86.9
Income taxes[4]	(123.4)	(38.1)	(31.9)	(101.9)	(41.5)	(6.2)	(84.9)	(82.4)	(13.9)	(100.8)
Net income attributed to shareholders, before other items	553.7	386.4	432.9	384.5	296.3	127.2	276.3	225.0	64.3	247.4
Dividends attributed to preferred shares	16.5	18.0	28.5	34.6	30.1	23.9	22.9	13.8	5.8	5.8
Redemption premium on preferred shares	---	4.0	4.0	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	537.2	364.4	400.4	349.9	266.2	103.3	253.4	211.2	58.5	241.6
Other items[12]	---	---	---	---	37.4	---	---	(5.4)	7.6	0.6
Net income attributed to common shareholders	537.2	364.4	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
BUSINESS GROWTH										
Individual Insurance										
Sales[4,13]										
Canada	212.1	176.9	162.0[14]	192.7	199.6	178.2	170.8	145.6	145.8	155.1
United States	94.6	77.4	54.0	41.6	43.7	31.2	15.8	1.5	1.1	3.9
Total	306.7	254.3	216.0	234.3	243.3	209.4	186.6	147.1	146.9	159.0
Net premiums										
Canada	1,423.6	1,363.0	1,332.9	1,287.6	1,206.2	1,117.6	1,055.6	923.6	907.1	880.5
United States	262.5	215.5	162.2	137.6	133.1	130.6	57.3	14.8	13.6	16.8
Total	1,686.1	1,578.5	1,495.1	1,425.2	1,339.3	1,248.2	1,112.9	938.4	920.7	897.3
Individual Wealth Management										
Sales[4,13]										
General fund	300.6	130.4	111.9	119.2	325.1	403.6	441.1	404.3	345.5	334.4
Segregated funds	1,559.6	1,581.2	1,352.6	987.7	1,126.0	1,362.3	1,488.0	866.2	815.7	990.6
Mutual funds	1,474.3	1,428.5	1,897.6	2,251.9	1,649.5	1,777.7	1,747.2	1,079.5	1,261.2	1,796.9
Total	3,334.5	3,140.1	3,362.1	3,358.8	3,100.6	3,543.6	3,676.3	2,350.0	2,422.4	3,121.9
Net investment fund sales										
Segregated funds	341.7	422.4	288.7	(88.7)	308.7	768.6	925.0	476.4	322.9	578.7
Mutual funds	(404.4)	(995.3)	(119.3)	673.9	455.7	729.5	797.1	281.4	289.5	799.2
Total	(62.7)	(572.9)	169.4	585.2	764.4	1,498.1	1,722.1	757.8	612.4	1,377.9
Assets under management										
General fund	1,186.1	1,089.0	1,162.0	1,226.9	1,274.5	1,848.9	1,751.4	1,672.8	1,627.9	1,584.4
Segregated funds	13,347.7	12,292.2	11,826.0	10,809.0	9,858.1	9,098.7	8,794.6	7,204.5	5,562.1	6,695.9
Mutual funds[15,16]	10,937.5	10,428.3	11,832.9	11,413.2	8,978.9	8,138.6	8,124.1	6,601.9	5,264.0	6,834.7
Other[16]	3,998.3	3,709.3	3,576.6	3,061.7	---	---	---	---	---	---
Total	29,469.6	27,518.8	28,397.5	26,510.8	20,111.5	19,086.2	18,670.1	15,479.2	12,454.0	15,115.0
Assets under administration[16,17]	41,354.5	36,881.1	32,659.2	29,264.6	23,813.8	21,843.6	---	---	---	---
Total	70,824.1	64,399.9	61,056.7	55,775.4	43,925.3	40,929.8	18,670.1	15,479.2	12,454.0	15,115.0
Group Insurance										
Sales[4,13]										
Employee Plans	71.4	68.0	70.2	59.4	46.1	131.9	72.2	75.0	92.9	72.0
Dealer Services - Creditor Insurance[18]	363.0	363.0	378.6	382.4	351.7	284.8	201.7	173.8	194.2	192.0
Dealer Services - P&C	196.9	197.7	157.2	143.0	127.7	82.2	59.5	49.6	34.4	n.a.
Special Markets Solutions	194.1	190.3	179.8	170.9	154.0	133.0	133.2	118.2	117.3	109.4
Total	825.4	819.0	785.8	755.7	679.5	631.9	466.6	416.6	438.8	373.4
Net premiums and premium equivalents										
Employee Plans	849.1	818.4	801.6	809.0	788.7	788.3	714.6	727.7	684.1	594.8
Dealer Services - Creditor Insurance	233.2	252.5	292.6	303.9	286.5	230.5	148.8	121.5	159.5	161.3
Dealer Services - P&C[19]	94.8	80.5	81.3	66.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Special Markets Solutions	180.0	176.9	167.8	159.7	143.8	123.1	124.2	113.2	112.9	104.4
Total	1,357.1	1,328.3	1,343.3	1,338.9	1,219.0	1,141.9	987.6	962.4	956.6	860.4
Premium equivalents and deposits										
Administrative services only contracts (ASO)	45.0	42.8	42.0	43.9	48.2	43.9	51.0	115.9	101.9	94.7
Investment contracts	74.3	71.2	70.6	73.0	128.1	122.7	115.6	---	---	---
Total	1,476.4	1,442.3	1,455.9	1,455.8	1,395.3	1,308.5	1,154.2	1,078.3	1,058.4	955.2
Car loans[20]										
Dealer Services - Loan originations	391.1	58.2	---	---	---	---	---	---	---	---
Dealer Services - Finance receivables	505.0	291.6	---	---	---	---	---	---	---	---
Group Savings and Retirement										
Sales[4,13]										
Accumulation contracts										
General fund	44.6	37.9	28.9	43.9	34.4	26.6	34.0	33.9	18.1	20.9
Segregated funds	1,290.3	1,076.9	782.8	851.4	724.7	515.7	574.3	685.8	845.9	575.0
Total	1,334.9	1,114.8	811.7	895.3	759.1	542.3	608.3	719.7	864.0	595.9
Insured annuities (general fund)	85.1	112.6	131.9	72.3	27.0	114.6	56.2	120.1	250.9	232.4
Deposits	61.4	88.8	44.1	57.4	82.3	71.8	55.5	---	---	---
Total	1,481.4	1,316.2	987.7	1,025.0	868.4	728.7	720.0	839.8	1,114.9	828.3

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
BUSINESS GROWTH (continued)										
Group Savings and Retirement (continued)										
Assets under management										
Accumulation contracts										
General fund	237.7	229.5	243.2	252.2	232.5	235.6	236.8	212.8	181.7	181.1
Segregated funds	8,478.1	7,484.5	6,922.2	6,109.2	5,161.1	4,620.5	4,646.3	4,126.8	3,261.3	3,379.5
Other[21]	801.9	830.5	904.6	873.2	891.8	493.9	473.0	---	---	---
Total	9,517.7	8,544.5	8,070.0	7,234.6	6,285.4	5,350.0	5,356.1	4,339.6	3,443.0	3,560.6
Insured annuities (general fund)	3,196.0	3,213.0	3,213.3	2,998.4	3,128.7	3,147.8	2,941.8	2,852.0	2,697.2	2,556.6
Total	12,713.7	11,757.5	11,283.3	10,233.0	9,414.1	8,497.8	8,297.9	7,191.6	6,140.2	6,117.2
General Insurance										
Sales[13]										
iAAH (Auto & Home)	278.6	247.3	233.4	216.6	195.1	175.2	154.7	135.6	112.0	113.9
Net premiums, premium equivalents and deposits by line of business										
Individual Insurance	1,686.1	1,578.5	1,495.1	1,425.2	1,339.3	1,248.2	1,112.9	---	---	---
Individual Wealth Management	3,334.5	3,140.1	3,362.1	3,358.8	3,100.6	3,543.6	3,676.3	---	---	---
Group Insurance[19]	1,476.4	1,442.3	1,455.9	1,455.8	1,395.3	1,308.5	1,154.2	---	---	---
Group Savings and Retirement	1,455.0	1,293.3	963.6	1,001.0	848.9	708.6	657.1	---	---	---
General Insurance[19,22]	250.5	218.1	203.8	192.1	220.0	199.6	150.7	---	---	---
Total	8,202.5	7,672.3	7,480.5	7,432.9	6,904.1	7,008.5	6,751.2	---	---	---
Net premiums and deposits by line of business										
Individual Insurance	---	---	---	---	---	---	---	938.4	920.7	897.3
Individual Wealth Management	---	---	---	---	---	---	---	2,350.0	2,422.4	3,121.9
Group Insurance	---	---	---	---	---	---	---	962.4	956.5	860.5
Group Savings and Retirement	---	---	---	---	---	---	---	839.8	1,114.9	828.3
General Insurance	---	---	---	---	---	---	---	140.6	128.4	118.2
Total	---	---	---	---	---	---	---	5,231.2	5,542.9	5,826.2
Distribution of net premiums, premium equivalents and deposits by region										
Atlantic provinces	4.1%	4.7%	4.4%	4.7%	4.3%	4.0%	4.6%	4.6%	4.7%	5.8%
Quebec	42.5%	42.0%	41.0%	36.7%	41.9%	40.6%	39.8%	44.9%	42.8%	43.1%
Ontario	27.9%	26.4%	25.8%	30.2%	27.2%	30.0%	29.4%	29.4%	31.8%	30.9%
Western provinces	22.1%	23.9%	26.4%	26.4%	23.9%	22.2%	23.1%	19.5%	19.6%	19.1%
Outside Canada	3.4%	3.0%	2.4%	2.0%	2.7%	3.2%	3.1%	1.6%	1.1%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Assets under management and administration										
Assets under management										
General fund[23]	35,223.8	33,161.4	31,591.2	27,195.5	26,697.3	23,718.1	20,544.6	17,626.5	15,415.2	15,104.3
Segregated funds	21,825.8	19,776.7	18,748.2	16,921.4	15,021.2	13,722.9	13,563.7	11,450.3	8,924.2	10,210.9
Mutual funds[15,16]	10,937.5	10,428.3	11,832.9	11,413.2	8,978.9	8,151.0	7,922.4	6,615.7	5,277.7	6,846.9
Other[16,24]	16,859.9	15,526.1	14,621.3	13,960.5	8,934.5	6,199.8	5,010.6	563.3	596.7	630.6
Total	84,847.0	78,892.5	76,793.6	69,490.6	59,631.9	51,791.8	47,041.3	36,255.8	30,213.8	32,792.7
Assets under administration[15,16]	41,387.2	36,920.8	32,687.2	29,289.7	23,833.3	21,858.1	22,223.3	22,150.8	19,258.4	17,618.9
Total	126,234.2	115,813.3	109,480.8	98,780.3	83,465.2	73,649.9	69,264.6	58,406.6	49,472.2	50,411.6
Human resources										
Number of employees	5,350	5,148	5,019	4,810	4,314	4,109	3,777	3,478	3,427	2,947
Number of Career representatives	2,157	2,023	1,931	1,791	1,838	1,860	1,761	1,688	1,597	1,608
INVESTED ASSETS										
Value and distribution of investments										
Book value of investment portfolio	31,237.0	29,066.5	27,409.1	23,189.8	22,983.5	21,714.6	18,723.7	16,490.2	14,396.3	14,214.3
Distribution of investments by financial instrument category										
Available for sale	13.4%	12.5%	12.7%	13.0%	10.9%	12.6%	12.4%	11.6%	10.0%	8.7%
Fair value through profit or loss	60.3%	60.7%	63.1%	62.0%	64.5%	59.8%	55.6%	53.9%	51.3%	58.6%
Loans and receivables	21.4%	21.9%	19.8%	20.2%	20.5%	23.9%	28.2%	30.5%	34.2%	27.8%
Investment properties	4.0%	4.2%	4.3%	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%
Other	0.9%	0.7%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
INVESTED ASSETS (continued)										
Value and distribution of investments (continued)										
Distribution of investments by asset category										
Bonds	67.5%	66.3%	67.9%	65.0%	63.7%	63.0%	59.6%	57.1%	55.2%	57.2%
Stocks	9.9%	10.1%	11.8%	13.5%	12.2%	11.1%	11.7%	11.5%	9.3%	12.4%
Mortgages and other loans	10.5%	10.9%	10.5%	11.2%	11.3%	15.0%	17.8%	20.6%	24.3%	20.5%
Investment properties	4.0%	4.2%	4.3%	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%
Other	8.1%	8.5%	5.5%	5.6%	8.7%	7.3%	7.1%	6.9%	6.8%	6.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region										
Atlantic provinces	3.5%	3.9%	4.5%	5.2%	5.6%	3.9%	4.0%	4.2%	3.9%	4.1%
Quebec	33.8%	34.0%	33.8%	34.5%	39.4%	42.5%	45.8%	46.9%	48.6%	48.1%
Ontario	28.4%	29.1%	29.8%	30.1%	26.6%	23.4%	21.0%	21.5%	20.5%	20.6%
Western provinces	17.6%	16.2%	16.4%	15.9%	16.4%	16.4%	16.9%	18.1%	17.5%	16.8%
Outside Canada	16.7%	16.8%	15.5%	14.3%	12.0%	13.8%	12.3%	9.3%	9.5%	10.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	29.0	19.7	22.5	17.6	11.2	17.8	25.6	16.7	14.0	20.7
Provisions for impaired investments (specific)	5.6	5.5	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As a % of gross impaired investments	19.3%	27.9%	17.1%	21.4%	19.6%	26.4%	16.0%	22.2%	37.5%	43.6%
Net impaired investments (excluding insured loans)										
Bonds	16.9	6.0	7.2	7.3	8.0	8.4	8.4	4.5	0.5	1.2
Mortgages and other loans	6.5	8.2	11.5	6.5	1.0	4.7	13.1	6.9	7.8	2.8
Real estate acquired to settle loans[25]	---	---	---	---	---	---	---	1.6	0.5	7.7
Total	23.4	14.2	18.7	13.8	9.0	13.1	21.5	13.0	8.8	11.7
Net impaired investments as a % of investment portfolio	0.08%	0.05%	0.07%	0.06%	0.04%	0.06%	0.11%	0.08%	0.06%	0.08%
Provisions for losses (collective and specific)										
At beginning of period	6.6	3.8	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3
Increase for the period	19.9	5.6	0.6	1.8	2.0	2.8	2.7	3.6	5.3	0.3
Decrease for the period	(16.4)	(2.8)	(0.6)	(0.2)	(4.5)	(2.2)	(2.3)	(5.1)	(7.3)	0.0
Impact of financial instruments as at January 1, 2007	---	---	---	---	---	---	---	---	---	(78.6)
Transfer of provisions to investments	---	---	---	---	---	---	---	---	(1.8)	---
At end of period	10.1	6.6	3.8	3.8	2.2	4.7	4.1	3.7	5.2	9.0
Provisions for losses by type of investment (collective and specific)										
Bonds	4.1	3.5	2.5	2.5	2.0	2.9	2.9	3.0	5.0	5.2
Mortgages	1.5	1.6	1.3	1.3	0.2	1.8	1.2	0.7	0.2	0.1
Car loans[26]	4.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real estate acquired to settle loans[25]	---	---	---	---	---	---	---	---	---	3.7
Total	10.1	6.6	3.8	3.8	2.2	4.7	4.1	3.7	5.2	9.0
Other quality measure										
Car loans – Average credit loss rate (trailing twelve months)[4,27]	3.5%	---	---	---	---	---	---	---	---	---
Real estate held for resale	10.9	11.2	10.7	10.7	9.7	5.7	1.3	---	---	---
Bonds										
Book value of the bond portfolio	21,086.8	19,278.1	18,575.3	15,106.7	14,643.1	13,676.8	11,121.2	9,409.5	7,942.2	8,127.2
Distribution by financial instrument category										
Available for sale	18.1%	17.2%	16.9%	18.1%	15.6%	17.9%	18.1%	16.9%	14.7%	11.8%
Fair value through profit or loss	72.5%	72.7%	74.5%	73.7%	76.5%	74.7%	72.9%	73.1%	74.7%	78.8%
Loans and receivables	9.4%	10.1%	8.6%	8.2%	7.9%	7.4%	9.0%	10.0%	10.6%	9.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
INVESTED ASSETS (continued)										
Bonds (continued)										
Distribution by credit rating										
Rating – AAA	5.08%	3.78%	3.21%	2.83%	8.67%	8.84%	10.83%	11.30%	11.80%	13.70%
Rating – AA	29.35%	29.65%	31.26%	33.67%	23.12%	20.12%	16.68%	15.83%	18.24%	19.80%
Rating – A	47.85%	49.21%	49.42%	51.25%	58.55%	61.10%	65.37%	66.36%	63.06%	60.53%
Rating – BBB	16.96%	16.70%	15.37%	12.07%	9.56%	9.82%	7.00%	6.44%	6.67%	5.86%
Rating – BB and lower	0.76%	0.66%	0.74%	0.18%	0.10%	0.12%	0.12%	0.07%	0.23%	0.11%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Distribution by category of issuer										
Governments	51.4%	50.0%	49.7%	55.2%	60.5%	59.0%	63.2%	63.3%	61.1%	59.7%
Municipalities	4.4%	5.2%	5.2%	4.1%	3.9%	3.0%	1.5%	1.3%	1.4%	1.8%
Corporates – Public issues	26.2%	25.9%	27.4%	24.2%	20.3%	23.6%	21.1%	20.8%	21.6%	23.4%
Corporates – Private issues	18.0%	18.9%	17.7%	16.5%	15.3%	14.4%	14.2%	14.6%	15.9%	15.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%	0.00%	0.01%	0.02%
Mortgages and other loans										
Book value of the mortgage and other loans portfolio	3,292.3	3,169.3	2,886.0	2,596.6	2,603.6	3,251.4	3,334.5	3,405.0	3,508.1	2,920.2
Book value of mortgages	2,776.5	2,877.2	2,759.7	2,537.8	2,589.0	---	---	---	---	---
Book value of other loans	515.8	292.1	126.3	58.8	14.6	---	---	---	---	---
Distribution by financial instrument category										
Held for trading	1.7%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and receivables	98.3%	99.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total mortgages and other loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of mortgage										
Residential	32.2%	29.4%	29.1%	26.2%	21.8%	16.7%	19.3%	19.0%	19.4%	21.6%
Multi-residential	56.1%	56.7%	55.2%	57.0%	60.1%	63.6%	63.3%	65.2%	66.5%	60.2%
Non-residential	11.7%	13.9%	15.7%	16.8%	18.1%	19.7%	17.4%	15.8%	14.1%	18.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of mortgage										
Insured	77.1%	76.0%	75.9%	74.7%	73.4%	64.8%	68.4%	71.8%	71.3%	65.0%
Conventional	22.9%	24.0%	24.1%	25.3%	26.6%	35.2%	31.6%	28.2%	28.7%	35.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate										
Insured loans	0.02%	0.05%	0.04%	0.06%	0.24%	0.08%	0.06%	0.21%	0.08%	0.10%
Conventional loans	1.10%	1.07%	1.59%	1.17%	0.16%	0.57%	1.36%	0.72%	0.72%	0.27%
Total	0.27%	0.29%	0.41%	0.28%	0.22%	0.25%	0.47%	0.36%	0.26%	0.16%
Delinquency rate, including real estate acquired to settle loans	0.66%	0.68%	0.80%	0.76%	0.59%	0.43%	0.51%	0.40%	0.28%	0.55%
Stocks										
Book value of the stock portfolio	3,083.0	2,924.1	3,242.0	3,120.2	2,794.6	2,408.5	2,195.2	1,896.4	1,340.2	1,764.2
Distribution by financial instrument category										
Available for sale	11.8%	10.8%	10.0%	9.2%	8.5%	12.4%	13.7%	17.5%	19.2%	15.6%
Fair value through profit or loss	88.2%	89.2%	90.0%	90.8%	91.5%	87.6%	86.3%	82.5%	80.8%	84.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by category										
Common	52.3%	52.9%	51.6%	46.0%	44.9%	39.0%	22.3%	13.5%	18.8%[28]	5.7%
Preferred	19.7%	19.9%	16.6%	16.7%	15.5%	8.3%	8.6%	8.8%	10.3%	8.1%
Market indices	13.7%	13.0%	14.2%	18.4%	21.2%	30.2%	41.5%	43.2%	26.0%	25.6%
Investment fund units and other	14.3%	14.2%	17.6%	18.9%	18.4%	22.5%	27.6%	34.5%	44.9%[28]	60.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2016	2015	2014	2013	2012[1]	2011	2010[2]	2009	2008	2007[2]
INVESTED ASSETS (continued)										
Real estate (IFRS)										
Investment properties	1,237.8	1,215.9	1,190.1	1,079.2	953.1	788.5	716.1	---	---	---
Linearization of rents	10.1	9.4	9.3	9.4	11.0	10.9	9.9	---	---	---
Fair value of investment properties	1,247.9	1,225.3	1,199.4	1,088.6	964.1	799.4	726.0	---	---	---
Occupancy rate on investment properties	90.2%	90.1%	91.0%	93.5%	95.2%	94.6%	92.9%	---	---	---
Real estate (CGAAP)										
Book value of the real estate portfolio	---	---	---	---	---	---	---	649.0	629.5	481.6
Market value of the real estate portfolio	---	---	---	---	---	---	---	823.5	814.6	623.7
Market value/book value	---	---	---	---	---	---	---	126.9%	129.4%	129.5%
Occupancy rate on real estate portfolio	---	---	---	---	---	---	---	94.4%	94.0%	95.5%
Other										
Provision for potential loss on fixed-income securities contained in the policy liabilities	326.6	292.1	315.0	235.5	234.7	204.6	138.0	95.8	83.4	78.3
SOLVENCY AND CAPITALIZATION										
Capital structure										
Debentures	995.3	846.1	597.2	498.5	757.9	747.7	499.1	519.8	385.9	309.8
Participating policyholders' accounts	39.0	45.0	49.4	47.1	44.2	41.3	26.9	25.7	27.0	24.1
Equity										
Common shares	1,498.8	1,310.5	1,243.5	1,183.5	878.6	860.7	652.5	545.7	541.0	513.1
Preferred shares	375.0	375.0	475.0	575.0	675.0	425.0	425.0	325.0	223.7	125.0
Contributed surplus	18.5	21.4	21.1	19.8	23.5	23.6	23.3	21.6	19.8	17.1
Retained earnings	2,793.2	2,374.0	2,081.9	1,857.4	1,553.5	1,418.6	1,341.5	1,254.8	1,127.7	1,148.3
Accumulated other comprehensive income	40.1	58.1	63.6	(15.3)	39.3	64.4	59.3	10.5	(54.3)	(3.8)
Total	4,725.6	4,139.0	3,885.1	3,620.4	3,169.9	2,792.3	2,501.6	2,157.6	1,857.9	1,799.7
Total capital structure	5,759.9	5,030.1	4,531.7	4,166.0	3,972.0	3,581.3	3,027.6	2,703.1	2,270.8	2,133.6
Debt measures[6]										
Debentures/capital structure	17.3%	16.8%	13.2%	12.0%	18.9%	21.2%	16.5%	19.2%	17.0%	14.5%
Debentures and preferred shares/capital structure	23.8%	24.3%	23.7%	25.8%	35.9%	33.3%	30.5%	31.3%	26.8%	20.4%
Coverage ratio (in number of times)[29]	12.8	8.2	7.9	6.2	6.1	2.8	6.2	6.3	3.9	12.2
Solvency ratio[4,6]										
Available capital										
Tier 1 (net)[30]	4,054.5	3,426.8	3,217.0	3,166.3	2,956.1	2,461.7	2,303.8	1,961.9	1,726.0	1,685.6
Tier 2 (net)	1,002.6	870.6	667.4	496.7	640.0	587.4	340.9	343.1	195.4	120.6
Total	5,057.1	4,297.4	3,884.4	3,663.0	3,596.1	3,049.1	2,644.7	2,305.0	1,921.4	1,806.2
Required capital	2,250.6	2,014.0	1,860.6	1,687.2	1,657.7	1,613.8	1,306.8	1,107.2	967.1	934.6
Solvency ratio[4]	225%	213%	209%	217%	217%	189%	202%	208%	199%	193%
MISCELLANEOUS INFORMATION										
Market data										
Common shares										
Share price										
High	$58.05	$46.05	$49.35	$49.99	$32.91	$42.02	$37.40	$32.70	$42.64	$43.75
Low	$35.00	$38.33	$40.78	$31.18	$20.55	$24.75	$29.69	$13.75	$19.50	$34.25
Share price at end of period	$53.39	$44.13	$44.43	$46.95	$31.38	$26.29	$36.81	$32.20	$23.31	$42.58
Average share price	$44.84	$42.24	$45.09	$40.05	$26.92	$34.22	$33.73	$24.63	$32.11	$38.28
Number of common shares outstanding (in millions)	106.2	102.4	100.8	99.3	91.0	90.4	83.9	80.5	80.3	79.8
Weighted average number of common shares (in millions)										
Basic	102.8	101.4	99.9	97.2	90.6	85.9	83.1	80.3	80.2	80.1
Diluted	103.4	102.0	100.8	97.9	96.2	92.5	88.3	80.7	81.0	81.1
Diluted - adjusted for IATS[4]	---	---	---	---	90.8	86.5	83.9	---	---	---
Dividends										
Dividends paid per common share	$1.26	$1.16	$1.06	$0.98	$0.98	$0.98	$0.98	$0.98	$0.94	$0.76
Dividend payout ratio	24%	32%	26%	27%	29%	82%	32%	38%	115%	25%
Company's worth										
Market capitalization	5,670.3	4,520.5	4,477.4	4,664.1	2,856.3	2,376.2	3,087.9	2,592.5	1,872.5	3,399.6
Book value per common share[6]	$40.97	$36.76	$33.83	$30.67	$27.45	$26.19	$24.75	$22.77	$20.35	$20.98
General expenses	1,018.0	972.7	897.9	815.7	764.5	663.3	611.6	399.9	358.4	333.5

For comparison purposes, certain previous data have been reclassified.

Cautionary Note regarding Non-IFRS Financial Measures

This document contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating profit", "solvency ratio", "sales", and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. 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.

Notes

[1] Except for the coverage ratio and the solvency ratio, the 2012 amounts and measures were adjusted in 2013 for the adoption of the amendment to IAS-19 and the adoption of IFRS-10.

[2] Adoption of the new financial instruments accounting standards in 2007 and adoption of IFRS on January 1, 2010.

[3] After-tax gain on the sale of the US annuity business.

[4] Non-IFRS measures. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. Please refer to the annual management's discussion and analysis for more detailed definitions.

[5] Since 2013, the Company no longer makes adjustments for the potential dilutive impact of its innovative Tier 1 debt instruments (IATS) since these instruments were redeemed on June 30, 2013.

[6] The increase in retained earnings at January 1, 2011 with respect to the deferred income tax liability was reflected retroactively in the 2011-2012 financial statements and book value per outstanding common share. All other measures and amounts were not modified. The modification was carried out at December 31, 2012.

[7] ABCP: Asset-backed commercial paper.

[8] Approximate impact of market variations as compared to the expected net earnings that the Company would have earned under normal market conditions.

[9] Beginning in 2014, expected profit on in-force for the wealth management businesses is updated on a quarterly basis to reflect market growth and net sales.

[10] The restructuring charge results from the acquisition of Jovian Capital Corporation on October 1, 2013.

[11] Based on diluted weighted average number of common shares as of 2013. Based on diluted and adjusted weighted average number of common shares in 2010, 2011 and 2012 (see note 5 above).

[12] Between 2007 and 2011, other items are composed of gains or losses related to the asymmetric evolution of the fair value of debt instruments and the underlying assets. In 2012, other items are composed of the after-tax gain on the sale of the US annuity business mentioned in note 3.

[13] Sales are defined as follows: Individual Insurance: first-year annualized premiums; Individual Wealth Management: net premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance – Employee Plans: first-year annualized premiums, including administrative services only contracts (ASO); Dealer Services, Creditor Insurance: premiums before reinsurance and cancellations; Dealer Services, P&C Insurance: direct written premiums; Special Markets Solutions: gross premiums (premiums before reinsurance); Group Savings and Retirement: premiums, before reinsurance, and deposits; iA Auto and Home Insurance: direct written premiums.

[14] 2014 data revised downward by $9.5 million due to a correction related to reissued policies.

[15] In 2013, a change in the interfund eliminations led to an adjustment reflected in 2010, 2011 and 2012.

[16] Includes assets acquired with Jovian Capital Corporation on October 1, 2013.

[17] Information presented through 2011 for comparison purposes.

[18] As of 2013 and reflected until 2009, sales for Dealer Services – Creditor Insurance are now defined as premiums before reinsurance and cancellations. Includes all creditor insurance business sold by the Company.

[19] Adjusted retroactively through 2013 for the reclassification under Group Insurance of P&C premiums previously reported under General Insurance.

[20] Includes all car loans. Data begins on October 2, 2015, with the acquisition of CTL.

[21] Adjusted retroactively in 2013 to present an asset that was not previously presented.

[22] Includes iA Auto and Home premiums, other operations not directly related to the business lines and some minor consolidation adjustments.

[23] At December 31, 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.

[24] Mainly assets managed for third parties.

[25] Since the conversion to IFRS on January 1, 2011, real estate acquired to settle loans is no longer included in the invested assets.

[26] Before Q4-2015, car loans provisions are included in mortgages.

[27] Includes all loans (prime and non-prime) and represents the total credit losses for the prior twelve months divided by the average finance receivables over the same period. Data first presented in 2016 as CTL was acquired by the end of 2015.

[28] The variation is explained by the fact that some investments matching the savings portion of the UL policies have been transferred from the investment fund units to common stocks. The Company's risk profile is unchanged.

[29] The coverage ratio is obtained by dividing pre-tax income for the last twelve months, before financing expenses, by financing expenses.

[30] The retained earnings are calculated according to the solvency rules. In 2013, the Company elected to take advantage of the transitional period in order to defer the impact of the amendment to IAS-19 on available capital. The total value of the deferral is $79 million and was amortized over eight quarters, through December 31, 2014.

Consolidated Financial Statements

Responsibility for Financial Statements

The Consolidated Financial Statements of Industrial Alliance Insurance and Financial Services Inc., which have been approved by the Board of Directors, were prepared by Management in accordance with International Financial Reporting Standards and contain certain amounts based on best judgment and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the significant accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems provide for communication of professional conduct rules and principles, using a professional code of ethics prepared by the Company for all organizational members. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all material departments within the Company.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:

- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the internal control systems and security;
- Recommend the appointment of the independent auditors and their fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

The Audit Committee meets regularly with Management, the internal auditors and the independent auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The Appointed Actuary is appointed by the Board of Directors pursuant to *An Act respecting insurance* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of insurance contract liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the insurance contract liabilities net of reinsurance assets at the Statement of Financial Position date to meet all policyholder obligations of the Company. Examination of supporting data for the accuracy and completeness analysis of Company assets for their ability to support the amount of insurance contract liabilities net of reinsurance assets are important elements of the work required to form this opinion.

The independent auditor is appointed to report to the shareholders regarding the fairness of presentation of the Company's Consolidated Financial Statements. The independent auditor fulfills this responsibility by carrying out an independent audit of these financial statements in accordance with Canadian generally accepted auditing standards.

The Autorité des marchés financiers has the power to perform checks to ensure that the Company respects *An Act respecting insurance*, preserves the interests of the policyholders and pursues sound capitalization and good solvency.

On behalf of Management,

Yvon Charest
President and Chief Executive Officer
Quebec City, February 16, 2017

Appointed Actuary's Report

To the policyholders and shareholders of Industrial Alliance Insurance and Financial Services Inc.

I have valued the policy liabilities and reinsurance recoverables of Industrial Alliance Insurance and Financial Services Inc. for its Consolidated Statements of Financial Position as at December 31, 2016 and 2015 and their changes in the Consolidated Income Statements for the years then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the Consolidated Financial Statements fairly present the results of the valuation.

René Chabot
Fellow of the Canadian Institute of Actuaries
Quebec City, February 16, 2017

Independent Auditors' Report

To the policyholders and shareholders of Industrial Alliance Insurance and Financial Services Inc.

We have audited the accompanying Consolidated Financial Statements of Industrial Alliance Insurance and Financial Services Inc., which comprise the Consolidated Statements of Financial Position as at December 31, 2016 and December 31, 2015, and the Consolidated Income Statements, Consolidated Comprehensive Income Statements, Consolidated Equity Statements and Consolidated Cash Flows Statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of Industrial Alliance Insurance and Financial Services Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP [1]

February 16, 2017
Quebec City, Canada

[1] CPA auditor, CA, public accountancy permit No. A112991

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2016	2015
	$	$
Revenues		
Premiums		
Gross premiums	7,107	6,564
Premiums ceded	(559)	(523)
Net premiums (Note 23)	6,548	6,041
Investment income (Note 5)		
Interest and other investment income	1,115	1,097
Change in fair value of investments	478	(61)
	1,593	1,036
Other revenues	1,206	1,158
	9,347	8,235
Policy benefits and expenses		
Gross benefits and claims on contracts	4,557	4,270
Ceded benefits and claims on contracts	(370)	(336)
Net transfer to segregated funds	744	741
Increase (decrease) in insurance contract liabilities (Note 14)	1,099	514
Increase (decrease) in investment contract liabilities (Note 14)	12	21
Decrease (increase) in reinsurance assets (Note 14)	122	266
	6,164	5,476
Commissions	1,282	1,197
General expenses (Note 20)	1,018	973
Premium and other taxes	112	106
Financing charges (Note 21)	77	62
	8,653	7,814
Income before income taxes	694	421
Income taxes (Note 22)	146	39
Net income	548	382
Net income attributed to participating policyholders	(6)	(4)
Net income attributed to shareholders	554	386
Dividends attributed to preferred shares (Note 17)	17	18
Redemption premium on preferred shares (Note 17)	---	4
Net income attributed to common shareholders	537	364
Earnings per common share (in dollars) (Note 24)		
Basic	5.22	3.59
Diluted	5.19	3.57
Weighted average number of shares outstanding (in millions of units) (Note 24)		
Basic	102.8	101.4
Diluted	103.4	102.0
Dividends per common share (in dollars) (Note 17)	1.26	1.16

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Comprehensive Income Statements

Years ended December 31 (in millions of dollars)	2016	2015
	$	$
Net income	548	382
Other comprehensive income, net of income taxes		
Items that may be reclassified subsequently to net income:		
Available for sale financial assets		
Unrealized gains (losses) on available for sale financial assets	(5)	(25)
Reclassification of losses (gains) on available for sale financial assets included in net income	2	(13)
	(3)	(38)
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	(14)	70
Hedges of net investment in foreign operations	(1)	(38)
	(15)	32
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	12	47
Total other comprehensive income	(6)	41
Comprehensive income	542	423
Comprehensive income attributed to participating policyholders	(6)	(4)
Comprehensive income attributed to shareholders	548	427

Income Taxes Included in Other Comprehensive Income

Years ended December 31 (in millions of dollars)	2016	2015
	$	$
Income taxes related to:		
Items that may be reclassified subsequently to net income:		
Unrealized gains (losses) on available for sale financial assets	2	10
Reclassification of losses (gains) on available for sale financial assets included in net income	---	4
Hedges of net investment in foreign operations	---	14
	2	28
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	(5)	(17)
Total income taxes included in other comprehensive income	(3)	11

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Financial Position

As at December 31 (in millions of dollars)	2016	2015
	$	$
Assets		
Cash and short-term investments	912	969
Bonds	21,087	19,278
Stocks	3,083	2,924
Mortgages and other loans	3,292	3,169
Derivative financial instruments (Note 8)	262	332
Policy loans	946	841
Other invested assets	417	337
Investment properties	1,238	1,216
Total investments (Note 5)	31,237	29,066
Other assets (Note 9)	1,672	1,649
Reinsurance assets (Note 14)	1,122	1,280
Fixed assets (Note 10)	195	178
Deferred income tax assets (Note 22)	26	31
Intangible assets (Note 11)	659	623
Goodwill (Note 11)	313	334
General fund assets	35,224	33,161
Segregated funds net assets (Note 12)	21,826	19,777
Total assets	57,050	52,938
Liabilities		
Insurance contract liabilities (Note 14)	23,899	22,848
Investment contract liabilities (Note 14)	606	655
Derivative financial instruments (Note 8)	333	398
Other liabilities (Note 15)	4,453	4,080
Deferred income tax liabilities (Note 22)	173	150
Debentures (Note 16)	995	846
General fund liabilities	30,459	28,977
Segregated funds liabilities (Note 12)	21,826	19,777
Total liabilities	52,285	48,754
Equity		
Share capital and contributed surplus	1,893	1,707
Retained earnings and accumulated other comprehensive income	2,833	2,432
Participating policyholders' accounts	39	45
	4,765	4,184
Total liabilities and equity	57,050	52,938

The accompanying notes are an integral part of these Consolidated Financial Statements.

Yvon Charest
President and Chief Executive Officer

Michael Hanley
Chairman of Audit Committee

Consolidated Equity Statements

Years ended December 31 (in millions of dollars)

	Participating policyholders' accounts	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
		(Note 17)	(Note 17)			(Note 18)	
	$	$	$	$	$	$	$
Balance as at December 31, 2014	49	1,244	475	21	2,082	64	3,935
Net income attributed to shareholders	---	---	---	---	386	---	386
Net income attributed to participating policyholders' accounts	(4)	---	---	---	---	---	(4)
Other comprehensive income	---	---	---	---	---	41	41
Comprehensive income for the year	(4)	---	---	---	386	41	423
Transfer of post-employment benefits (Note 26)	---	---	---	---	47	(47)	---
Other	---	---	---	---	(1)	---	(1)
Equity transactions							
Stock option plan (Note 25)	---	---	---	4	---	---	4
Stock options exercised	---	---	---	(4)	---	---	(4)
Common shares issued	---	67	---	---	---	---	67
Redemption of preferred shares	---	---	(100)	---	---	---	(100)
Redemption premium on preferred shares	---	---	---	---	(4)	---	(4)
Dividends on common shares	---	---	---	---	(118)	---	(118)
Dividends on preferred shares	---	---	---	---	(18)	---	(18)
Balance as at December 31, 2015	45	1,311	375	21	2,374	58	4,184
Net income attributed to shareholders	---	---	---	---	554	---	554
Net income attributed to participating policyholders' accounts	(6)	---	---	---	---	---	(6)
Other comprehensive income	---	---	---	---	---	(6)	(6)
Comprehensive income for the year	(6)	---	---	---	554	(6)	542
Transfer of post-employment benefits (Note 26)	---	---	---	---	12	(12)	---
Other	---	---	---	---	(1)	---	(1)
Equity transactions							
Stock option plan (Note 25)	---	---	---	4	---	---	4
Stock options exercised	---	---	---	(6)	---	---	(6)
Common shares issued	---	188	---	---	---	---	188
Dividends on common shares	---	---	---	---	(129)	---	(129)
Dividends on preferred shares	---	---	---	---	(17)	---	(17)
Balance as at December 31, 2016	39	1,499	375	19	2,793	40	4,765

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)	2016	2015
	$	$
Cash flows from operating activities		
Income before income taxes	694	421
Financing charges	77	62
Income taxes paid, net of refunds	(90)	(109)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	1,105	525
Increase (decrease) in investment contract liabilities	(49)	(38)
Decrease (increase) in reinsurance assets	126	270
Unrealized losses (gains) on investments	(474)	64
Provisions for losses	17	4
Amortization of premiums and discounts	42	33
Other depreciation	111	99
Impairment of goodwill	34	---
Gain on revaluation of a contingent consideration	(40)	---
Other items not affecting cash	65	53
Operating activities affecting cash:		
Sales, maturities and repayments on investments	17,286	21,572
Purchases of investments	(19,162)	(22,394)
Realized losses (gains) on investments	(12)	(29)
Other items affecting cash	174	4
Net cash from (used in) operating activities	(96)	537
Cash flows from investing activities		
Acquisition of businesses, net of cash	(20)	(49)
Sales (purchases) of fixed and intangible assets	(92)	(68)
Other investment activities	---	2
Net cash from (used in) investing activities	(112)	(115)
Cash flows from financing activities		
Issuance of common shares	182	17
Issuance of debentures	398	249
Redemption of debentures	(250)	---
Redemption of preferred shares	---	(100)
Redemption premium on preferred shares	---	(4)
Dividends paid on common shares	(129)	(72)
Dividends paid on preferred shares	(17)	(18)
Interest paid on debentures	(32)	(28)
Net cash from (used in) financing activities	152	44
Foreign currency gains (losses) on cash	(1)	5
Increase (decrease) in cash and short-term investments	(57)	471
Cash and short-term investments at beginning	969	498
Cash and short-term investments at end	912	969
Supplementary information:		
Cash	769	846
Short-term investments	143	123
Total cash and short-term investments	912	969

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015 (in millions of dollars, unless otherwise indicated)

1 › General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company listed on the Toronto Stock Exchange, incorporated under the *Companies Act* (Quebec), governed by *An Act respecting insurance* and subject to the Autorité des marchés financiers (AMF). Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries (the "Company") offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgages, and other financial products and services. The Company's products and services are offered on both an individual and group basis and extend throughout Canada and in the United States.

Publication of these financial statements was authorized for issue by the Company's Board of Directors on February 16, 2017.

2 › Significant Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards on December 31, 2016. The International Financial Reporting Standards (IFRS) are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the IFRS Interpretations Committee (IFRS IC).

IFRS does not currently include an insurance contract measurement standard. Therefore, as permitted by IFRS-4 "Insurance Contracts", insurance contract liabilities are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

The financial statements are presented in millions of Canadian dollars. The Canadian dollar is the Company's functional and reporting currency. The presentation order of the items included in the Statements of Financial Position is based on liquidity. Each line item includes both current and non-current balances, if applicable.

b) Important Estimates, Assumptions and Use of Judgment

The preparation of financial statements requires management to use judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and complementary information. Management has exercised its judgment, made estimates and established the assumptions described below:

Classification of contracts, measurement of insurance contract liabilities and investment contract liabilities and measurement of reinsurance assets	Note 2, section k) Reinsurance Assets Note 2, section l) Insurance and Investment Contract Liabilities Note 14 Insurance Contract Liabilities and Investment Contract Liabilities
Fair value and impairment of financial instruments and fair value of investment properties	Note 2, section d) Invested Assets and Investment Income Note 5 Invested Assets and Investment Income Note 6 Fair Value of Financial Instruments and Investment Properties Note 7 Management of Risks Associated with Financial Instruments
Impairment of goodwill and intangible assets	Note 2, section g) Intangible Assets Note 2, section i) Goodwill Note 11 Intangible Assets and Goodwill
Post-employment benefits	Note 2, section t) Post-Employment Benefits Note 26 Post-Employment Benefits
Determination of control for purposes of consolidation	Note 2, section c) Basis of Consolidation and Methods Note 7 Management of Risks Associated with Financial Instruments, section b) iii) Other Information on Credit Risk – Interests in Non-Consolidated Structured Entities
Income taxes	Note 2, section n) Income Taxes Note 22 Income Taxes
Determination of reporting segments and allocation methodologies in the presentation of segmented information	Note 23 Segmented Information

Actual results could differ from management's best estimates. Estimates and assumptions are periodically reviewed according to changing circumstances and facts, and changes are recognized in the period in which the revision is made and future periods affected by this revision. The significant accounting policies, estimates and assumptions used are detailed in the following notes when it is meaningful and relevant.

c) Basis of Consolidation and Methods

Entities over which the Company exercises control are consolidated. Control is defined as being the exposure or the right to receive variable returns from the involvement with an entity and the ability to affect those returns through the power held over it. The Company holds the power when it has existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. Management uses judgment in determining whether control exists, particularly in determining the extent to which the Company has the ability to exercise its power to generate variable returns. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. The Company uses uniform accounting methods in the Financial Statements for similar transactions and events. Intercompany balances, and revenues and expenses for intercompany transactions are eliminated on consolidation.

The Company uses the equity method to record joint venture and entities over which it has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control over those policies. Significant influence is presumed to exist by holding over 20% of the voting rights. A joint venture exists when the Company has joint control of a joint arrangement and has rights to the net assets of the arrangement. Joint control is the sharing of control under a contractual agreement and exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company records its share of the entity's net assets and financial results using uniform accounting policies for similar transactions and events.

d) Invested Assets and Investment Income

Invested assets include financial assets (such as cash and short-term investments, bonds, stocks, mortgages and other loans, derivative financial instruments as well as policy loans) and investment properties.

Financial assets are classified into one of the following categories:

- assets at fair value through profit or loss, including assets held for trading and assets designated at fair value through profit or loss;
- assets held to maturity, carried at amortized cost;
- assets available for sale, carried at fair value, with fair value variations recognized in *Other comprehensive income*;
- loans and receivables, carried at amortized cost using the effective interest method.

Financial assets are classified according to their nature and use by the Company at the time of initial recognition. The fair value option of designating financial assets in the category assets at fair value through profit or loss is used by the Company for its assets matching the insurance contract liabilities and investment contract liabilities, except for mortgages and other loans and bonds that are not quoted on an active market. Thus, any changes in the fair value of underlying assets matched to the insurance contract liabilities and investment contract liabilities are directly reflected in the insurance contract liabilities and investment contract liabilities. Changes in fair value of assets matching these liabilities and changes in corresponding insurance contract and investment contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise.

Bonds and stocks that are not matched with insurance contract liabilities and investment contract liabilities are classified as available for sale. Mortgages and other loans, as well as bonds not quoted in an active market are classified as loans and receivables. The Company does not hold any financial assets in the category held to maturity.

The Company applies the trade date accounting method, which is the date on which the Company commits to purchase or sell assets. Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred. Transaction costs related to financial assets available for sale are capitalized to the asset and, in the case of bonds, these costs are amortized using the effective interest method. Transaction costs related to loans and receivables are capitalized to the asset and amortized in the Income Statement using the effective interest method.

Invested assets are accounted for using the methods described below.

i) Cash and Short-Term Investments

Cash and short-term investments consist of cash, payments in transit and fixed income securities held for short-term commitment. Cash and payments in transit are classified as loans and receivables and accounted for at amortized cost using the effective interest method. Fixed income securities are classified as held for trading and accounted for at fair value.

ii) Bonds

Designated at Fair Value Through Profit or Loss

Bonds designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of investments* and interest income earned is accounted for in *Interest and other investment income*.

Available for Sale

Bonds classified as available for sale are carried at fair value. Unrealized gains and losses are recognized in *Other comprehensive income*, except for the portion related to foreign exchange difference which is recorded in the Income Statement. Upon realization, gains or losses are reclassified to the Income Statement in *Interest and other investment income*. Interest as well as premiums and discounts are calculated according to the effective interest method and are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as available for sale are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, the cumulative loss recorded in *Accumulated other comprehensive income* is reclassified as an impairment loss in the Income Statement under *Investment income*. Following impairment loss recognition, these bonds continue to be recorded at fair value. Subsequent decreases in fair value are recorded in the Income Statement and they are evaluated at each reporting date to determine whether there is a fair value increase. If there is a fair value increase, impairment loss recorded in the Income Statement could be reversed if the fair value increase can be objectively linked to an event occurring after the impairment loss was recognized.

Loans and Receivables
Private bonds not traded in an active market are classified as loans and receivables. These bonds are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as loans and receivables are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the asset and the recoverable amount valuated according to the estimated future cash flows discounted at the initial effective interest rate. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed and the changes related to provisions for losses are recorded in the Income Statement.

iii) Stocks

Designated at Fair Value Through Profit or Loss
Stocks designated at fair value through profit or loss are measured at fair value. Realized and unrealized gains and losses are recognized immediately in *Change in fair value of investments* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

Available for Sale
Stocks classified as available for sale are carried at fair value. Unrealized gains and losses and variations of exchange rates are recognized in *Other comprehensive income*. Upon realization, gains or losses are reclassified in *Interest and other investment income* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

On each reporting date, stocks classified as available for sale are tested for impairment. The Company records an impairment loss if evidence of impairment exists, such as observable data about the issuer's significant financial difficulty or changes in the economic, legal or technological environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. For stocks with similar characteristics and behaviour to debt instruments, the Company records an impairment loss if evidence of impairment exists and considers that the amount invested will not be recovered.

When there is impairment, the cumulative losses previously accounted for in *Accumulated other comprehensive income* are reclassified as impairment losses under *Interest and other investment income* in the Income Statement. These stocks continue to be recorded at fair value. Any decline in value subsequent to impairment is recorded in the Income Statement, while increases are recorded in *Other comprehensive income*. An increase in value of an impaired security is only recorded in the Income Statement when the security is sold or derecognized.

iv) Mortgages and Other Loans

Loans and Receivables
Other loans consist of personal loans. Mortgages and other loans classified as loans and receivables are carried at amortized cost using the effective interest method, net of a provision for credit losses, if applicable. Interest and realized gains or losses on disposition of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, the Company performs an impairment test on each loan. A group test is then performed on groups of assets with similar risks, including loans valued individually and which had no indication of impairment. On a group basis, the Company considers similar risk characteristics that take into account the type of loan, the activity sector, geographic situation, potential late payment observed and other relevant factors. On an individual basis, the Company considers an impairment loss if it deems it unlikely that it will be able to recover the full amount of principal and interest at maturity due to objective evidence of impairment, including the borrower's financial difficulty, a bankruptcy or a default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the loan and the recoverable amount valuated according to the estimated future cash flows, discounted at the initial effective interest rate. The estimated cash flows consider the fair value of any guarantee underlying the loans, less related costs. When the effects of the cause of the impairment begin to fade, and future payments are reasonably assured, the provision is reduced or reversed. When there is no longer a realistic probability of recovery or when the asset is derecognized after the guarantee is exercised or the asset is sold, the provision is written down and reduced by any recovery. All changes affecting the provision for losses are recorded in the Income Statement.

When an impairment loss is recognized on a loan, the future interest is recognized based on the interest rate used to discount the future cash flows in order to valuate the fair value loss. When contractual payments are 90 days or more in arrears in the case of mortgages and 120 days or more in the case of other loans, contractual interest is no longer recognized. Contractual interest is resumed once the contractual payments are no longer considered in arrears and are considered current.

Designated at Fair Value Through Profit or Loss
Mortgages and other loans designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of investments* and interest income earned is accounted for in *Interest and other investment income*.

Securitization of Mortgages and Other Loans
As part of the securitization of mortgages and other loans, since the Company conserves substantially all risks and rewards related to the transferred mortgages and other loans, the asset derecognition criteria are not met. The Company continues to recognize mortgages and other loans in the Statement of Financial Position and an obligation of a value equal to the amounts securitized is recorded in *Other liabilities*. Interest income on securitized loans continues to be recorded in *Interest and other investment income* in the Income Statement according to the effective interest method and interest expenses on liabilities are recorded in *Financing charges* in the Income Statement.

v) Investment Properties
Investment properties owned by the Company and which it does not primarily occupy for its own use are held to earn rental income or capital appreciation. Investment properties are recognized at the transaction price plus transaction costs upon acquisition. These properties are subsequently valued at fair value. It excludes the fair value of the linearization of rents which is recorded in *Other assets*. Changes in fair value are recognized in *Change in fair value of investments* in the Income Statement. Rental income is recognized in the Income Statement linearly according to the term of the lease, and operating expenses of properties are recorded in *General expenses*.

vi) Policy Loans
Policy loans, classified as loans and receivables, correspond to the unpaid capital balance and are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made.

vii) Other Invested Assets
Other invested assets include the investment in associates and joint ventures, notes receivable and cash in trust. Notes receivable and cash in trust are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. Investments in associates and joint ventures are accounted for according to the equity method as described in c) Basis of Consolidation and Methods.

viii) Derivative Financial Instruments
The Company uses derivative financial instruments to manage exposure to foreign currency, interest rates, credit risk and other market risks associated with specific assets and liabilities. Derivative financial instruments are classified as held for trading. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in *Change in fair value of investments* in the Income Statement unless the derivative financial instruments are part of a qualified hedging relationship, as described below.

Hedge Accounting
When the Company determines that hedge accounting is appropriate, a hedging relationship is designated and documented from inception. Effectiveness of the hedge is valuated on inception and at the end of each financial reporting period for the duration of the hedge. Hedge accounting, which recognizes the offsetting effects of hedging instruments and hedged items the same way, can only be applied if the relationship is demonstrated to be effective. If it is established that the hedging instrument is no longer an effective hedge, if the hedging instrument is sold or if the expected transaction has ceased to be highly probable, the Company ceases to apply hedge accounting prospectively.

Fair Value Hedging
Changes in fair value of hedging instruments and changes in fair value of assets arising from the hedged risk are recorded in *Change in fair value of investments* in the Income Statement. At the same time, the gain or loss on the inefficient portion of the hedge is recorded in *Net income*.

Hedging of Cash Flows
The effective portion of changes in fair value of hedging instruments is recognized in *Other comprehensive income*. Gains or losses on the ineffective portion are immediately recorded in the Income Statement in *Change in fair value of investments*. Cumulative gains and losses in *Other comprehensive income* are reclassified in the Income Statement in the period in which the hedged items have an impact on the net income.

Net Investment Hedge
The Company uses currency forward contracts as hedging items of foreign exchange risk related to net investments in foreign operations. The effective portion of changes in fair value of hedging instruments is recognized in *Other comprehensive income*. Gains or losses on the ineffective portion are immediately recorded in the Income Statement as *Change in fair value of investments*. Cumulative gains and losses in *Other comprehensive income* are reclassified in the Income Statement in the period in which the net investment in foreign operations is subject to a total or partial disposition.

ix) Embedded Derivative Financial Instruments

Embedded derivative financial instruments are separate from the host contract and are accounted for at fair value if the economic characteristics and risks of the embedded derivative financial instruments are not closely linked to the economic characteristics and risks of the host contract, if the terms of the embedded derivative financial instrument are the same as an independent derivative financial instrument, and if the host instrument itself is not accounted for at fair value through profit or loss. Changes in the fair value of embedded derivative financial instruments are recorded in the Income Statement under *Change in fair value of investments*.

x) Derecognition

A financial asset (or portion of a financial asset) is derecognized when the contractual rights to the cash flows from the financial asset expire, or if the Company transfers to a third party the financial asset and substantially all the risks and rewards of the financial asset. If the Company does not transfer or retain substantially all the risks and rewards of the financial asset and keeps control over the ceded asset, the Company accounts for the part of the asset it kept and recognizes a corresponding liability for the amount payable.

e) Other Assets

Other assets mainly include investment income due and accrued, outstanding premiums, accounts receivable, deferred sales commissions, prepaid expenses, real estate held for resale, linearization of rents, income tax receivable and securities purchased under reverse repurchase agreements. Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost. Real estate held for resale is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Deferred sales commissions arising from mutual fund sales are recorded at cost and amortized on a straight-line basis over a maximum period of five years. Unamortized deferred sales commissions are written down if the carrying value exceeds the expected future discounted cash flow.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. These reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

The Company is involved in a public-private type service agreement which must be accounted for in accordance with IFRIC-12 “Service Concession Arrangements”. The concession service to be received increases based on the fair value of operational and maintenance services, recovery costs, administrative costs and financing costs, and decreases through payments received. The concession account receivable, included in *Accounts receivable*, is classified as a loan and receivable and is carried at amortized cost using the effective interest rate.

f) Fixed Assets

Real estate classified as own-use properties and all other items classified under fixed assets are recorded at cost less accumulated depreciation. The Company calculates depreciation using the straight-line method. The depreciation period is based on the estimated useful life. Each own-use properties component is depreciated over a period of 10 to 60 years, and other fixed assets are depreciated over periods ranging from 2 to 15 years. At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

g) Intangible Assets

Intangible assets are composed of assets with finite and indefinite useful life. Intangible assets are initially recorded at cost.

Intangible assets with finite useful life primarily include capitalized software applications, distribution networks and customer relationships. These assets are depreciated linearly over their estimated useful life varying between 4 years and 30 years. Useful life is reassessed each year and any depreciation expense is adjusted prospectively, if applicable. Finite life intangible assets are subject to impairment testing if there is evidence of impairment and losses in value are calculated and recorded on an individual basis for each asset.

Intangible assets with indefinite useful life primarily include fund management contracts. These assets are not subject to depreciation and are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recognized in the Income Statement under *General expenses* when the carrying value exceeds the recoverable value. Intangible assets are considered to have indefinite useful lives when, on the basis for analysis of all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash inflows for the Company.

h) Fair Value of Purchased Businesses in Force

The purchased businesses in force are initially recorded at fair value. This fair value is recorded in the Statement of Financial Position in *Intangible assets* if positive or in *Other liabilities* if negative, for an amount equal to the discounted value of estimated future gains or losses related to purchased businesses in force at the acquisition date. The discounted value of the future gain or loss takes into consideration the cost of capital and is estimated using actuarial assumptions that are similar to the ones used to establish the insurance contract liability purchased and a discount rate integrating a risk premium. The fair value of purchased businesses in force recorded as part of a business combination is amortized over the useful life of the portfolio contracts.

i) Goodwill

Goodwill represents the difference between the acquisition cost and the fair value of identifiable assets, assumed liabilities and contingent liabilities of the acquired entities at the acquisition date. Following its initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill resulting from business combinations is presumed to have an indefinite life and is not amortized.

The Company allocates goodwill to a cash-generating unit (CGU), which is the smallest group of identifiable assets that generate cash flows that are largely independent of cash flows from other assets or groups of assets. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. To determine whether there is impairment, the Company compares for each CGU the net carrying value and the recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use. The value in use of a CGU is the discounted value of expected future cash flows resulting from a CGU. When the assets and liabilities of the CGU have not changed significantly, the recoverable amount substantially exceeds the carrying value of the CGU and impairment is unlikely under current circumstances, the most recent detailed calculation of the recoverable amount of the CGU carried out during a prior period is used in the impairment test for the period considered. Goodwill impairments are recorded as *General expenses* in the Income Statement and cannot be reversed. Gains or losses realized on the partial or total disposition of a CGU take into account goodwill resulting from the acquisition of this CGU.

j) Segregated Funds

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. The underlying assets are registered in the name of the Company and the segregated funds policyholders have no direct access to the specific assets. The policyholders bear the risks and rewards of the funds' investment performance. The Company derives fee income from the management of its segregated funds. These revenues are accounted for in *Other revenues* in the Income Statement. Investment income and changes in fair value of the segregated fund assets are not presented separately in the Income Statement and are offset by a corresponding change in the segregated fund liabilities.

Segregated Funds Net Assets

Segregated funds net assets are accounted for separately from the total general fund assets in the Statement of Financial Position and investments constituting segregated funds assets are accounted for at fair value. Fair value is determined according to market prices or, if market prices are not available, according to the estimated fair values that the Company has established. The liabilities included in the segregated funds net assets are accounted for at amortized cost.

Segregated Funds Liabilities

Insurance or investment contract liabilities whose financial risk corresponds to the risk assumed by insureds are presented separately from the total general fund liabilities in the Statement of Financial Position and are accounted for at the fair value of segregated funds net assets.

Liabilities related to the segregated funds guarantees granted by the Company are included in *Insurance contract liabilities* or *Investment contract liabilities* in the Statement of Financial Position.

k) Reinsurance Assets

In the normal course of business, the Company uses reinsurance to limit its risk exposure. Reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who share the risks. Reinsurance assets represent the amounts due to the Company for insurance contract and investment contract liabilities ceded. The calculation of these amounts is similar to the underlying insurance or investment contracts liabilities, in accordance with the contract provisions of reinsurance agreements. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured.

Gains or losses that could occur on buying reinsurance are recognized in *Net income* immediately and are not amortized. The gross amounts of assets and liabilities related to reinsurance are presented separately in the Statement of Financial Position. The amounts due to or from reinsurers for premiums received or claims made are included in *Other assets* and *Other liabilities* in the Statement of Financial Position. Premiums for ceded reinsurance are shown under *Ceded premiums* in the Income Statement. The *Ceded benefits and claims on contracts* item in the Income Statement shows expense recoveries related to reinsurance contracts.

The reinsurance assets are tested for impairment. The Company considers impairment if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the reinsurance agreement if it represents objective evidence of impairment, such as the third party's financial difficulty, a bankruptcy or default of payment of amounts due. This provision is immediately recorded in *General expenses* in the Income Statement.

l) Insurance and Investment Contract Liabilities

i) Classification of Contracts

The Company issues contracts that contain an insurance risk, a financial risk or both. Insurance contracts, including reinsurance acceptances, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. This risk is assessed by reviewing a portfolio of contracts with similar risk features.

Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. The financial risk represents the risk of a possible future change in one or more of the following items: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Service contracts are contracts that do not contain any significant insurance risk and no financial risk and for which the Company offers administrative services only. Service contracts also include the service components of investment contracts. The accounting policy relating to the fee income earned from these contracts is described in r) Other Revenues.

Management uses judgment to evaluate the classification of contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Insurance contracts are accounted for in accordance with IFRS-4 “Insurance Contracts”, whereas investment contracts are accounted for according to IAS-39 “Financial Instruments, Recognition and Measurement”, and service contracts according to IAS-18 “Revenue”.

ii) Insurance Contract Liabilities

The Company’s appointed actuary determines the amount of insurance contract liabilities using the Canadian Asset Liability Method (CALM), in accordance with the standards of the Canadian Institute of Actuaries (CIA), and as permitted by IFRS-4 “Insurance Contracts”. Pursuant to the CALM method, insurance contract liabilities represent the amount which, added to future premiums and investment income, will be sufficient to cover estimated future benefits, policyholder dividends and experience rating refunds, taxes (other than income taxes), commissions and fees to administer in-force policies. The change in the insurance contract liabilities is included in *Increase (decrease) in insurance contract liabilities* in the Income Statement.

iii) Investment Contract Liabilities

Investment contract liabilities are the amounts that the Company owes to clients since these contracts do not have significant insurance risk. These amounts are initially carried at fair value less transaction cost directly related to the establishment of the contract and are subsequently re-measured at amortized cost. This liability is derecognized when all the obligations relating to this type of contract are performed, extinguish or expire.

m) Other Liabilities

Other liabilities are primarily made up of unearned premiums, post-employment benefits, amounts on deposit on products other than insurance contracts, accounts payable, securities sold under repurchase agreements, short-selling securities, securitization liabilities and other liabilities. Financial liabilities included in the *Other liabilities* are classified as financial liabilities at amortized cost, except for short-selling securities, which are classified as held for trading. The commitments related to short-selling securities reflect the Company’s obligation to deliver securities that it sold without owning them at the time of sale. Short-selling securities are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in *Change in fair value of investments* in the Income Statement. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

The Company sells securities and, simultaneously, agrees to repurchase them in the short term, at a set price and date. These repurchase agreements are recorded in the Statement of Financial Position at the consideration received plus accrued interest. Commitments related to securities acquired under repurchase agreements are recorded at amortized cost using the effective interest method. Interest on repurchase operations is recorded in the Income Statement under *Financing charges*.

n) Income Taxes

The income tax expense includes current taxes and deferred taxes. The calculation of current income tax expense is based on taxable income for the year. Current tax assets and liabilities for the current and previous periods are measured at the amount expected to be paid to or received from tax authorities using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred income taxes result from temporary differences between the assets’ and liabilities’ carrying value and their value for tax purposes, using those rates enacted or substantively enacted applicable to the periods the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences subject to certain exceptions, carry forward for unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which these assets can be utilized. The Company assesses all available evidence, both positive and negative, to determine the amount of deferred tax assets to be recognized.

Deferred tax liabilities are recognized for all taxable temporary differences, subject to certain exceptions in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset them, for the same legal entity and levied by the same taxation authority, and if the Company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The current and deferred taxes are presented in the Income Statement except when they relate to items that are recognized in *Other comprehensive income* or directly in *Equity*. In this case, they are presented in the Comprehensive Income Statement and the Statement of Financial Position respectively.

To determine the impact of taxes, the Company must comply with both IFRS and actuarial standards of practice. Consequently, according to the CALM method, the determination of insurance contract liabilities must account for all cash flows associated with the insurance contract liabilities provided, including income taxes. Insurance contract liabilities are determined by considering the tax impacts related to these contracts on a discounted basis, adjusted for all related deferred tax assets and liabilities. The net result of this adjustment is to leave the discounting effect of deferred taxes related to temporary differences on tax items related to insurance contracts in the *Insurance contract liabilities*.

The Company is subject to income tax laws in Canada and the United States. Tax laws are complex and may be subject to different interpretations by the Company and by the tax authority. The provision for income taxes and deferred income taxes represents the Company’s interpretation of the tax laws and estimates of current and future tax consequences of the transactions and events during the period. In addition, future events, such as changes in tax laws, tax regulations or the interpretations of such laws or regulations could have a material effect on the amounts of the tax expense, the deferred income tax and the effective tax rate during the year in which they occur.

o) Debentures

The Company has chosen to classify its debentures as financial liabilities at amortized cost. The debentures are initially recognized at fair value, net of related transaction costs. Debentures are subsequently measured at amortized cost using the effective interest method. Interest calculated according to the effective interest method and premiums paid on redemption of debentures are recognized in the Income Statement and presented as *Financing charges*.

p) Foreign Exchange Conversion

Transactions in foreign currencies are converted into the functional currency at the rate in effect when each transaction takes place. Items in the Statement of Financial Position are converted at the end-of-period exchange rate. Gains and losses on foreign currency conversions are recognized in the Income Statement.

The financial statements of certain entities of the group, whose functional currency (the currency of the principal economic environment in which the entity operates) differs from the parent company, are converted into the reporting currency. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the end-of-period exchange rate. Revenues and expenses are translated at the average rate. Gains and losses on foreign currency and hedge results of some of these investments are accounted for in *Other comprehensive income, net of income taxes*.

q) Premiums and Expenses

Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, including assumed premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

General insurance premiums are recorded when written. Premiums are recognized as premiums earned over the contract period. The unrecognized portion is recorded as unearned premiums in *Other liabilities* in the Statement of Financial Position.

Benefits and claims on contracts mainly consist of amounts paid on death, annuities, redemptions and health.

Benefits and claims as well as expenses are recognized when incurred.

r) Other Revenues

Other revenues primarily represent fees earned from management of the Company's segregated fund and mutual fund assets, commissions from intermediary activities, and administrative services only (ASO) income. Other revenues are recorded on an accrual basis when services are rendered.

s) Net Transfer to Segregated Funds

Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund at the request of policyholders.

t) Post-Employment Benefits

The Company has established defined benefit plans and provides certain post-retirement benefits to eligible employees. In some cases, eligible retirees have to pay a portion of premiums for these benefits. The cost of the retirement plans is determined using the Projected Unit Credit Method and management's best estimate regarding the discount rate, salary increases, mortality and expected health care costs. Defined benefit costs are divided into three components: service cost and net interest, which are shown in the Income Statement as *General expenses,* and revaluations, which are presented in *Other comprehensive income*.

The revaluations of defined benefit net liabilities (assets) includes the actuarial gain or loss, the yield on plan assets (excluding amounts included in net interest on the defined benefit net liabilities (assets)) and the variation of the effect of the asset ceiling, if applicable, and are recognized immediately as *Other liabilities (Other assets)* in the Statement of Financial Position and in *Other comprehensive income* on the other side. The Company decided to transfer the amounts recorded in *Other comprehensive income* to *Retained earnings*. The cost of past service is recognized in *Net income* in the period in which there has been a change, reduction or liquidation of the pension plan. The net interest is calculated by multiplying the defined benefit net liabilities (assets) at the beginning of the period by the discount rate. The difference between defined benefit assets and defined benefit obligations under defined benefit plans is recognized as an asset or liability in the Statement of Financial Position. The discount rate used to determine obligations under defined benefit plans is based on the market interest rate at the valuation date for debt securities with high quality and cash flows in line with forecast benefit payments.

u) Stock-Based Compensation

Stock Option Plan

The stock option plan is accounted for as a transaction which is settled in equity. The cost of stock options granted is calculated using the fair value method. Fair value of options is estimated at the grant dates taking into account a forfeiture rate and using the graded vesting method. The cost of stock options is accounted for as a remuneration expense included in *General expenses* in the Income Statement. The corresponding amount is recorded in the Company's contributed surplus in the Statement of Financial Position. For options that are cancelled before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital. Stock-based compensation is recognized at the grant date for grants to management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to management personnel who will become eligible to retire during the vesting period.

Share Purchase Plan for Employees

The Company's cash contribution is charged to the Income Statement as *General expenses* in the period the shares are purchased.

Deferred Share Units (DSU)

Measurement of deferred share units, which are settled in cash, is based on the value of the Company's shares. When an allocation is made, the Company recognizes a remuneration expense in the Income Statement and a liability equivalent to the fair value of the Company's common shares in the Statement of Financial Position. This liability is revalued at the end of each reporting period and on the settlement date according to the value of the Company's shares and the change in fair value is recorded in *General expenses* in the Income Statement.

Mid-Term Incentive Plan

Measurement of the mid-term incentive plan, which is settled in cash, is based on the value of the Company's shares. At the end of each reporting period, the Company records a remuneration expense in the Income Statement and a liability in the Statement of Financial Position, equal to the average fair value of the Company's common shares for the reference period. This expense is amortized linearly according to the estimated number of shares expected to be vested at the end of the vesting period. Changes in the fair value of liabilities are recorded in *General expenses* in the Income Statement.

3 › Changes in Accounting Policies

New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2016.

Standards or amendments	Description of the standard or amendment and impact on financial statements of the Company
IFRS-11 "Joint Arrangements"	*Description*: This amendment, "Accounting for Acquisitions of Interests in Joint Operations", states that the Company will apply the principles in IFRS-3 "Business Combination" for the accounting related to the acquisition of an interest in a joint operation. The provisions of this amendment applied prospectively. *Impact*: No impact on the Company's financial statements.
IAS-16 "Property, Plant and Equipment" and IAS-38 "Intangible Assets"	*Description*: This amendment, "Acceptable Methods of Depreciation and Amortisation", clarifies that the depreciation method based on revenues cannot be used. The depreciation must be based on the expected future economic benefits of the asset. The provisions of this amendment applied prospectively. *Impact*: No impact on the Company's financial statements.
IAS-27 "Separate Financial Statements"	*Description*: This amendment, "Equity Method in Separate Financial Statements", adds another choice to account for the investment in subsidiaries, associates or joint ventures, namely the equity method. The provisions of this amendment applied retrospectively. *Impact*: No impact on the Company's financial statements.
IAS-1 "Presentation of Financial Statements"	*Description*: This amendment clarifies the disclosure and presentation requirements and the use of judgment on the relevance of information disclosed. *Impact*: No impact on the Company's financial statements.
IFRS-10 "Consolidated Financial Statements", IFRS-12 "Disclosure of Interests in Other Entities" and IAS-28 "Investments in Associates and Joint Ventures"	*Description*: This amendment clarifies that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. The provisions of this amendment applied retrospectively. *Impact*: No impact on the Company's financial statements.
Annual Improvements to IFRSs 2012-2014 cycle	*Description:* The Annual Improvements to IFRSs clarifies specific situations for four standards: • IFRS-5 "Non-Current Assets Held for Sale and Discontinued Operations" related to changes in method of disposal; • IFRS-7 "Financial Instruments: Disclosure" related to servicing contracts; • IAS-19 "Employee Benefits" related to regional market issues for the discount rate; • IAS-34 "Interim Financial Reporting" related to the disclosure of information elsewhere in the interim financial reports. The provisions of the Annual Improvements applied for some retrospectively and for others, prospectively. *Impact*: No impact on the Company's financial statements.

Future Changes in Accounting Policies

Standards or amendments are presented on the basis of their publication date unless a more relevant approach allows for better information.

Standards or amendments	Description of the standards or amendments
IFRS-15 "Revenue from Contracts with Customers"	*Description*: On May 28, 2014, the IASB published the standard IFRS-15 "Revenue from Contracts with Customers", which replaces the standards IAS-11 "Construction Contracts" and IAS-18 "Revenues". This new standard specifies: • how to recognize revenues; and • when to recognize revenues according to a single five-step model, and the additional disclosure requirements. The provisions of this new standard was expected to apply to financial statements beginning on or after January 1, 2017. On September 11, 2015, the IASB published an amendment to the standard which defers the effective date to financial statements beginning on or after January 1, 2018. On April 12, 2016, the IASB published an amendment to IFRS-15 in order to: • clarify some requirements; and • provide additional transitional relief. The provisions of this amendment will apply retrospectively or on a modified retrospective basis to financial statements beginning on or after January 1, 2018. Early adoption is permitted. *Status*: The Company is evaluating the impact of this standard on its financial statements.
IFRS-9 "Financial Instruments"	*Description*: On July 24, 2014, the IASB published the standard IFRS-9 "Financial Instruments" which replaces the provisions of the standard IAS-39 "Financial Instruments: Recognition and Measurement". The standard IFRS-9: • requires financial assets to be measured at amortized cost or at fair value on the basis of the entity's business model for managing assets; • changes the accounting for financial liabilities measured using the fair value option; • proposes a new accounting model related to the recognition of expected credit losses,requiring the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date; • modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities. The provisions of this new standard will apply retrospectively or on a modified retrospective basis to financial statements beginning on or after January 1, 2018. Early adoption is permitted. *Status*: The Company is evaluating the impact of this standard on its financial statements. Further details on the Company's application of IFRS-9 "Financial Instruments" are provided under the IFRS-4 "Insurance Contract" amendment.
IFRS-4 "Insurance Contract"	*Description*: On September 12, 2016, the IASB published an amendment to IFRS-4 "Insurance Contract". This amendment, "Applying IFRS-9 Financial Instruments with IFRS-4 Insurance Contract", provides two options to entities applying IFRS-4: • the deferral approach is an optional temporary exemption from applying IFRS-9 until January 1, 2021 for entities whose predominant activity is issuing contracts within the scope of IFRS-4; • the overlay approach permits entities to adopt IFRS-9 but adjust some of the impacts arising from designated financial assets, those being assets related to the insurance contract liabilities. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2018. *Status*: The Company has analyzed this amendment and is eligible for the deferral approach. The Company has decided to use the deferral approach and will not apply IFRS-9 as at January 1, 2018.
IFRS-10 "Consolidated Financial Statements" and IAS-28 "Investments in Associates and Joint Ventures"	*Description*: On September 16, 2014, the IASB published an amendment to IFRS-10 "Consolidated Financial Statements" and to IAS-28 "Investments in Associates and Joint Ventures". This amendment, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture", clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. In December 2015, the IASB published an amendment which defers the application to financial statements beginning on or after a date yet to be determined. Early adoption is permitted. *Status*: The Company has completed the analysis of this amendment and concluded that it will not have an impact on its financial statements.

IFRS-16 “Leases”	*Description*: On January 13, 2016, the IASB published the standard IFRS-16 “Leases”, which replaces the standard IAS-17 “Leases”. This new standard specifies:
	• how to recognize, measure, present and disclose leases;
	• for the lessee:
	  o the requirement to recognize assets and liabilities for all leases;
	  o unless the lease term is 12 months or less or the underlying asset has a low value;
	• for the lessor:
	  o that the accounting remains substantially unchanged.
	The provisions of this new standard will apply retrospectively or on a modified retrospective basis to financial statements beginning on or after January 1, 2019. Early adoption is permitted if IFRS-15 “Revenue from Contracts with Customers” is previously applied.
	
	Status: The Company is currently evaluating the impact of this standard on its financial statements.

IAS-12 “Incomes Taxes”	*Description*: On January 19, 2016, the IASB published an amendment to IAS-12 “Incomes Taxes”. The amendment “Recognition of Deferred Tax Assets for Unrealized Losses” clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2017. Early adoption is permitted. *Status*: The Company has completed the analysis of this amendment and concluded that it will not have an impact on its financial statements.
IAS-7 “Statement of Cash Flows”	*Description*: On January 29, 2016, the IASB published an amendment to IAS-7 “Statement of Cash Flows”. The amendment “Disclosure Initiative” clarifies that changes in liabilities arising from financing activities, including cash and non-cash changes, shall be disclosed in the Statement of Cash Flows. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2017. Early adoption is permitted. *Status*: The Company has completed the analysis of this amendment and concluded that it will not have an impact on its financial statements.
IFRS-2 “Share-based Payment”	*Description*: On June 20, 2016, the IASB published an amendment to IFRS-2 “Share-based Payment”. The amendment “Classification and Measurement of Share-based Payment Transactions” clarifies how to account for certain types of share-based payment transactions. The amendment provides requirements on the accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; • the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2018. Early adoption is permitted. *Status*: The Company is currently evaluating the impact of this amendment on its financial statements.
IAS-40 “Investment Property”	*Description*: On December 8, 2016, the IASB published an amendment to IAS-40 “Investment Property”. The amendment “Transfers of Investment Property” clarifies the requirements on transfers to, or from, investment property. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2018. Early adoption is permitted. *Status*: The Company is currently evaluating the impact of this amendment on its financial statements.
IFRIC-22 “Foreign Currency Transactions and Advance Consideration”	*Description*: On December 8, 2016, the IASB published Interpretation IFRIC-22, “Foreign Currency Transactions and Advance Consideration”. This interpretation provides guidance on the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The provisions of this interpretation will apply to financial statements beginning on or after January 1, 2018. Early adoption is permitted. *Status*: The Company is currently evaluating the impact of this interpretation on its financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle	*Description*: On December 8, 2016, the IASB published the Annual Improvements to IFRSs 2014-2016 Cycle. The Annual Improvements clarify situations specific to three standards: • IFRS-1 “First-Time Adoption of International Financial Reporting Standards” related to short-term exemptions, which will apply to financial statements beginning on or after January 1, 2018; • IFRS-12 “Disclosure of Interests in Other Entities” related to the scope of the standard which will apply retrospectively to financial statements beginning on or after January 1, 2017; • IAS-28 “Investments in Associates and Joint Ventures” relating to the measurement at fair value which will apply retrospectively to financial statements beginning on or after January 1, 2018. *Status*: The Company is currently evaluating the impact of the Annual Improvements on its financial statements.

4 › Acquisition of Businesses

Preliminary Allocation of the Acquisition Price

During the year, the Company acquired, directly or through its wholly-owned subsidiaries, insurance broker, mutual fund broker, planning services and extended warranty businesses. The total for these acquisitions amounts to $17.

Final Allocation of the Acquisition Price

Individual Insurance and Wealth Management

On December 1, 2015, the Company acquired 100% of the shares of Burgeonvest Bick Corporation which, through its subsidiaries, operates an insurance broker and a securities brokerage firm member of IIROC.

On December 1, 2015, the Company acquired through its wholly-owned subsidiary, Investia Financial Services Inc., the assets of BBA Financial Group, a firm specialized in the distribution of life and health insurance products.

On October 1, 2015, the Company acquired 100% of the shares of FIN-XO Securities Inc., a securities brokerage company.

During the year, the Company finalized the allocation of the acquisition price for each of these acquisitions and, following its analysis, recorded finite useful life intangible assets of $17, depreciable over periods varying between 5 years and 20 years (depreciation of $1 in 2016), goodwill of $14 and deferred income tax liability of $2.

Group Insurance

On October 2, 2015, the Company acquired 100% of the shares of CTL Corp. (CTL), a Canadian-owned national auto finance company.

During the year, the Company finalized the allocation of the acquisition price and, following its analysis, recorded finite useful life intangible assets of $23, depreciable over periods varying between 5 years and 12 years (depreciation of $2 in 2016), goodwill of $48 and deferred income tax liability of $6.

Revenues and net income of all the acquired entities did not have a significant impact on the Company’s financial results. Goodwill is not deductible for tax purposes, except for asset acquisition.

Revaluation of Contingent Consideration and Impairment of Goodwill

In the first three quarters of 2016, the financial results of CTL were lower than anticipated at the time of acquisition. Consequently, future financial projections have been revised downwards. As at September 30, 2016, substantially all of the contingent consideration was reversed as the achievement of the payment conditions had become unlikely. Consequently, a gain of $40 resulting from this revaluation was recorded in the Income Statement in *General expenses*. In addition, management believes that there is an indication that the cash generating unit (CGU) may be impaired. Thus, an impairment test was performed with respect to CTL activities included in the CGU of the Group Insurance sector. This led the Company to record an impairment of goodwill of $34. This amount was recognized in the Income Statement in *General expenses*. To determine the recoverable amount of the CGU, the value in use was determined using calculations that use cash flow projections before tax based on future financial projections approved by management and which cover a five-year period.

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	2016					
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $	Fair value $
Cash and short-term investments	549	---	363	---	912	912
Bonds						
Governments	8,645	2,079	121	---	10,845	
Municipalities	770	161	---	---	931	
Corporate and other	5,869	1,572	1,870	---	9,311	
	15,284	3,812	1,991	---	21,087	21,225
Stocks						
Common stocks	1,603	8	---	---	1,611	
Preferred stocks	264	342	---	---	606	
Stock indexes	418	6	---	---	424	
Investment fund units	434	8	---	---	442	
	2,719	364	---	---	3,083	3,083
Mortgages and other loans						
Insured mortgages						
Residential	---	---	820	---	820	
Multi-residential	---	---	1,312	---	1,312	
Non-residential	---	---	8	---	8	
	---	---	2,140	---	2,140	
Conventional mortgages						
Residential	---	---	74	---	74	
Multi-residential	52	---	194	---	246	
Non-residential	3	---	313	---	316	
	55	---	581	---	636	
Other loans	---	---	516	---	516	
	55	---	3,237	---	3,292	3,410
Derivative financial instruments	262	---	---	---	262	262
Policy loans	---	---	946	---	946	946
Other invested assets	---	---	151	266	417	417
Investment properties	---	---	---	1,238	1,238	1,248
Total	18,869	4,176	6,688	1,504	31,237	31,503

	2015					
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $	Fair value $
Cash and short-term investments	656	---	313	---	969	969
Bonds						
Governments	7,744	1,762	135	---	9,641	
Municipalities	866	137	---	---	1,003	
Corporate and other	5,411	1,419	1,804	---	8,634	
	14,021	3,318	1,939	---	19,278	19,473
Stocks						
Common stocks	1,539	9	---	---	1,548	
Preferred stocks	280	301	---	---	581	
Stock indexes	380	---	---	---	380	
Investment fund units	410	5	---	---	415	
	2,609	315	---	---	2,924	2,924
Mortgages and other loans						
Insured mortgages						
Residential	---	---	770	---	770	
Multi-residential	---	---	1,407	---	1,407	
Non-residential	---	---	10	---	10	
	---	---	2,187	---	2,187	
Conventional mortgages						
Residential	---	---	76	---	76	
Multi-residential	26	---	199	---	225	
Non-residential	3	---	386	---	389	
	29	---	661	---	690	
Other loans	---	---	292	---	292	
	29	---	3,140	---	3,169	3,343
Derivative financial instruments	332	---	---	---	332	332
Policy loans	---	---	841	---	841	841
Other invested assets	---	---	121	216	337	337
Investment properties	---	---	---	1,216	1,216	1,225
Total	17,647	3,633	6,354	1,432	29,066	29,444

The *At fair value through profit or loss* category includes securities held for trading, mainly derivative financial instruments and short-term investments as well as securities designated at fair value through profit or loss. Other invested assets are made up of cash in trust, notes receivable and investments in associates and joint ventures accounted for using the equity method.

Fair value of investment properties is $1,248 ($1,225 in 2015) and is composed of investment properties of $1,238 ($1,216 in 2015) and of linearization of rents of $10 ($9 in 2015). The linearization of rents is the total rental income under the lease, distributed evenly over the lease term, using an average rate which considers free rents and other advantages granted to tenants. Amounts related to the linearization of rents are presented in Note 9 *Other Assets*. Rental income is presented in the investment income table in section c) of this note and operating expenses for investment properties are shown in Note 20 *General Expenses*.

b) Investments in Associates and Joint Ventures

The Company holds interests ranging from 25% to 30%. The financial information for these entities as a whole is as follows:

	2016 $	2015 $
Carrying value of the investment	265	216
Share of net income and net comprehensive income	25	10

c) Investment Income

	2016				
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $
Cash and short-term investments					
Interest	---	---	10	---	10
Change in fair value	4	---	---	---	4
Bonds					
Interest	396	83	99	---	578
Change in fair value	196	---	---	---	196
Realized gains (losses)	---	4	9	---	13
Stocks					
Dividends	109	14	---	---	123
Change in fair value	202	---	---	---	202
Realized gains (losses)	---	(6)	---	---	(6)
Mortgages and other loans					
Interest	2	---	151	---	153
Change in fair value	(1)	---	---	---	(1)
Realized gains (losses)	---	---	5	---	5
Variation in provisions for losses	---	---	(17)	---	(17)
Derivative financial instruments					
Interest	30	---	---	---	30
Change in fair value	91	---	---	---	91
Policy loans					
Interest	---	---	51	---	51
Other	9	---	8	23	40
Investment properties					
Rental income	---	---	---	144	144
Change in fair value	---	---	---	(23)	(23)
Total	1,038	95	316	144	1,593
Interest	398	83	311	---	792
Dividends	109	14	---	---	123
Derivative financial instruments	30	---	---	---	30
Rental income	---	---	---	144	144
Realized gains (losses)	---	(2)	14	---	12
Variation in provisions for losses	---	---	(17)	---	(17)
Other	---	---	8	23	31
Interest and other investment income	537	95	316	167	1,115
Cash and short-term investments	4	---	---	---	4
Bonds	196	---	---	---	196
Stocks	202	---	---	---	202
Mortgages and other loans	(1)	---	---	---	(1)
Derivative financial instruments	91	---	---	---	91
Investment properties	---	---	---	(23)	(23)
Other	9	---	---	---	9
Change in fair value of investments	501	---	---	(23)	478
Total	1,038	95	316	144	1,593

	2015				
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $
Cash and short-term investments					
Interest	---	---	12	---	12
Change in fair value	3	---	---	---	3
Bonds					
Interest	383	83	119	---	585
Change in fair value	195	---	---	---	195
Realized gains (losses)	---	35	3	---	38
Variation in provisions for losses	---	---	(1)	---	(1)
Stocks					
Dividends	104	12	---	---	116
Change in fair value	33	---	---	---	33
Realized gains (losses)	---	(18)	---	---	(18)
Mortgages and other loans					
Interest	---	---	130	---	130
Change in fair value	2	---	---	---	2
Realized gains (losses)	---	---	9	---	9
Variation in provisions for losses	---	---	(3)	---	(3)
Derivative financial instruments					
Interest	13	---	---	---	13
Change in fair value	(288)	---	---	---	(288)
Policy loans					
Interest	---	---	44	---	44
Other	(20)	---	14	12	6
Investment properties					
Rental income	---	---	---	147	147
Change in fair value	---	---	---	13	13
Total	425	112	327	172	1,036
Interest	383	83	305	---	771
Dividends	104	12	---	---	116
Derivative financial instruments	13	---	---	---	13
Rental income	---	---	---	147	147
Realized gains (losses)	---	17	12	---	29
Variation in provisions for losses	---	---	(4)	---	(4)
Other	(1)	---	14	12	25
Interest and other investment income	499	112	327	159	1,097
Cash and short-term investments	3	---	---	---	3
Bonds	195	---	---	---	195
Stocks	33	---	---	---	33
Mortgages and other loans	2	---	---	---	2
Derivative financial instruments	(288)	---	---	---	(288)
Investment properties	---	---	---	13	13
Other	(19)	---	---	---	(19)
Change in fair value of investments	(74)	---	---	13	(61)
Total	425	112	327	172	1,036

6 › Fair Value of Financial Instruments and Investment Properties

a) Methods and Assumptions Used to Estimate Fair Values

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management exercises its judgment in the determination of inputs to valuation models used to measure the fair value of financial assets and liabilities, particularly for financial instruments classified as Level 3. Fair value of various categories of financial instruments and investment properties is determined as described below.

Financial Assets

Short-Term Investments – Carrying value of these investments represents the fair value due to their short-term maturity.

Bonds – Bonds are valued based on quoted price, observed on active markets for identical or similar assets. If prices are not available on active markets, fair value is estimated using current valuation methods, including a model based on discounting expected cash flows or other similar techniques. These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer spread, volatility and liquidity valuation and other reference data published by the market. Management uses its best estimates when such data are not available.

Stocks – Stocks are valued based on quote price, observed on active markets. If the price is not available on the active markets, fair value is determined using equity valuation models, which analyze the fair value of the net asset, and other techniques that rely on comparisons with reference data, such as market indices. Investment fund units are evaluated at the net asset value published by the fund manager.

Mortgages and Other Loans – The fair value of mortgages and other loans is estimated by discounting the cash flows with the interest rates currently prevailing on the market for loans with substantially the same credit risk and terms.

Derivative Financial Instruments – Fair value of derivative financial instruments is determined according to the type of derivative instrument. Fair value of derivative financial instruments, such as futures contracts and options traded on the stock exchanges, is determined in accordance with quoted prices on active markets. Derivative financial instruments that are traded over the counter are valued using valuation models such as actualized cash flow analysis and other valuation models used on the market. These valuations are based on observable data on the market, including interest rates, foreign exchange rates, financial indices, rate differentials, credit risk and volatility.

Among derivative financial instruments, certain other derivative contracts are subject to trading restrictions. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to the trading restrictions period, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

Policy Loans – Policy loans are carried at amortized cost. They are guaranteed and may be reimbursed at any time. Their fair value approximates their carrying value due to their short-term nature.

Other Investments – The fair value of other investments is approximately the same as the carrying value due to the nature of these elements.

Other Assets – The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

Investment Properties

The fair value of investment properties is determined by various recognized methods and standards of assessment in the real estate sector. One of these methods is based on expected capitalization rates and models which discount the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. The expected future cash flows include contractual and projected cash flows and projected operating expenses. They reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected from leases in force, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, type and current quality of the building, and market data and projections as of the date of the appraisal. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. High and best use is one of the possible evaluation methods. High and best use is determined by taking into account possible physical, legally permissible, financially feasible use, and in terms of market, even if the Company plans a different use. Assessments are carried out by external independent appraisers or by qualified Company personnel. Each building is assessed by an external appraiser at least once every three years. During the year, 86.2% of the investment properties portfolio was assessed by independent appraisers (95.1% in 2015).

Financial Liabilities

Other Liabilities

The fair value of other liabilities, except mortgage debts, securitization liabilities and short-selling securities, is approximately the same as the carrying value due to their short-term nature.

The fair value of mortgage debts is estimated by discounting the cash flows with the interest rates currently prevailing on the market, for new mortgage debts with substantially the same terms. During the year ended December 31 2016, mortgage debts matured. As at December 31 2015, their fair value was $22 and they were secured by real estate with a carrying value of $51. Mortgage debts bore interest between 5.79% and 5.86%. The interest expense on the mortgage debts is $2 and is included in Note 20 *General Expenses* under *Real Estate Operating Expenses*. The carrying value of the mortgage debts is presented in Note 15 *Other Liabilities.*

The fair value of securitization liabilities is estimated by discounting cash flows with the interest rates currently prevailing in the market for new debt with substantially the same terms. This fair value is disclosed in Note 7 *Management of Risks Associated with Financial Instruments* in section b) iii).

Short-selling securities, classified as held for trading, are measured using the observed market prices in active markets for identical or similar financial instruments. If quoted prices in active markets are not available, fair value is estimated using standard methods of assessment, such as a model based on discounted future cash flows or similar techniques. These methods take into account the current observable market data for financial instruments with a similar risk profile and comparable terms. Important data used in these models include, but are not limited to, yield curves, credit risk, issuer spreads, volatility and liquidity valuation and other reference data published by the markets.

Debentures
The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have substantially the same conditions. This fair value can fluctuate due to interest rates and credit risks associated with these instruments. Fair value of debentures is presented in Note 16 *Debentures.*

Derivative Financial Instruments
The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 8 *Derivative Financial Instruments* and is equal to the carrying amounts reported in the negative fair value column. The fair value is determined according to the method and assumptions previously described in the Financial Assets section.

b) Hierarchy of the Fair Value

Disclosures regarding financial instruments and investment properties must be presented as a hierarchy that categorizes the inputs to valuation models used to measure the fair value of financial assets and liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. The three levels of the hierarchy are described below:

Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market, among other things, are classified in Level 1.
Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.
Level 3 – Valuation model based on valuation techniques that use largely unobservable market parameters and that reflect management's best estimates. Most private placements are classified in Level 3.

If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2. If the measurement of its fair value requires the use of significant unobservable inputs, it is directly reclassified into Level 3.

Assets

	2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	1	548	---	549
Bonds				
Designated at fair value through profit or loss				
Governments	310	8,335	---	8,645
Municipalities	---	743	27	770
Corporate and other	---	5,719	150	5,869
	310	14,797	177	15,284
Available for sale				
Governments	380	1,699	---	2,079
Municipalities	---	161	---	161
Corporate and other	---	1,530	42	1,572
	380	3,390	42	3,812
	690	18,187	219	19,096
Stocks				
Designated at fair value through profit or loss	1,988	---	731	2,719
Available for sale	14	342	8	364
	2,002	342	739	3,083
Mortgages and other loans				
Designated at fair value through profit or loss	---	55	---	55
Derivative financial instruments				
Held for trading	---	262	---	262
Investment properties	---	---	1,238	1,238
General fund investments accounted at fair value	2,693	19,394	2,196	24,283
Segregated fund financial instruments	16,758	4,871	12	21,641
Total financial assets at fair value	19,451	24,265	2,208	45,924

	2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	1	655	---	656
Bonds				
Designated at fair value through profit or loss				
Governments	187	7,557	---	7,744
Municipalities	---	841	25	866
Corporate and other	---	5,256	155	5,411
	187	13,654	180	14,021
Available for sale				
Governments	103	1,659	---	1,762
Municipalities	---	137	---	137
Corporate and other	---	1,403	16	1,419
	103	3,199	16	3,318
	290	16,853	196	17,339
Stocks				
Designated at fair value through profit or loss	2,080	---	529	2,609
Available for sale	7	301	7	315
	2,087	301	536	2,924
Mortgages and other loans				
Designated at fair value through profit or loss	---	29	---	29
Derivative financial instruments				
Held for trading	2	330	---	332
Investment properties	---	---	1,216	1,216
General fund investments accounted at fair value	2,380	18,168	1,948	22,496
Segregated fund financial instruments	14,508	5,146	5	19,659
Total financial assets at fair value	16,888	23,314	1,953	42,155

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

Transfers from Level 2 to Level 3 during the year ended December 31, 2016 have a value of $32 ($16 in 2015). These transfers come from bonds designated at fair value through profit or loss and available for sale. The fair value of these bonds was previously valued at market prices obtained through brokers who assessed the fair value of these financial instruments. The fair value of these bonds is now determined using internal valuation models that required the use of assumptions, including one main assumption that was not observable in the market.

There were no transfers from Level 3 to Level 2 for the years ended December 31, 2016 and 2015.

The Company presents the transfers between hierarchy levels at the quarter-end fair value for the quarter during which the transfer occurred.

The Company uses unobservable inputs in the valuation of bonds and stocks classified into Level 3. Regarding bonds, unobservable inputs mainly correspond to credit and liquidity risk premiums ranging from 1.32% to 9.06% as at December 31, 2016 (1.85% to 7.52% as at December 31, 2015). Stocks classified into Level 3 are mainly valuated from information available in the financial statements of companies using models based on discounting expected cash flows as well as the use of multiples.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2016 are the discount rate, which is between 5.00% and 9.00% (between 5.00% and 9.00% in 2015) and the terminal capitalization rate, which is between 3.50% and 7.75% (between 3.50% and 8.25% in 2015). The discount rate is based on market activity by type of building as well as the location and reflects the expected rate of return to be realized on investments over the next 10 years. The terminal capitalization rate is based on market activity by type of building as well as location and reflects the expected rate of return on the investment over the remaining life after the 10-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

Due to the unobservable nature of the main data used to measure bonds, stocks and investment properties classified in Level 3, the Company does not assess whether the application of other assumptions would have an impact on fair value. Also, the investment properties as well as bonds and stocks classified as designated at fair value through profit or loss support the Company's insurance contract liabilities. Consequently, changes in fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the Canadian Asset Liability Method (CALM). Even if the Company uses reasonable possible alternative assumptions affecting fair value, this would not have a significant impact on the Financial Statements.

The following table presents assets recognized at fair value evaluated according to Level 3 parameters:

2016	Balance as at December 31, 2015 $	Realized and unrealized gains (losses) included in net income $	Realized and unrealized gains (losses) included in other comprehensive income $	Purchases $	Sales and settlements $	Transfers in (out of) Level 3 $	Balance as at December 31, 2016 $	Total unrealized gains (losses) included in net income on investments still held $
Bonds								
Designated at fair value through profit or loss	180	(4)	---	1	(2)	2	177	(4)
Available for sale	16	---	(4)	5	(5)	30	42	---
Stocks								
Designated at fair value through profit or loss	529	6	---	293	(97)	---	731	7
Available for sale	7	---	1	---	---	---	8	---
Investment properties	1,216	(23)	---	66	(21)	---	1,238	(23)
General fund investments accounted at fair value	1,948	(21)	(3)	365	(125)	32	2,196	(20)
Segregated fund financial instruments	5	(1)	---	24	(16)	---	12	(1)
Total	1,953	(22)	(3)	389	(141)	32	2,208	(21)

2015	Balance as at December 31, 2014 $	Realized and unrealized gains (losses) included in net income $	Realized and unrealized gains (losses) included in other comprehensive income $	Purchases $	Sales and settlements $	Transfers in (out of) Level 3 $	Balance as at December 31, 2015 $	Total unrealized gains (losses) included in net income on investments still held $
Bonds								
Designated at fair value through profit or loss	175	1	---	2	(14)	16	180	1
Available for sale	8	(6)	5	13	(4)	---	16	---
Stocks								
Designated at fair value through profit or loss	354	109	---	138	(72)	---	529	104
Available for sale	8	---	---	4	(5)	---	7	---
Investment properties	1,190	13	---	32	(19)	---	1,216	13
General fund investments accounted at fair value	1,735	117	5	189	(114)	16	1,948	118
Segregated fund financial instruments	4	---	---	3	(2)	---	5	---
Total	1,739	117	5	192	(116)	16	1,953	118

During the year ended December 31, 2016, the *Sales and settlements* for investment properties do not include transfers to fixed assets. However, the year ended December 31, 2015 includes a transfer of $17.

Realized and unrealized gains (losses) included in net income and *Total unrealized gains (losses) included in net income on financial instruments still held* are presented in the *Investment income* in the Income Statement, except the value of segregated fund assets, which are not presented in the Income Statement, but are included in the change in segregated funds net assets in Note 12 *Segregated Funds Net Assets*. *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 18 *Accumulated Other Comprehensive Income* in *Unrealized gains (losses).*

Fair Value Disclosed in the Notes

The Company classifies certain financial instruments as loans and receivables. These financial instruments are measured at amortized cost and fair value is disclosed in the notes. The following table shows the hierarchy level of such fair values.

	2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Classified as loans and receivables				
Bonds				
Governments	---	10	121	131
Corporate and other	---	293	1,705	1,998
	---	303	1,826	2,129
Mortgages and other loans	---	3,355	---	3,355
Total of assets classified as loans and receivables	---	3,658	1,826	5,484

	2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
Classified as loans and receivables				
Bonds				
Governments	---	11	164	175
Corporate and other	---	333	1,626	1,959
	---	344	1,790	2,134
Mortgages and other loans	---	3,314	---	3,314
Total of assets classified as loans and receivables	---	3,658	1,790	5,448

Financial Liabilities

The following table presents financial liabilities measured at fair value on a recurring basis and those whose fair value is disclosed in a note, by hierarchy level:

	2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value assessments				
Other liabilities				
Held for trading	443	136	---	579
Derivative financial instruments				
Held for trading	1	296	36	333
Total of liabilities classified as held for trading	444	432	36	912
Classified at amortized cost				
Other liabilities				
Securitization liabilities	---	1,031	---	1,031
Debentures	---	1,008	---	1,008
Total of liabilities classified at amortized cost	---	2,039	---	2,039

	2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value assessments				
Other liabilities				
Held for trading	459	94	---	553
Derivative financial instruments				
Held for trading	3	363	32	398
Total of liabilities classified as held for trading	462	457	32	951
Classified at amortized cost				
Other liabilities				
Mortgage debts	---	22	---	22
Securitization liabilities	---	965	---	965
	---	987	---	987
Debentures	---	870	---	870
Total of liabilities classified at amortized cost	---	1,857	---	1,857

7 › Management of Risks Associated with Financial Instruments

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding the principles, responsibilities and key measures and management practices of the Company's risk management is provided in the shaded portion of the Risk Management section of the Management's Discussion and Analysis on pages 35 to 43. The shaded information in these pages is considered an integral part of these financial statements. Market risk, credit risk and liquidity risk are the most significant risks that the Company must manage for financial instruments.

a) Market Risk

Market risk represents the risk of fluctuation in the fair value of a financial instrument, which could lead to a loss due to changes in market factors, such as interest rates, stock prices and exchange rates.

Interest Rate Risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits, whose maturity date may be a long-time in the future, such as death benefits and annuity payments. To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its insurance contract liabilities and long-term debts, matches its liabilities until they expire and uses derivative financial instruments as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization. This strategy consists in using fixed income securities to immunize a liability against interest rate variations. In the measurement of its insurance contract liabilities, as described in Note 14 *Insurance Contract Liabilities and Investment Contract Liabilities*, the Company takes into account the level of matching achieved between assets and liabilities.

Risk of a Market Downturn

The risk of a market downturn represents the risk of losses caused by stock market fluctuations or caused by private equity value fluctuations. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; and 3) the income on capital generated by the assets backing the Company's capital.

In its risk management strategy, the Company has implemented a dynamic hedging program for all minimum withdrawal guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents $8,802 as at December 31, 2016 ($8,761 in 2015). More detailed information on the hedging program is provided in the shaded portion of the Risk Management section of the Management's Discussion and Analysis on page 40.

Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for losses due to exchange rates related to foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposure to currency risk whereby liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. To protect itself against foreign currency risk, the Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in a foreign operation that has a different functional currency from the Company's functional currency. Disclosure of hedge accounting is presented in Note 8 *Derivative Financial Instruments*.

Impairment of Financial Assets Classified as Available for Sale

For the year ended December 31, 2016, the Company did not reclassify any unrealized losses of stocks classified as available for sale from *Other comprehensive income* to *Investment income* in the Income Statement ($9 net of income taxes for the year ended December 31, 2015).

Since the assets designated at fair value through profit or loss are matched, variations of fair value, other than those related to credit risk, are directly reflected in the *Increase (decrease) in insurance contract liabilities*, which prevents a disparity of the treatment in the net income. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

The unrealized gains and losses on financial assets classified as available for sale and included in the *Accumulated other comprehensive income* are the following:

	2016			2015		
	Fair value $	Unrealized losses $	Unrealized gains $	Fair value $	Unrealized losses $	Unrealized gains $
Bonds						
Governments	2,079	(11)	34	1,762	(1)	39
Municipalities	161	---	1	137	---	2
Corporate and other	1,572	(6)	17	1,419	(6)	19
	3,812	(17)	52	3,318	(7)	60
Stocks	364	(34)	11	315	(42)	5
Total	4,176	(51)	63	3,633	(49)	65

Unrealized losses on financial assets classified as available for sale according to the period for which the assets had an unrealized loss are the following:

	2016					
	Less than 12 months		12 months or over		Total	
	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $
Bonds						
Governments	1,039	(11)	---	---	1,039	(11)
Municipalities	21	---	---	---	21	---
Corporate and other	486	(6)	7	---	493	(6)
	1,546	(17)	7	---	1,553	(17)
Stocks	8	---	194	(34)	202	(34)
Total	1,554	(17)	201	(34)	1,755	(51)

	2015					
	Less than 12 months		12 months or over		Total	
	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $
Bonds						
Governments	229	(1)	3	---	232	(1)
Municipalities	8	---	---	---	8	---
Corporate and other	423	(6)	---	---	423	(6)
	660	(7)	3	---	663	(7)
Stocks	191	(36)	30	(6)	221	(42)
Total	851	(43)	33	(6)	884	(49)

b) Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments to the Company. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgages and other loans as well as private placements, exposure to different investment portfolios, derivative financial instruments and reinsurance activities. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates and joint ventures.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivative financial instruments is presented in Note 8 *Derivative Financial Instruments*.

b) i) Credit Quality Indicators
Bonds by Investment Grade

	2016	2015
	Carrying amount	
	$	$
AAA	1,070	728
AA	6,188	5,716
A	10,092	9,487
BBB	3,576	3,219
BB and lower	161	128
Total	21,087	19,278

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of $2,229 ($2,159 as at December 31, 2015).

Mortgages and Other Loans

	2016	2015
	$	$
Insured mortgages	2,140	2,187
Conventional mortgages	636	690
Other loans	516	292
Total	3,292	3,169

The credit quality of mortgages and other loans is assessed internally by the regular review of the portfolio.

Derivative Financial Instruments
The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2016, all counterparties to derivative financial instrument contracts have a credit rating of A+ or higher (A+ or higher as at December 31, 2015).

Reinsurance Assets
The Company assesses the financial soundness of reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. It can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts. Reinsurance agreements without security held from reinsurers are with several well-established, highly rated reinsurers. The Company's reinsurance assets are with reinsurers who have a minimum credit rating of A- in a proportion of 98% (98% in 2015).

b) ii) Past Due or Impaired Financial Assets
To manage risk, the Company evaluates, among other things, the ability of the issuer to ensure current and future contractual payments of principal and interest. The Company follows up monthly to ensure that cash flows stipulated in the contract are recovered in a timely manner and takes the necessary action to address the outstanding amounts. In addition, the Company identifies the issuers that may have an unstable financial situation and classifies each of the issuer's assets under one of the following quality lists:

Watch list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require monitoring. No impairment loss is recognized in respect of assets of these issuers.

List of securities on the monitor list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require increased monitoring. An asset is moved from the watch list to the list of securities on the monitor list when changes in facts and circumstances of the issuer increase the likelihood that a security suffers as a loss-generating event in the near future. No impairment loss is accounted for in respect of assets of these issuers.

List of impaired assets: The collection of current and future contractual payments of principal and interest is no longer assured. For investments classified as available for sale or carried at amortized cost, an impairment loss is recognized in *Net income*.

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages and other loans, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired, as well as amounts for financial assets which have similar credit risks that are subject to a collective impairment test.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more in the case of mortgages and 120 days or more in the case of other loans or in foreclosure is assumed to be impaired. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities matching these liabilities, in compliance with actuarial standards.

Past Due Bonds, Mortgages and Other Loans

Bonds, mortgages and other loans are considered in arrears when the counterparty has not made a payment at a contractual date.

	2016			
	Bonds classified as loans and receivables $	Mortgages $	Other loans $	Total $
Gross values				
Not past due and not impaired	1,974	2,712	503	5,189
Past due and not impaired				
30 – 89 days in arrears	---	4	13	17
90 – 119 days in arrears	---	---	2	2
120 days and more in arrears	---	---	1	1
Impaired	21	7	1	29
Total of gross values	1,995	2,723	520	5,238
Specific provisions for losses	4	2	---	6
	1,991	2,721	520	5,232
Collective provisions	---	---	4	4
Total of net values	1,991	2,721	516	5,228

	2015			
	Bonds classified as loans and receivables $	Mortgages $	Other loans $	Total $
Gross values				
Not past due and not impaired	1,933	2,837	284	5,054
Past due and not impaired				
30 – 89 days in arrears	---	2	8	10
90 – 119 days in arrears	---	1	1	2
120 days and more in arrears	---	---	---	---
Impaired	10	10	---	20
Total of gross values	1,943	2,850	293	5,086
Specific provisions for losses	4	2	---	6
	1,939	2,848	293	5,080
Collective provisions	---	---	1	1
Total of net values	1,939	2,848	292	5,079

Foreclosed Properties

During the year ended December 31, 2016, the Company took possession of $1 ($1 in 2015) in properties which it held as collateral on mortgages. Foreclosed properties that the Company still held at year-end are presented as *Real estate held for resale* in Note 9 *Other Assets.*

Specific Provisions for Losses

	2016			
	Bonds classified as loans and receivables $	Mortgages $	Other loans $	Total $
Balance at beginning and at end	4	2	---	6

	2015			
	Bonds classified as loans and receivables $	Mortgages $	Other loans $	Total $
Balance at beginning	3	1	---	4
Variation in specific provisions for losses	1	1	---	2
Balance at end	4	2	---	6

b) iii) Other Information on Credit Risk

Investment properties

Minimum payments receivable from rental of investment properties in future years are as follows:

	2016 $	2015 $
Due in 1 year or less	51	49
Due after 1 year to 5 years	161	154
Due after 5 years	435	363
Total	647	566

These payments are received under operating leases and are therefore not recorded in the Statement of Financial Position.

Securitization of Mortgages and Other Loans

During the years ended December 31, 2016 and 2015, as part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured mortgages to an unrelated counterparty. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. The Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. Consequently, the Company continues to recognize the full carrying value of mortgages. As at December 31, 2016, the carrying value of ceded mortgages is $949 ($825 in 2015). The carrying value of the corresponding liability is $993 ($887 in 2015). Their fair values are $956 and $1,008 respectively ($835 and $911 respectively in 2015).

Also, the Company transferred other loans to an unrelated counterparty. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred loans. The Company is exposed to credit risk in the event of a late payment by the borrower. Consequently, the Company continues to recognize the full carrying value of the other loans. As at December 31, 2016, the carrying value of ceded other loans is $26 ($54 in 2015) and the value of the corresponding liability is $23 ($53 in 2015). Their fair values are $26 and $23 respectively ($54 and $54 respectively in 2015).

Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents 102% and 105% (between 102% and 105% in 2015) of the fair value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2016, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $2,375 ($1,759 in 2015).

Right of Offset, Collateral Held and Transferred

The Company negotiates financial instruments in accordance with the Credit Support Annex, which forms part of the International Swaps and Derivative Association's (ISDA) Master Agreement and in accordance with the Supplemental Terms or Conditions Annex, which forms part of the Global Master Repurchase Agreement (GMRA). These agreements require guarantees by the counterparty or by the Company. The amount of assets to pledge is based on changes in fair value of financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of, but are not limited to cash, Treasury bills and Government of Canada bonds. The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. In addition, under the ISDA and the GMRA, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The following table presents the impact of conditional compensation on the financial situation and that of other similar agreements, namely the GMRA and the Credit Support Appendices (CSA).

	As at December 31, 2016			
	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
	$	$	$	$
Financial assets				
Derivative financial instruments (Note 8)	262	210	43	9
Securities purchased under reverse repurchase agreements	387	54	333	---
Total financial assets	649	264	376	9
Financial liabilities				
Derivative financial instruments (Note 8)	333	210	86	37
Securities sold under repurchase agreements	417	54	363	---
Total financial liabilities	750	264	449	37

	As at December 31, 2015			
	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
	$	$	$	$
Financial assets				
Derivative financial instruments (Note 8)	332	290	40	2
Securities purchased under reverse repurchase agreements	441	269	172	---
Total financial assets	773	559	212	2
Financial liabilities				
Derivative financial instruments (Note 8)	398	290	73	35
Securities sold under repurchase agreements	497	269	228	---
Total financial liabilities	895	559	301	35

Financial collateral received/pledged shown in the table above excludes initial margin on over-the-counter derivatives and forward currency contracts, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was $43 ($40 as at December 31, 2015) on derivative financial instruments and $387 ($443 as at December 31, 2015) on securities purchased under reverse repurchase agreements. The Company's pledge was $174 ($80 as at December 31, 2015) on derivative financial instrument liabilities and $426 ($505 as at December 31, 2015) on securities sold under repurchase agreements.

Interests in Non-Consolidated Structured Entities

The Company has determined that its investments in asset-backed securities and its investments in investment fund units represent interests held in non-consolidated structured entities.

Asset-backed securities and mortgage securities are managed by entities that combine similar assets and sell them to investors who receive all or a portion of the cash flows generated. These entities are managed by managers who are not related to the Company.

The goal of the investment fund units in which the Company invests is to generate capital growth. These investment fund units are either managed by external managers or by internal managers through Company subsidiaries. The managers apply various investment strategies to meet their respective objectives. The Company also invests in fund units through its segregated funds.

The table below presents the non-consolidated structured entities according to their type in the Statement of Financial Position.

	2016		2015	
	Carrying amount $	Maximum risk $	Carrying amount $	Maximum risk $
Government bonds				
Mortgage-backed securities (MBS)	---	---	21	21
Corporate and other bonds				
Commercial mortgage-backed securities (CMBS)	1	1	1	1
	1	1	22	22
Stocks				
Investment fund units managed internally	218	218	202	202
Investment fund units managed externally	224	224	213	213
	442	442	415	415
Total	443	443	437	437

The maximum risk represents the risk of total loss that the Company could suffer on investments in non-consolidated structured entities, which equals the carrying amount of these investments in the above table.

The Company develops and sponsors mutual funds to implement investment strategies on behalf of investors, and earns management fees for providing these services. The Company does not control these mutual funds. The Company's interest in mutual funds is limited to the capital invested, if any, and fees earned. The Company's mutual fund assets under management as at December 31, 2016 were $10,937 ($10,428 as at December 31, 2015).

b) iv) Concentration Risk

Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity. The following tables provide information about the Company's investment concentration risk.

Bonds by sector of activity

	2016			
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	1,070	1,020	403	2,493
Utilities	1,976	81	713	2,770
Consumer cyclical and non-cyclical	935	145	295	1,375
Energy	968	144	253	1,365
Industry	519	30	192	741
Communications	325	126	1	452
Other	76	26	13	115
Total	5,869	1,572	1,870	9,311

	2015			
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	1,282	972	437	2,691
Utilities	1,729	56	673	2,458
Consumer cyclical and non-cyclical	755	139	261	1,155
Energy	798	71	264	1,133
Industry	494	32	163	689
Communications	310	114	1	425
Other	43	35	5	83
Total	5,411	1,419	1,804	8,634

Mortgages and other loans by region and type

	2016					
	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgages						
Residential	1	788	25	6	---	820
Multi-residential	28	656	209	419	---	1,312
Non-residential	---	---	2	6	---	8
	29	1,444	236	431	---	2,140
Conventional mortgages						
Residential	---	70	1	2	1	74
Multi-residential	---	38	29	28	151	246
Non-residential	48	106	36	101	25	316
	48	214	66	131	177	636
Other loans	31	209	162	114	---	516
Total	108	1,867	464	676	177	3,292

	2015					
	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgages						
Residential	1	716	42	11	---	770
Multi-residential	26	716	220	445	---	1,407
Non-residential	1	---	3	6	---	10
	28	1,432	265	462	---	2,187
Conventional mortgages						
Residential	---	70	1	3	2	76
Multi-residential	---	28	30	36	131	225
Non-residential	49	127	58	128	27	389
	49	225	89	167	160	690
Other loans	19	128	98	47	---	292
Total	96	1,785	452	676	160	3,169

Investment properties by type

	2016 $	2015 $
Residential and multi-residential	22	22
Office	997	973
Retail	190	189
Industrial	23	26
Land and other	6	6
Total	1,238	1,216

c) Interest Rate Risk

Interest rate risk arises, among other things, from the uncertainty of the future interest rates at which maturing investments will be reinvested. The following table provides information on the maturity dates of the Company's investments subject to interest rate risk. Policy loans do not have a maturity date.

	2016		2015	
	Bonds $	Mortgages and other loans $	Bonds $	Mortgages and other loans $
Due in 1 year or less	472	334	603	291
Due after 1 year to 5 years	2,270	1,706	2,076	1,651
Due after 5 years to 10 years	2,717	776	2,429	696
Due after 10 years	15,628	476	14,170	531
Total	21,087	3,292	19,278	3,169

The effective yield is between 0.00% and 12.22% (0.00% and 10.25% in 2015) for bonds, between 1.57% and 33.99% (1.30% and 33.99% in 2015) for mortgages and other loans and between 2.85% and 3.50% (2.85% and 3.65% in 2015) for policy loans.

d) Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

The following tables present the maturities of financial liabilities:

	2016				
	Due in 1 year or less $	Due in 1 year to 3 years $	Due in 3 years to 5 years $	Due in over 5 years $	Total $
Benefits payable	99	---	---	---	99
Other policy liabilities	33	4	1	---	38
Amounts on deposit related to products other than insurance contracts	629	113	54	---	796
Short-selling securities	579	---	---	---	579
Investment contract liabilities	200	92	54	260	606
Derivative financial instruments	60	52	64	157	333
Other financial liabilities	771	30	8	4	813
Securities sold under repurchase agreements	417	---	---	---	417
Securitization liabilities	164	262	449	141	1,016
Debentures	---	---	---	995	995
Total	2,952	553	630	1,557	5,692

	2015				
	Due in 1 year or less $	Due in 1 year to 3 years $	Due in 3 years to 5 years $	Due in over 5 years $	Total $
Benefits payable	92	---	---	---	92
Other policy liabilities	20	3	1	---	24
Mortgage debts	22	---	---	---	22
Amounts on deposit related to products other than insurance contracts	480	57	22	---	559
Short-selling securities	553	---	---	---	553
Investment contract liabilities	249	92	55	259	655
Derivative financial instruments	117	34	26	221	398
Other financial liabilities	722	25	11	19	777
Securities sold under repurchase agreements	497	---	---	---	497
Securitization liabilities	95	324	347	174	940
Debentures	---	---	---	846	846
Total	2,847	535	462	1,519	5,363

Annual interest payments are as follows:

	2017 $	2018 $	2019 $	2020 $	2021 $
Debentures	32	32	32	32	32
Securitization liabilities	18	15	12	9	7

Information concerning off-Statement of Financial Position commitments is presented in Note 28 *Guarantees, Commitments and Contingencies*.

8 › Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates, currency exchange rates and fair values of invested assets. Derivative financial instruments are financial contracts whose value is derived from underlying interest rates, exchange rates, other financial instruments or indexes.

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are transactions in which two counterparties exchange cash flows of the same nature and denominated in two different currencies. Total return swaps are contracts which transfer the variations in value of a reference asset, including any returns such as interest earned on these assets, in exchange for a reference return specified in the contract.

Forwards, which are OTC contractual agreements negotiated between counterparties, and futures contracts, which are traded on an organized market, are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price during a given time period or at a fixed date.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. The maximum credit risk of derivative financial instruments is $261 ($329 in 2015). The Company's exposure at the end of each reporting period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

	2016					
	Notional amount				Fair value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Swap contracts	294	10	55	359	15	(1)
Futures contracts	290	---	---	290	---	(1)
Options	211	---	---	211	1	(2)
Currency contracts						
Forward contracts	2,379	67	---	2,446	23	(48)
Swap contracts	29	585	1,209	1,823	29	(114)
Interest rate contracts						
Swap contracts	508	2,732	3,100	6,340	189	(127)
Forward contracts	520	---	---	520	4	(4)
Other derivative contracts	1	1	347	349	1	(36)
Total	4,232	3,395	4,711	12,338	262	(333)

	2015					
	Notional amount				Fair value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Swap contracts	322	---	27	349	17	(1)
Futures contracts	450	---	---	450	2	(3)
Options	42	16	---	58	---	(1)
Currency contracts						
Forward contracts	2,963	268	---	3,231	28	(131)
Swap contracts	39	87	912	1,038	---	(142)
Interest rate contracts						
Swap contracts	487	1,566	4,016	6,069	265	(86)
Forward contracts	679	---	---	679	19	(2)
Other derivative contracts	1	1	323	325	1	(32)
Total	4,983	1,938	5,278	12,199	332	(398)

	2016		
	Notional amount	Fair value	
		Positive	Negative
	$	$	$
Derivative financial instruments not designated as hedge accounting	11,067	258	(322)
Net investment hedge	606	---	(10)
Fair value hedges			
Interest risk	645	4	(1)
Cash flow hedges			
Interest risk	20	---	---
Total of derivative financial instruments	12,338	262	(333)

	2015		
	Notional amount	Fair value	
		Positive	Negative
	$	$	$
Derivative financial instruments not designated as hedge accounting	11,454	331	(383)
Net investment hedge	365	---	(13)
Fair value hedges			
Interest risk	380	1	(2)
Total of derivative financial instruments	12,199	332	(398)

Embedded Derivative Financial Instruments

The Company owns perpetual preferred shares with call options which give the issuer the right to redeem the shares at a predetermined price. Accounting standards require that the value of the call options be measured separately from the preferred shares. The value of the call options for embedded derivative financial instruments is determined using a valuation which relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivative financial instruments are presented as other derivative contracts.

Net Investment Hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than one year (less than one year in 2015). The effective portion of changes in fair value is recorded in *Other comprehensive income,* as is the foreign currency translation of the net investment in a foreign operation. For the years ended December 31, 2016 and 2015, the Company has recognized no ineffectiveness.

Fair Value Hedges

The Company used bond forward contracts to reduce its exposure to interest rate risk. These contracts, designated as interest rate risk hedging related to financial assets classified as available for sale, have maturities of less than one year. Changes in fair value due to the interest rate of the hedged item are recorded in *Investment income* in the Income Statement against variations in fair value of the derivative financial instruments considered as hedging items. Variations in fair value related to the credit risk of hedged items continue to be reported in *Other comprehensive income*.

During the year ended December 31, 2015, the Company implemented a hedging relationship in order to reduce its exposure to interest rate risk on financial liabilities classified as financial liabilities at amortized cost. The Company uses interest rate swap contracts with maturities ranging from less than one year to 9 years (from 3 years to 10 years as at December 31, 2015).

The effective portion of the hedging relationship of fair value is recorded in *Net income*. For the year ended December 31, 2016, the Company recognized a gain of $7 on the hedging instruments (loss of $5 as at December 31, 2015) and a loss of $11 on the hedged items (gain of $3 as at December 31, 2015). For the year ended December 31, 2016, the Company has recognized an ineffectiveness of $4 ($2 in 2015).

Cash Flow Hedges

During the year ended December 31, 2015, the Company implemented a cash flow hedging relationship in order to manage its exposure to variations of interest risks in forecasted transactions. The Company uses forward contracts on obligations that have maturities of less than 1 year (less than 1 year in 2015). For the years ended December 31, 2016 and 2015, the Company has recognized no ineffectiveness.

9 › Other Assets

	2016	2015
	$	$
Investment income due and accrued	207	180
Outstanding premiums	56	45
Due from reinsurers	69	65
Due from agents	57	46
Accounts receivable	739	701
Deferred sales commissions	77	83
Prepaid expenses	23	20
Real estate held for resale	11	11
Linearization of rents	10	9
Income tax receivable	34	45
Securities purchased under reverse repurchase agreements	387	441
Miscellaneous	2	3
Total	1,672	1,649

The amount of *Other assets* that the Company expects to receive within the next 12 months is $1,549 ($1,523 as at December 31, 2015).

10 › Fixed Assets

	Own-use Property			
	Land	Real estate	Other	Total
	$	$	$	$
Cost				
Balance as at December 31, 2014	33	117	134	284
Acquisitions	6	3	16	25
Acquisitions through business combinations	---	---	2	2
Disposals/Write-offs	---	---	(2)	(2)
Transfer from investment properties	6	11	---	17
Effect of changes in exchange rates	1	1	---	2
Balance as at December 31, 2015	46	132	150	328
Acquisitions	1	16	19	36
Acquisitions through business combinations	---	2	5	7
Disposals/Write-offs	---	---	(4)	(4)
Effect of changes in exchange rates	---	---	---	---
Balance as at December 31, 2016	47	150	170	367
Accumulated depreciation				
Balance as at December 31, 2014	---	46	87	133
Depreciation for the year	---	4	15	19
Depreciation on disposals/write-offs	---	---	(2)	(2)
Balance as at December 31, 2015	---	50	100	150
Depreciation for the year	---	6	15	21
Depreciation on disposals/write-offs	---	---	(4)	(4)
Depreciation acquired through business combinations	---	1	4	5
Balance as at December 31, 2016	---	57	115	172
Net carrying value as at December 31, 2016	47	93	55	195
Net carrying value as at December 31, 2015	46	82	50	178

The net carrying value of fixed assets held under a finance lease was $2 as at December 31, 2016 ($1 as at December 31, 2015).

11 › Intangible Assets and Goodwill

	Intangible assets			
	Finite useful life		Indefinite useful life	Total
	Software applications	Other		
	$	$	$	$
Cost				
Balance as at December 31, 2014	185	130	370	685
Acquisitions	30	14	---	44
Acquisitions through business combinations	---	42	---	42
Effect of changes in exchange rates	---	2	---	2
Balance as at December 31, 2015	215	188	370	773
Acquisitions	42	13	---	55
Acquisitions through business combinations	---	13	---	13
Disposals/Write-offs	(1)	---	---	(1)
Reclassification after allocation of the purchase price	---	1	---	1
Effect of changes in exchange rates	---	(1)	---	(1)
Balance as at December 31, 2016	256	214	370	840
Accumulated depreciation				
Balance as at December 31, 2014	89	36	---	125
Depreciation for the year	13	12	---	25
Balance as at December 31, 2015	102	48	---	150
Depreciation for the year	16	16	---	32
Depreciation on disposals/Write-offs	(1)	---	---	(1)
Balance as at December 31, 2016	117	64	---	181
Net carrying value as at December 31, 2016	139	150	370	659
Net carrying value as at December 31, 2015	113	140	370	623

Indefinite useful life intangible assets include mainly funds management contracts. Finite useful life intangible assets presented in *Other* primarily represent the discounted value of future profits from distribution networks and from customer relationships.

	Preliminary goodwill	Goodwill	Total
	$	$	$
Balance as at December 31, 2014	4	266	270
Acquisition of businesses	62	2	64
Transfer from preliminary goodwill to goodwill	(4)	4	---
Balance as at December 31, 2015	62	272	334
Acquisition of businesses	12	2	14
Transfer from preliminary goodwill to goodwill	(62)	62	---
Transfer from preliminary goodwill to intangible assets	(1)	---	(1)
Impairment (Note 4)	---	(34)	(34)
Balance as at December 31, 2016	11	302	313

An impairment of $34 was recognized in 2016 ($0 in 2015) with respect of goodwill and no impairment was recognized in 2016 and 2015 with respect of indefinite useful life intangible assets. Detailed information on the impairment of CTL activities is presented in Note 4.

	2016		2015	
	Indefinite useful life intangible assets	Goodwill	Indefinite useful life intangible assets	Goodwill
	$	$	$	$
Cash generating unit				
Individual Wealth Management	332	158	332	158
Individual Insurance	6	46	6	42
Group Insurance	1	77	1	102
General Insurance	2	11	2	11
U.S. Business	3	1	3	1
Other activities	26	20	26	20
Total	370	313	370	334

Goodwill and intangible assets with indefinite useful life are tested for impairment annually, or more frequently if events or changes in circumstances occur that may cause the recoverable amount of a cash generating unit (CGU) to decrease to below its carrying value. The recoverable amount is the higher of fair value less selling costs and value in use. The value in use is based on the best estimates of future earnings and the level and cost of future capital estimated on contract duration. The value attributed to new business is based on the business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU, the Company uses judgment and various assumptions and estimates which could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the discount rate, growth rates, the value of new sales and any significant change in projected cash flows could result in significant changes in the recoverable amounts.

Individual Wealth Management, General Insurance and Other Activities

The recoverable amount of CGUs in the *Individual Wealth Management*, *General Insurance* and *Other activities* sectors was determined according to calculations of the value in use. These calculations call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in determining the recoverable amount. The assumed discount rate for determining the value of the CGUs is between 11% and 14% before tax (between 11% and 15% before tax in 2015). The assumptions used in the calculation are set for the medium-term growth rate between 1% and 8% (between 1% and 5% in 2015) and the long-term growth rate between 1% and 4% (between 1% and 4% in 2015).

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are projected industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before tax, which take into account specific risks in relation to relevant activity sectors.

Individual Wealth Management CGU present a higher risk of impairment considering the sensitivity to the various assumptions described above. Management has determined that reasonable changes in the most important assumptions may result in the recoverable amount being lower than the carrying amount, which would give rise to an impairment of some or all goodwill.

Individual Insurance and Group Insurance

The recoverable amount of CGUs in the *Individual Insurance and Group Insurance* sectors was determined according to calculations of the value in use. These calculations call upon discounted cash flow projections (or techniques) and represent estimated actuarial amounts which take into account the present value of net shareholder assets, future profitability of in-force business and profitability of new business where insurance companies are concerned. Cash flow projections before tax based on financial budgets approved by management, and which cover a five-year period are used for other kinds of businesses. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The assumed discount rate for determining the value of the CGUs is between 12% and 16% before tax (more or less 12% before tax in 2015).

The key assumptions of the valuation take into account the discount rate, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

12 › Segregated Funds Net Assets

Policyholders can select from a variety of segregated funds. Although the underlying assets are registered in the name of the Company and the segregated funds policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the funds' investment performance. However, the Company offers guarantees on some contracts and is exposed to equity market risk and interest rate risk as a result of these guarantees. The Company's exposure to loss from segregated fund products is limited to the value of these guarantees and the related liabilities are recorded in *Insurance contract liabilities*.

	2016	2015
	$	$
Assets		
Cash, short-term and other investments	989	1,099
Bonds	4,460	4,384
Stocks	16,340	14,244
Derivative financial instruments	23	---
Other assets	189	302
	22,001	20,029
Liabilities		
Accounts payable and accrued expenses	175	251
Derivative financial instruments	---	1
	175	252
Net assets	21,826	19,777

The following table presents the change in segregated funds net assets:

	2016	2015
	$	$
Balance at beginning	19,777	18,748
Add:		
Amounts received from policyholders	3,302	3,140
Interest and dividends	736	978
Net realized gains	461	637
Net increase (decrease) in fair value	560	(877)
	24,836	22,626
Less:		
Amounts withdrawn by policyholders	2,606	2,458
Operating expenses	404	391
	3,010	2,849
Balance at end	21,826	19,777

	2016	2015
	%	%
Type of funds		
Money market	1	2
Fixed income	21	21
Balanced	38	39
Equity	40	38
Total	100	100

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed income securities and, for some funds, a small proportion in high-yield bonds. The balanced funds consist of fixed income securities and a larger equity investment component. The equity funds, which range from low volatility equity funds to aggressive equity funds, invest in a varying mix of Canadian, U.S. and global equities.

13 › Management of Insurance Risk

Insurance risk is the risk of loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing. It may arise at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when establishing provisions for future policy benefits.

When designing and pricing products, insurance risk may result from inappropriate pricing resulting in insufficient returns as compared to the Company's profitability objectives. This risk may be due to a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, expenses and taxes. Insurance risk may also arise when the selection of the risks to be insured or the settlement of claims is inconsistent with the design and pricing of the product. When calculating provisions for future policy benefits, a financial loss could arise in the event of inadequate use of experience results to establish assumptions.

The Company has in place controls and processes at each of these steps to ensure that these risks are adequately managed.

Product Design and Pricing

For certain types of contracts, insurance risk may be shared with or transferred to the policyholder through a dividends and experience refunds policy, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

At this stage in the life of a product, risk is primarily managed through a regular analysis of the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed or the various options offered by the reinsurance market are utilized.

Underwriting and Claims Adjudication

Given the geographic diversity of its clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company's mortality risk is in Canada.

The Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

Calculation of Provisions for Future Policy Benefits

In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. Internal reviews of changes in technical results and external sources of information are monitored for the purpose of revising the assumptions, which may result in revisions of provisions for future policy benefits.

The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the CIA (or another relevant organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

Reinsurance

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. The Company adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit associated with the amounts ceded to reinsurers in the event that the reinsurers are unable to meet their obligations.

The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured.

14 › Insurance Contract Liabilities and Investment Contract Liabilities

A) Insurance Contract Liabilities

Insurance contract liabilities are determined according to the Canadian Asset Liability Method (CALM) described in Note 2 *Significant Accounting Policies,* section l) ii) *Insurance Contract Liabilities*. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits.

a) Composition

	2016	2015
	$	$
Provisions for future policy benefits	23,346	22,299
Other insurance contract liabilities		
Benefits payable and provisions for unreported claims	221	214
Policyholders' amounts on deposit	299	304
Provisions for dividends to policyholders and experience rating refunds	33	31
	553	549
Total	23,899	22,848

	2016					
	Individual		Group			
	Insurance	Wealth Management	Insurance	Savings and Retirement	Other	Total
	$	$	$	$	$	$
Insurance contract liabilities (gross)						
Canada	16,019	1,378	1,425	3,396	(9)	22,209
United States	1,245	322	131	1	(12)	1,687
Other countries	3	---	---	---	---	3
Total	17,267	1,700	1,556	3,397	(21)	23,899
Reinsurance assets						
Canada	(258)	---	147	159	(9)	39
United States	564	281	117	1	(8)	955
Total	306	281	264	160	(17)	994
Net insurance contract liabilities	16,961	1,419	1,292	3,237	(4)	22,905

	2015					
	Individual		Group			
	Insurance	Wealth Management	Insurance	Savings and Retirement	Other	Total
	$	$	$	$	$	$
Insurance contract liabilities (gross)						
Canada	14,955	1,306	1,397	3,404	(12)	21,050
United States	1,286	341	148	2	18	1,795
Other countries	3	---	---	---	---	3
Total	16,244	1,647	1,545	3,406	6	22,848
Reinsurance assets						
Canada	(175)	---	140	151	(12)	104
United States	597	301	131	2	22	1,053
Total	422	301	271	153	10	1,157
Net insurance contract liabilities	15,822	1,346	1,274	3,253	(4)	21,691

b) Changes in Insurance Contract Liabilities and Reinsurance Assets

	2016			
	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
	$	$	$	$
Balance at beginning	22,299	549	22,848	1,157
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	1,253	---	1,253	(29)
On new policies	(4)	---	(4)	18
Changes in methods and assumptions	(150)	---	(150)	(124)
	1,099	---	1,099	(135)
Other	---	1	1	4
Changes in methods and assumptions	---	5	5	---
Effect of change in exchange rates	(52)	(2)	(54)	(32)
Balance at end	23,346	553	23,899	994

	2015			
	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
	$	$	$	$
Balance at beginning	21,490	531	22,021	1,263
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	613	---	613	(20)
On new policies	(12)	---	(12)	(28)
Changes in methods and assumptions	(87)	---	(87)	(244)
	514	---	514	(292)
Other	5	9	14	8
Changes in methods and assumptions	---	(3)	(3)	---
Effect of change in exchange rates	290	12	302	178
Balance at end	22,299	549	22,848	1,157

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts.

Profits and Losses on New Reinsurance Treaties

The Company has not concluded any new reinsurance agreement for the years ended December 31, 2016 and 2015 for which it would have recorded a profit or loss in the Income Statement.

c) Risk Management and Assumptions for Valuation of Insurance Contract Liabilities

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their selection takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The use of actuarial assumptions in the valuation of insurance contract liabilities requires significant judgment. The margins for adverse deviations assumptions and methods used to establish the most significant assumptions are described below:

Mortality and Morbidity

Mortality represents the occurrence of death in a given population. The mortality assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative. For Individual Insurance, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates. For Individual Wealth Management and Group Savings and Retirement, annuity mortality improvement has been projected to occur throughout the future. For the Group Insurance segment, the expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

Morbidity represents the occurrence of accident or illness among insured risks. The morbidity assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative.

To manage mortality and morbidity risk, the Company uses detailed and uniform underwriting procedures that assess the insurability of the candidate and control exposure to large claims. The Company conducts monthly monitoring of technical results relating to claims and fixes retention limits that vary across markets and regions. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

As at December 31, 2016, the Company estimates that a 5% permanent deterioration in mortality rates would result in a $173 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities ($162 as at December 31, 2015). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

As at December 31, 2016, the Company estimates that a 5% deterioration in morbidity rates would result in a $52 reduction in net income attributed to common shareholders ($49 as at December 31, 2015). The 5% deterioration is expressed assuming 95% of the termination rate of disability when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is not disabled. An improvement of the same percentage in morbidity rates would have a similar impact, but in the opposite direction.

Investment Return and Interest Rate Risk

The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of CALM is found in Note 2 *Significant Accounting Policies*, section l) ii) *Insurance Contract Liabilities*.

Interest rate risk is the risk of loss due to future changing interest rates. The investment returns are projected from the current investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long-term commitments, the Company favours an investment strategy that tends to achieve a balance between optimizing after-tax return and capital protection since it is impossible to apply a complete immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

As at December 31, 2016, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to an increase in the insurance contract liabilities of approximately $24 after taxes ($31 after taxes as at December 31, 2015). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about $62 after taxes ($60 after taxes as at December 31, 2015). The Company estimates that a 0.1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets suddenly decreased by 10% as at December 31, 2016, net income attributed to common shareholders would be about $28 lower than expected for its regular operations ($28 as at December 31, 2015). The Company estimates that a 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact but in the opposite direction.

Expenses

Maintenance expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. Policy maintenance expenses were calculated using the Company's internal expense allocation studies. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an inflation rate, established coherently with the interest rate assumption.

The risk related to expenses is the risk that the costs of future expenses are greater than the estimated costs in the measurement of liabilities or used in the design and pricing of products. A rigorous budget process is implemented annually. The budget is monitored on an ongoing basis throughout the year to assess the differences between budgeted costs and actual costs. To manage the risk, the Company prices its products to cover expected costs.

As at December 31, 2016, the Company estimates that a 5% increase in unit costs would result in a $44 reduction in net income attributed to common shareholders ($43 as at December 31, 2015). A decrease of the same percentage would have a similar impact, but in the opposite direction.

Lapse

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited. Long-term lapse rate assumptions take into account the usually lower lapse rates with respect to lapse-supported products compared to the rates of other products.

The Company reduces its exposure to lapse and surrender risk as much as possible through the way it develops its products. The contracts are built with modalities having a positive impact on the lapse rate. These modalities may result in charges for surrenders, limitations on the amounts surrendered or limitations regarding the moment when surrenders may be made. Finally, the Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2016, the Company estimates that a 5% deterioration in lapse rates would result in a $152 reduction in net income attributed to common shareholders ($144 as at December 31, 2015). These rates were evaluated respecting the adjustability of certain products. An improvement of the same percentage would have a similar impact, but in the opposite direction.

Premium Payment Patterns

For Universal Life contracts, assumptions must be established with respect to premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

Currency Risk

Currency risk results from a difference between the currency of liabilities and the currency of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different currency.

Guarantees on Segregated Funds

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. The Company has set up a dynamic hedging program. In this program, a large part of the variations in the economic value of liabilities are offset by variations in assets held. The hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss in the Income Statement.

A liability related to the segregated fund guarantees granted by the Company is maintained in the general fund. The amount of the liability is at least as great as the amount determined using the methodology defined by the CIA.

Margins for Adverse Deviations

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the appointed actuary must adjust these assumptions to include margins for adverse deviations and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range for these margins is set out in standards issued by the CIA. The factors considered in the selection of appropriate margins include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back as an increase in *Net income*.

d) Impact of Changes in Assumptions and Methodologies on Net Insurance Contract Liabilities

A review of the assumptions and methods is performed annually to reflect changing experience and to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in assumptions and methodologies as well as their explanation:

	2016	2015	
	$	$	
Mortality and morbidity	(43)	(48)	Explained by the annual study update.
Policyholder behaviour	50	568	Explained by minor changes to lapse assumptions.
Investment returns	(22)	(344)	Mainly explained by the annual update of the investment return assumptions, gains due to transactions improving asset-liability matching, and modelling refinements.
Expenses, models and other	(17)	(29)	Mainly explained by the annual update of the expense assumptions and various modelling improvements.
Impact on net non-participating insurance contract liabilities	(32)	147	
Impact on net participating insurance contract liabilities	11	7	
Impact on net insurance contract liabilities	(21)	154	

B) Investment Contract Liabilities

a) Composition

Non-participating deficit reimbursement agreement group insurance contracts are classified as investment contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The fair value of these investment contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

	2016			
	Individual	Group		
	Insurance $	Insurance $	Savings and Retirement $	Total $
Investment Contract Liabilities (gross)				
Canada	---	582	1	583
Other countries	23	---	---	23
Total	23	582	1	606
Reinsurance assets				
Canada	---	73	---	73
Net investment contract liabilities	23	509	1	533

	2015			
	Individual	Group		
	Insurance $	Insurance $	Savings and Retirement $	Total $
Investment Contract Liabilities (gross)				
Canada	---	629	1	630
Other countries	25	---	---	25
Total	25	629	1	655
Reinsurance assets				
Canada	---	81	---	81
Net investment contract liabilities	25	548	1	574

b) Variations in Net Investment Contract Liabilities

	2016		2015	
	Investment contract liabilities $	Reinsurance assets $	Investment contract liabilities $	Reinsurance assets $
Balance at beginning	655	81	693	89
Deposits	118	15	47	---
Withdrawals	(177)	(25)	(100)	(10)
Increase (decrease) in investment contract liabilities and reinsurance assets	12	---	21	---
Other	(2)	2	(6)	2
Balance at end	606	73	655	81

C) Assets Backing Liabilities and Equity

The carrying value of total assets backing insurance contract liabilities, investment contract liabilities, other liabilities and equity are as follows:

	2016								
	Individual		Group						
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Insurance contract liabilities total $	Investment contract liabilities $	Other liabilities and equity $	Total $
Cash and short-term investments	163	87	18	(33)	---	235	8	669	912
Bonds	11,672	1,045	1,109	2,614	(4)	16,436	455	4,196	21,087
Mortgages and other loans	256	187	157	622	---	1,222	64	2,006	3,292
Stocks	2,468	6	5	35	---	2,514	10	559	3,083
Policy loans	932	11	2	---	---	945	---	1	946
Other invested assets	264	---	1	---	---	265	---	152	417
Derivative financial instruments[1]	(117)	83	---	(1)	---	(35)	(4)	(32)	(71)
Investment properties	1,232	---	---	---	---	1,232	---	6	1,238
Reinsurance assets	306	281	264	160	(17)	994	73	55	1,122
Other	91	---	---	---	---	91	---	2,774	2,865
Total	17,267	1,700	1,556	3,397	(21)	23,899	606	10,386	34,891

	2015								
	Individual		Group						
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Insurance contract liabilities total $	Investment contract liabilities $	Other liabilities and equity $	Total $
Cash and short-term investments	60	86	47	14	---	207	39	723	969
Bonds	10,918	778	1,022	2,512	(4)	15,226	444	3,608	19,278
Mortgages and other loans	348	277	199	698	---	1,522	85	1,562	3,169
Stocks	2,357	2	8	30	---	2,397	6	521	2,924
Policy loans	828	10	2	---	---	840	---	1	841
Other invested assets	209	---	1	---	---	210	---	127	337
Derivative financial instruments[1]	(198)	193	(5)	(1)	---	(11)	---	(55)	(66)
Investment properties	1,208	---	---	---	---	1,208	---	8	1,216
Reinsurance assets	422	301	271	153	10	1,157	81	42	1,280
Other	92	---	---	---	---	92	---	2,723	2,815
Total	16,244	1,647	1,545	3,406	6	22,848	655	9,260	32,763

[1] In its matching process, the Company considers the net value of derivative financial instruments, therefore, both assets and liabilities. Derivative financial instruments liabilities of an amount of $222 ($241 in 2015) for Individual Insurance, $57 ($90 in 2015) for Individual Wealth Management, $4 ($5 in 2015) for Group Insurance and $1 ($1 in 2015) for Group Savings and Retirement were considered in the matching process.

The fair value of assets backing net insurance contract liabilities as at December 31, 2016 was estimated at $23,100 ($21,800 as at December 31, 2015). Insurance contract liabilities are measured at fair value as per the CALM method, except for liabilities backed by assets which are measured at amortized cost, such as mortgages, and bonds classified as loans and receivables.

The fair value of assets backing net investment contract liabilities as at December 31, 2016 represents approximately $539 ($580 as at December 31, 2015).

15 › Other Liabilities

	2016 $	2015 $
Unearned premiums	564	496
Other insurance contract liabilities	54	41
Mortgage debts	---	22
Post-employment benefits	146	152
Income taxes payable	44	19
Amounts on deposit on products other than insurance contracts	796	559
Accounts payable	722	702
Due to reinsurers	91	75
Securities sold under repurchase agreements	417	497
Short-selling securities	579	553
Securitization liabilities	1,016	940
Fair value of purchased business in force	14	15
Miscellaneous	10	9
Total	4,453	4,080

16 › Debentures

	2016		2015	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Subordinated debentures bearing interest at 2.64%	249	248	249	250
Subordinated debentures bearing interest at 2.80%	248	252	248	255
Subordinated debentures bearing interest at 3.30%	398	403	---	---
Subordinated debentures bearing interest at 4.75%	---	---	249	256
Subordinated debentures bearing interest at 5.63%	100	105	100	109
Total	995	1,008	846	870

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

Subordinated Debentures Bearing Interest at 2.64%

Subordinated debentures maturing February 23, 2027, bearing interest of 2.64%, payable semi-annually from August 23, 2015 to February 23, 2022, and a variable interest rate equal to the three-month Canadian Dollar Offered Rate (CDOR) plus 1.08%, payable quarterly commencing August 23, 2022 until February 23, 2027. These subordinated debentures are redeemable by the Company starting May 23, 2022, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes transaction costs and issue discount for a total of $1.

Subordinated Debentures Bearing Interest at 2.80%

Subordinated debentures maturing May 16, 2024, bearing interest of 2.80%, payable semi-annually from May 16, 2014 to May 16, 2019, and a variable interest rate equal to the three-month CDOR plus 0.79%, payable quarterly commencing August 16, 2019 until May 16, 2024. These subordinated debentures are redeemable by the Company starting May 16, 2019, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes transaction costs and issue discount for a total of $1.

Subordinated Debentures Bearing Interest at 3.30%

Subordinated debentures maturing September 15, 2028, bearing interest of 3.30%, payable semi-annually from September 15, 2017 to September 15, 2023, and a variable interest rate equal to the three-month CDOR plus 2.14%, payable quarterly commencing September 15, 2023 until September 15, 2028. These subordinated debentures are redeemable by the Company starting September 15, 2023, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes transaction costs and issue discount for a total of $2.

Subordinated Debentures Bearing Interest at 4.75%

On December 14, 2016, the Company redeemed all subordinated debentures with a nominal value of $250 bearing interest at 4.75%, payable semi-annually from June 14, 2012 to December 14, 2016, with a maturity date of June 14, 2021. The Company paid the subordinated debenture holders a redemption price equal to the nominal value plus accrued and unpaid interest.

Subordinated Debentures Bearing Interest at 5.63%

Subordinated debentures maturing on August 1, 2023. The principal debentures of $88 bear interest at 5.63% payable semi-annually until August 1, 2018. The secondary debentures of $12 bear interest at 5.63% payable semi-annually until 2018. Thereafter, the interest on the principal and secondary debentures will be the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of each quarter and payable semi-annually. These subordinated debentures are redeemable by the Company starting August 1, 2018, in whole, but not in part, at par, with the prior approval of the AMF.

17 › Share Capital

The authorized share capital consists of the following:

Common Shares

Unlimited common shares without par value, with voting rights.

Preferred Shares

Unlimited preferred shares of Class A, without par value, without voting rights that can be issued in series, and 10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, which can be issued in series.

3,000,000 Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the issuing value at the option of the Company under certain conditions, including approval by the AMF, convertible at the option of the holder into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the Series 1 preferred shares into Series 2 preferred shares at the option of the Company.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the option of the Company at the issuing value, multiplied by 1.0526 under certain conditions, including the necessity to proceed with the issue of Series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value at the option of the Company, subject to prior approval by the AMF, or convertible into common shares at their market value.

An unlimited number of Class A – Series A preferred shares, without par value, without voting rights, with a non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008, subject to approval by the AMF, for 25 dollars per share.

An unlimited number of Class A – Series B preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders, subject to approval by the AMF, into new Class A preferred shares.

An unlimited number of Class A – Series C preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend and adjusted every 5 years with an initial annual rate in cash of 1.55 dollars per share, redeemable in whole or in part at the option of the Company commencing December 31, 2013 and thereafter on December 31 every 5 years, subject to approval by the AMF, for 25 dollars per share, and convertible at the option of the shareholders into Class A – Series D preferred shares commencing on December 31, 2013 and thereafter on December 31 every 5 years.

An unlimited number of Class A – Series D preferred shares, without par value, without voting rights, with a non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on December 31, 2018 and thereafter on December 31 every 5 years for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any other date other than at Series D conversion dates after December 31, 2013, for an amount of 25.50 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series C preferred shares commencing on December 31, 2018 and thereafter on December 31 every 5 years.

An unlimited number of Class A – Series E preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate of 1.50 dollars per share, redeemable in whole or in part at the option of the Company commencing on December 31, 2014, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of Class A – Series F preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate of 1.475 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2015, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of Class A – Series G preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend in cash with an annual rate equal to 1.0750 dollars per share, redeemable in whole or in part at the option of the Company on June 30, 2017 and on June 30 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series H preferred shares commencing on June 30, 2017 and thereafter on June 30 every 5 years.

An unlimited number of Class A – Series H preferred shares, without par value, without voting rights, with a non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on June 30, 2022, and on June 30 every 5 years thereafter for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any other date other than at Series H conversion dates after June 30, 2017, for an amount of 25.50 dollars, subject to approval by the AMF and convertible at the option of the shareholders into Class A – Series G preferred shares commencing on June 30, 2022 and thereafter on June 30 every 5 years.

An unlimited number of Class A – Series YY preferred shares, without par value, without voting rights, with a non-cumulative semi-annual dividend in cash of 0.450 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, the shares are convertible at the option of the shareholders into common shares at each conversion date, on the last day of June and December of each year commencing on June 30, 2014.

An unlimited number of Class A – Series ZZ preferred shares, without par value, without voting rights, with a non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, the shares are convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year commencing on June 30, 2014.

The capital issued by the Company is the following:

	2016		2015	
	Number of shares (in thousands)	Amount $	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	102,435	1,311	100,775	1,244
Shares issued on exercise of stock options	1,020	40	515	20
Shares issued for Dividend Reinvestment and Share Purchase Plan	---	---	1,145	47
Shares issued	2,750	148	---	---
Balance at end	106,205	1,499	102,435	1,311
Preferred shares, Class A				
Balance at beginning	15,000	375	19,000	475
Shares redeemed – Series F	---	---	(4,000)	(100)
Balance at end	15,000	375	15,000	375
Total of share capital		1,874		1,686

Common Shares

Issues

On December 14, 2016, the Company completed the closing of a common share issue. Under this offering, a total of 2,500,000 common shares were issued for a net cash amount of $135. On December 22, 2016, an additional 250,000 common shares were issued for a net cash amount of $13.

Preferred Shares

Redemption

On March 31, 2015, the Company redeemed all of the 4,000,000 Class A – Series F preferred shares, with a value of 25 dollars per share at a price of 26 dollars per share for a cash amount of $104. The redemption premium of $4 was recorded against retained earnings.

Dividends

	2016		2015	
	Total	Per share	Total	Per share
	$	(in dollars)	$	(in dollars)
Common shares	129	1.26	118	1.16
Preferred shares				
Class A – Series B	6	1.15	6	1.15
Class A – Series F	---	---	1	0.37
Class A – Series G	11	1.08	11	1.08
	17		18	
Total	146		136	

Dividends Declared and Not Recognized on Common Shares

A dividend of 0.35 dollars per share was approved by the Board of Directors on February 16, 2017. This dividend was not recorded as a liability in these financial statements. This dividend will be paid on March 15, 2017 to the shareholders of record as of February 28, 2017, date on which it will be recognized in the equity.

Dividend Reinvestment and Share Purchase Plan

The Company offers a Dividend Reinvestment and Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized.

The Company announced that, effective February 11, 2016, the common shares issued under the plan will be purchased on the secondary market. For the year ended December 31, 2015, dividends reinvested in common shares representing $46 and shares purchased under the terms of this plan representing $1 were recognized in the share capital.

18 › Accumulated Other Comprehensive Income

	Bonds	Stocks	Currency translation	Hedging	Total
	$	$	$	$	$
Balance as at December 31, 2014	48	6	37	(27)	64
Unrealized gains (losses)	28	(63)	---	---	(35)
Income taxes on unrealized gains (losses)	(7)	17	---	---	10
Other	---	---	70	(52)	18
Income taxes on other	---	---	---	14	14
	21	(46)	70	(38)	7
Realized losses (gains)	(35)	18	---	---	(17)
Income taxes on realized losses (gains)	9	(5)	---	---	4
	(26)	13	---	---	(13)
Balance as at December 31, 2015	43	(27)	107	(65)	58
Unrealized gains (losses)	(14)	7	---	---	(7)
Income taxes on unrealized gains (losses)	4	(2)	---	---	2
Other	---	---	(14)	(1)	(15)
	(10)	5	(14)	(1)	(20)
Realized losses (gains)	(4)	6	---	---	2
Income taxes on realized losses (gains)	1	(1)	---	---	---
	(3)	5	---	---	2
Balance as at December 31, 2016	30	(17)	93	(66)	40

19 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has an enterprise risk management framework that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This framework includes a capital management policy which describes the key processes related to capital management, including the process for determining the target operating level of the solvency ratio. The framework also comprises reporting on the Company's risk profile and a dynamic capital adequacy testing (DCAT) report. These reports enable the identification of risks and contain proposals for possible risk management actions. DCAT consists in quantifying the financial impact of adverse scenarios related among other things to stress on the stock market, interest rates and credit. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

Regulatory Requirements and Solvency Ratio

The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF.

According to this guideline, regulatory capital contains two categories:

Tier 1 capital, which contains more permanent equity items and which is primarily composed of equity attributable to common shareholders and preferred shares. Goodwill and other intangible assets are deducted from the capital of this category.

Tier 2 capital, which is primarily composed of subordinated debentures.

The available capital represents the total Tier 1 and Tier 2 capital, less other deductions prescribed by the AMF.

Required capital is determined according to four risk categories, namely asset default risk, insurance risk, changes in interest rate environment risk and segregated fund risk. Capital requirements of each category of risk are determined using factor-based or other methods that are applied to specific assets and liabilities on and off the Statement of Financial Position.

The capital adequacy ratio (solvency ratio) is calculated by dividing available capital by required capital.

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements. The guideline also stipulates that most of the capital must be Tier 1, which absorbs the losses related to current operations.

The Company manages its capital on a consolidated basis. In the management of its capital, the Company has set a target range of 175% to 200% according to its financial flexibility for its solvency ratio. The Company also makes sure that most of its capital is Tier 1. As at December 31, 2016 and 2015, the Company maintained ratios that satisfy the regulatory requirements and was above the target level it has set for itself. The subsidiaries of the Company also meet regulatory requirements for capitalization and solvency.

Regulatory Capital

	2016	2015
	$	$
Available capital		
Total Tier 1 capital (net)	4,054	3,427
Total Tier 2 capital (net)	1,003	870
Total	5,057	4,297
Required capital	2,251	2,014
Solvency ratio	225%	213%

20 › General Expenses

General Expenses by Nature

	2016	2015
	$	$
Salaries, benefits and stock-based compensation	502	471
Professional fees	138	134
Depreciation of fixed assets (Note 10)	15	15
Depreciation of own-use properties (Note 10)	6	4
Depreciation of intangible assets (Note 11)	32	25
Revaluation of a contingent consideration	(40)	---
Impairment of goodwill	34	---
Real estate operating expenses	89	89
Other administrative expenses	242	235
Total	1,018	973

General Expenses by Function

	2016	2015
	$	$
Operating expenses	800	765
Investment and management fees	129	119
Real estate operating expenses	89	89
Total	1,018	973

21 › Financing Charges

	2016	2015
	$	$
Interest on debentures	36	31
Interest on securitization liabilities	20	15
Other	21	16
Total	77	62

22 › Income Taxes

a) Income Tax Expense for the Year

Income tax

	2016	2015
	$	$
Current income taxes		
Current year	109	96
Adjustments of previous years	12	(6)
	121	90
Deferred income taxes		
Creation and reversal of temporary differences	34	(57)
Adjustments of previous years	(8)	5
Variation in tax rates	(1)	1
	25	(51)
Total	146	39

Income tax recognized directly in equity

	2016	2015
	$	$
Recognized in other comprehensive income		
Current income tax expense (recovery)	(1)	1
Deferred income tax expenses (recovery)	4	(12)
Total	3	(11)

	2016	2015
	$	$
Recognized in share capital and retained earnings		
Deferred income tax expenses (recovery)	(2)	---
Total	(2)	---

b) Reconciliation of Income Tax Expense

The effective income tax rate is lower than the Canadian statutory tax rate due to the following items:

	2016		2015	
	$	%	$	%
Income before income taxes	694		421	
Income tax expense at Canadian statutory tax rate	186	27	112	27
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	2	---	3	1
Tax-exempt investment income	(41)	(6)	(74)	(18)
Non-taxable portion of the change in fair value of investment properties	(2)	---	(3)	(1)
Recovery of unrecognized tax losses from previous periods	(2)	---	(2)	---
Adjustments of previous years	6	1	1	---
Variation in tax rates	(2)	(1)	1	---
Other	(1)	---	1	---
Income tax expense (recovery) and effective income tax rate	146	21	39	9

c) Deferred Income Taxes

i) Recognized deferred income tax assets and liabilities

	Deferred income tax assets		Deferred income tax liabilities	
	2016	2015	2016	2015
	$	$	$	$
Insurance contract liabilities[1]	(44)	157	(94)	(12)
Real estate	1	(102)	124	25
Bonds	3	(85)	29	22
Intangible assets	---	(18)	138	117
Stocks	---	(7)	11	2
Post-employment benefits	4	36	(40)	(9)
Losses available for carryforward	19	8	---	(5)
Other	43	42	5	10
	26	31	173	150
Net deferred income tax liability			147	119

[1]Consists of insurance contract liabilities and investment contract liabilities, less reinsurance assets and policy loans.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities for the same taxable entity and the same taxation authority and if the Company intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

	Insurance contract liabilities	Real estate	Bonds	Stocks	Intangible assets	Post-employment benefits	Losses available for carry-forward	Other	Total
	$	$	$	$	$	$	$	$	$
Balance as at December 31, 2014	135	(118)	(113)	(83)	(118)	57	21	43	(176)
Recognized in net income	18	(9)	5	74	(8)	5	(8)	(26)	51
Recognized in other comprehensive income	19	---	1	---	---	(17)	---	9	12
Acquisition of businesses	---	---	---	---	---	---	---	1	1
Effect of changes in exchange rates	(3)	---	---	---	---	---	---	7	4
Recognized as goodwill	---	---	---	---	(9)	---	---	(2)	(11)
Balance as at December 31, 2015	169	(127)	(107)	(9)	(135)	45	13	32	(119)
Recognized in net income	(119)	4	81	(2)	---	4	4	3	(25)
Recognized in other comprehensive income	(1)	---	---	---	---	(5)	---	2	(4)
Acquisition of businesses	---	---	---	---	(1)	---	2	---	1
Effect of changes in exchange rates	1	---	---	---	---	---	---	(1)	---
Recognized as goodwill	---	---	---	---	(2)	---	---	---	(2)
Recognized in equity other than accumulated other comprehensive income	---	---	---	---	---	---	---	2	2
Balance as at December 31, 2016	50	(123)	(26)	(11)	(138)	44	19	38	(147)

Non-capital carryforward tax losses for which a deferred tax asset has not been recognized amount to $12 ($8 in 2015). These losses will expire between the years 2024 and 2036.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, associates and joint ventures unless the Company is able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2016, temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which a deferred tax liability has not been recognized amount to $247 ($145 in 2015).

23 › Segmented Information

The Company operates and manages its activities according to four main reportable operating segments, which reflect its organizational structure for decision making. Management uses judgment in the aggregation of business units into the Company's operating segments. Its products and services are offered to retail customers, businesses and groups. The Company primarily operates in Canada. Its operations outside Canada are not significant. The main products and services offered by each segment are the following:

Individual Insurance – Life, health, disability, and mortgage insurance products.

Individual Wealth Management – Individual products and services for savings plans, retirement funds and segregated funds, in addition to securities brokerage, trust operations and mutual funds.

Group Insurance – Life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products for employee plans; creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services; and specialized products for special markets solutions.

Group Savings and Retirement – Group products and services for savings plans, retirement funds and segregated funds.

Other – Auto and home insurance products, services supporting the activities that have no link with key segments such as asset management and financing, Company capital and some adjustments related to consolidation.

For general expenses not directly attributable to a business segment, the Company uses assumptions, judgments and methodologies for allocating them. The allocation of other activities is performed according to a formula based on equity and is uniformly applied to each operating segment.

The other assets and other liabilities, except for derivative financial instruments, are classified in their entirety in the *Other* column since they are used for the operational support of the Company's activities.

Segmented Income Statements

	2016					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Revenues						
Net premiums	1,686	1,860	1,357	1,394	251	6,548
Investment income	1,231	(6)	84	154	130	1,593
Other revenues	148	1,017	51	76	(86)	1,206
	3,065	2,871	1,492	1,624	295	9,347
Operating expenses						
Gross benefits and claims on contracts	815	1,442	982	1,181	137	4,557
Ceded benefits and claims on contracts	(261)	(34)	(77)	(27)	29	(370)
Net transfer to segregated funds	---	369	---	375	---	744
Increase (decrease) in insurance contract liabilities	1,072	58	4	(10)	(25)	1,099
Increase (decrease) in investment contract liabilities	1	---	11	---	---	12
Decrease (increase) in reinsurance assets	100	11	(6)	(7)	24	122
Commissions, general and other expenses	962	847	499	84	20	2,412
Financing charges	18	---	14	---	45	77
	2,707	2,693	1,427	1,596	230	8,653
Income before income taxes and allocation of other activities	358	178	65	28	65	694
Allocation of other activities	70	(8)	2	1	(65)	---
Income before income taxes	428	170	67	29	---	694
Income taxes	77	50	12	7	---	146
Net income	351	120	55	22	---	548
Net income attributed to participating policyholders	(6)	---	---	---	---	(6)
Net income attributed to shareholders	357	120	55	22	---	554

	2015					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Revenues						
Net premiums	1,579	1,712	1,328	1,204	218	6,041
Investment income	526	141	81	161	127	1,036
Other revenues	148	998	54	69	(111)	1,158
	2,253	2,851	1,463	1,434	234	8,235
Operating expenses						
Gross benefits and claims on contracts	726	1,407	961	1,060	116	4,270
Ceded benefits and claims on contracts	(218)	(43)	(72)	(22)	19	(336)
Net transfer to segregated funds	---	451	---	290	---	741
Increase (decrease) in insurance contract liabilities	518	(5)	3	(11)	9	514
Increase (decrease) in investment contract liabilities	1	---	20	---	---	21
Decrease (increase) in reinsurance assets	235	43	(8)	9	(13)	266
Commissions, general and other expenses	883	823	511	79	(20)	2,276
Financing charges	15	---	2	---	45	62
	2,160	2,676	1,417	1,405	156	7,814
Income before income taxes and allocation of other activities	93	175	46	29	78	421
Allocation of other activities	77	(9)	7	3	(78)	---
Income before income taxes	170	166	53	32	---	421
Income taxes	(8)	30	12	5	---	39
Net income	178	136	41	27	---	382
Net income attributed to participating policyholders	(4)	---	---	---	---	(4)
Net income attributed to shareholders	182	136	41	27	---	386

Segmented Premiums

	2016					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Gross premiums						
Invested in general fund	2,116	316	1,545	130	150	4,257
Invested in segregated funds	---	1,560	---	1,290	---	2,850
Total	2,116	1,876	1,545	1,420	150	7,107
Premiums ceded						
Invested in general fund	(430)	(16)	(188)	(26)	101	(559)
Net premiums	1,686	1,860	1,357	1,394	251	6,548

	2015					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Gross premiums						
Invested in general fund	1,972	147	1,510	150	127	3,906
Invested in segregated funds	---	1,581	---	1,077	---	2,658
Total	1,972	1,728	1,510	1,227	127	6,564
Premiums ceded						
Invested in general fund	(393)	(16)	(182)	(23)	91	(523)
Net premiums	1,579	1,712	1,328	1,204	218	6,041

Segmented Assets and Liabilities

	2016					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Assets						
Invested assets	17,358	2,284	1,705	3,250	6,640	31,237
Segregated fund assets	---	13,348	---	8,478	---	21,826
Reinsurance assets	306	281	337	160	38	1,122
Other	93	---	---	---	2,772	2,865
Total assets	17,757	15,913	2,042	11,888	9,450	57,050
Liabilities						
Insurance contract liabilities and investment contract liabilities	17,290	1,700	2,138	3,398	(21)	24,505
Segregated fund liabilities	---	13,348	---	8,478	---	21,826
Other	224	57	4	1	5,668	5,954
Total liabilities	17,514	15,105	2,142	11,877	5,647	52,285

	2015					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Assets						
Invested assets	16,189	2,012	1,700	3,273	5,892	29,066
Segregated fund assets	---	12,292	---	7,485	---	19,777
Reinsurance assets	422	301	352	153	52	1,280
Other	72	---	---	---	2,743	2,815
Total assets	16,683	14,605	2,052	10,911	8,687	52,938
Liabilities						
Insurance contract liabilities and investment contract liabilities	16,269	1,647	2,174	3,407	6	23,503
Segregated fund liabilities	---	12,292	---	7,485	---	19,777
Other	298	90	5	1	5,080	5,474
Total liabilities	16,567	14,029	2,179	10,893	5,086	48,754

24 › Earnings Per Common Share

Basic Earnings Per Share

Basic earnings per share are calculated by dividing the net income attributed to common shareholders by the weighted average number of outstanding common shares during the year.

	2016	2015
Net income attributed to common shareholders	537	364
Weighted average number of outstanding shares (in millions of units)	102.8	101.4
Basic earnings per share (in dollars)	5.22	3.59

Diluted Earnings Per Share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares.

The dilutive effect of stock options considers the number of shares presumed issued without consideration, calculated as the difference between the number of shares deemed to have been issued (by assuming the outstanding stock option grants are exercised) and the number of shares that would have been issued at the average market price for the year (the number of shares that would have been issued using the issuance proceeds, using the average market price of the Company's common shares for the year). In 2016, an average of 2,696 antidilutive stock options were excluded from the calculation (59,720 in 2015).

	2016	2015
Net income attributed to common shareholders	537	364
Weighted average number of outstanding shares (in millions of units)	102.8	101.4
Add: dilutive effect of stock options granted and outstanding (in millions of units)	0.6	0.6
Weighted average number of outstanding shares on a diluted basis (in millions of units)	103.4	102.0
Diluted earnings per share (in dollars)	5.19	3.57

There was no transaction on common shares that could affect these calculations after the closing date and before the date of authorization for issue of these financial statements.

25 › Stock-Based Compensation

Stock Option Plan

The Company grants a certain number of common stock options to the senior management and determines the exercise price of the options, the expiry date and the date on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of the Company.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first four anniversaries of the grant. In certain cases, the Human Resources and Corporate Governance Committee can modify the number of options purchased following an event, moving up the expiration date of the option.

The Board can grant options for a total of 11,350,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of the Company per person eligible for the plan.

The following table presents the activities of the plan:

	2016		2015	
	Number of stock options (in thousands)	Weighted average exercise price (in dollars)	Number of stock options (in thousands)	Weighted average exercise price (in dollars)
Balance at beginning	3,346	35.05	3,431	33.80
Options granted	491	40.91	513	40.16
Options exercised	(1,020)	33.09	(515)	31.23
Options cancelled or expired	(19)	40.77	(83)	38.78
Balance at end	2,798	36.75	3,346	35.05
Exercisable at end	1,606	33.88	2,168	33.04

The stock options outstanding as at December 31, 2016 by exercise price are as follows:

Exercise price (in dollars)	Number of options (in thousands)	Weighted average exercise price (in dollars)	Average remaining life (in years)
18.63 – 23.44	139	19.23	3.10
23.45 – 28.72	274	26.03	6.12
28.73 – 32.08	242	32.08	4.12
32.09 – 43.38	2,143	39.79	7.42
Total	2,798	36.75	6.79

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The weighted average fair value of the options granted in 2016 is 7.85 dollars (7.26 dollars in 2015). The pricing model assumes the following information:

	2016	2015
Risk-free interest rate	0.79%	0.86%
Expected volatility	28.84%	28.45%
Expected life	6.1 years	6.0 years
Expected dividends	2.94%	2.86%
Exercise price (in dollars)	$40.91	$40.16

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. The expected volatility is based on historical volatility of the common shares as well as comparable market data analysis. Changes in assumptions can materially affect estimates of fair values.

The stock-based compensation expense during the year is $4 ($4 in 2015), and an equivalent amount was accounted for in *Contributed surplus* in the Equity Statements.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding shares of the Company and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years. During the year, the remuneration expense for this plan is $2 ($2 in 2015).

Deferred Share Units (DSU)

This plan is offered to the Company's directors and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration or management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis and rights issued are vested immediately. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 371,677 (350,705 in 2015). The remuneration expense for the plan, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income,* is $4 ($1 in 2015) and the liability is $20 ($16 in 2015).

Mid-Term Incentive Plan

This plan was created for the Company's senior management. Under this plan, each member may receive performance share units (PSU), a compensation based on the Company's performance over three years. Performance is measured based on the Company's total net income attributed to common shareholders. In 2016, the Company modified the performance measure for the year and added the common share price in the calculation. Each PSU is equivalent to one common share and earns dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. The value at the time of settlement will be based on the fair market value of common shares for the last 20 working days of the period, increased by a vesting factor based on the Company's net income attributed to common shareholders return on equity over the three-year period. Settlement is made in cash. As at December 31, 2016, 93,282 (86,568 in 2015) performance share units are outstanding. The compensation expense recognized in respect of this plan is $2 ($2 in 2015) and the liabilities are $4 ($4 in 2015).

Stock-Based Compensation Expense

	2016	2015
	$	$
Expense arising from equity-settled stock-based payment transactions	4	4
Expense arising from cash-settled stock-based payment transactions	8	5
Total of stock-based compensation expense	12	9

These expenses are recorded in the Income Statement as *General expenses*.

26 › Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits and defined contribution plans.

Defined Benefit Plans

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end-of-career plans based on the average of the best five years of salary. No indexation clause is included in the plan. The defined benefit plans are administered separately from the Company by retirement funds that are legally distinct entities. The retirement committees of the retirement plans are made up of members from the Company, members of retirement plans and non-members of retirement plans. The laws and regulations that the retirement plans are subject to require that the retirement committees act in the interests of the retirement funds and stakeholders, such as active, inactive and retired members. The retirement committees are responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2015 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2015. The next required valuation will be performed as at December 31, 2016 and will be available later in 2017.

Other Post-Retirement Benefits

The Company provides other post-retirement benefits. These include additional health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits such as salary continuation for short-term disabilities.

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the period is as follows:

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Accrued benefit plan obligation				
Balance at beginning	963	41	958	40
Current service cost	34	2	37	2
Interest cost	43	2	39	2
Employee contributions	18	---	18	---
Actuarial losses (gains) following remeasurement				
Actuarial losses (gains) on demographic assumption changes	(17)	(11)	---	---
Actuarial losses (gains) on financial assumption changes	53	4	(57)	(2)
Actuarial losses (gains) arising from members' experience	(10)	4	(4)	---
Benefits paid	(31)	---	(28)	(1)
Balance at end	1,053	42	963	41

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Defined benefit plan assets				
Fair value at beginning	852	---	799	---
Interest income	38	---	33	---
Actuarial gains (losses) following remeasurement				
Return on assets (excluding the amount included in the net interest)	40	---	1	---
Administrative expense	(1)	---	(1)	---
Employee contributions	18	---	18	---
Employer contributions	33	---	30	---
Benefits paid	(31)	---	(28)	---
Fair value at end	949	---	852	---

Amounts Recognized in the Statement of Financial Position

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Obligation in respect of capitalized defined benefit plans[1]	949	---	870	---
Obligation in respect of non-capitalized defined benefit plans	104	42	93	41
Accrued benefit plan obligation	1,053	42	963	41
Fair value of plan assets[1]	949	---	852	---
Net liabilities (assets) resulting from the obligation in respect of defined benefits	104	42	111	41

[1] As at December 31, 2016, there is no pension plan deficit ($18 as at December 31, 2015).

The amounts presented in Note 15 *Other Liabilities* are:

	2016	2015
	$	$
Pension plans	104	111
Other plans	42	41
Post-employment benefits	146	152

Amounts Recognized in Net Income and Other Comprehensive Income

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Service cost				
Current service cost	34	2	37	2
Net interest	5	2	6	2
Administrative expense	1	---	1	---
Components of the cost of defined benefits recognized in the net income	40	4	44	4
Remeasurement of net liabilities (assets) as defined benefits				
Rate of return on assets (excluding amounts included in the net interest above)	(40)	---	(1)	---
Actuarial losses (gains) on demographic assumption changes	(17)	(11)	---	---
Actuarial losses (gains) on financial assumption changes	53	4	(57)	(2)
Actuarial losses (gains) arising from members' experience	(10)	4	(4)	---
Losses (gains) of components of the cost of defined benefits recognized in the accumulated other comprehensive income	(14)	(3)	(62)	(2)
Total of defined benefit cost components	26	1	(18)	2

Items that will not be reclassified subsequently to net income:

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
	$	$	$	$
Losses (gains) of components of the cost of defined benefits recognized in the accumulated other comprehensive income				
Remeasurement of post-employment benefits	(14)	(3)	(62)	(2)
Income taxes on remeasurement of post-employment benefits	4	1	16	1
Total of accumulated other comprehensive income	(10)	(2)	(46)	(1)

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2015). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the period is 21.3 years (22.1 years in 2015) for pension plans and 11.7 years (11.7 years in 2015) for the other plans. The Company estimates that it will have to contribute an amount of $34 to its defined benefit plans in 2017.

The plan assets are divided as follows:

	2016	2015
	%	%
Asset classes		
Fund units		
Money Market Fund	3	10
Bonds Fund	38	29
Canadian Equity Fund	31	32
Global Equity Fund	28	29
Total	100	100

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the plan, the laws and regulations that the plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The primary goal of the investment policy is to ensure protection of the plan's capital while taking into account a maximization of the return. The investment policy aims to protect the plan's commitments and favour a regular increase in the annuities paid to retirees. The plan is exposed to various investment risks, namely the risks that the investments suffer losses or do not produce the expected return. The investment policy contains several quantitative and qualitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as Level 1.

The effective return of plan assets is 9% (4% in 2015). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of the Company in 2016 and 2015.

Significant Assumptions

Significant judgment and assumptions are used by management in determining the expense and benefits obligations for the Company's defined benefit pension plans and other post-employment benefits. The significant actuarial assumptions used are detailed as follows:

	2016		2015	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit plan obligation				
Discount rate	4.0%	4.0%	4.4%	4.4%
Rate of compensation increase	3.3%	---	3.5%	---
Rate of mortality (table)	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ
Benefit plan expenses				
Discount rate	4.4%	4.4%	4.1%	4.1%
Rate of compensation increase	3.5%	---	3.5%	---

	2016		
	Other plans		
	Drug	Dental	Other
Assumed health care cost trend rates			
Initial health care cost trend rates	6.92%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.50%	4.75%
Number of years required to stabilize the rate	10	---	---

	2015		
	Other plans		
	Drug	Dental	Other
Assumed health care cost trend rates			
Initial health care cost trend rates	6.92%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.50%	4.75%
Number of years required to stabilize the rate	10	---	---

Sensitivity Analysis

Retirement Plan

The significant assumptions used to determine the accrued benefit plan obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

Sensitivity of Key Assumptions of Benefit Plan Obligation

	2016		2015	
	Pension plans		Pension plans	
	Increase	Decrease	Increase	Decrease
	$	$	$	$
Discount rate assumption				
Impact of an absolute change of 1.0%	(166)	225	(158)	213
Rate of compensation increase				
Impact of an absolute change of 1.0%	65	(55)	65	(53)
Rate of mortality				
Impact of a relative change of 10.0%	(16)	17	(14)	15

	2016	2015
Sample life expectancies based on mortality assumptions		
Male		
Age 65 in fiscal year	22.8	22.7
Age 65 in fiscal year + 30 years	24.3	24.2
Female		
Age 65 in fiscal year	24.7	24.6
Age 65 in fiscal year + 30 years	26.0	26.0

Other Post-Retirement Benefits

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	2016		2015	
	Increase	Decrease	Increase	Decrease
	$	$	$	$
Accrued benefit obligation	3	(3)	4	(3)

The impact of the one percentage-point fluctuation in the assumed health care cost trend on the total of service and interest cost for 2016 and 2015 is less than $1.

The Company could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is $1 ($1 in 2015). The liability related to this plan is presented in Note 15 *Other Liabilities* included in *Accounts payable* for an amount of $2 ($2 in 2015).

27 › Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various members of its group of companies on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company concludes transactions with associates. These transactions are concluded in the normal course of business and are subject to normal market conditions.

Key Management Personnel

The Company's key management personnel are members of senior management, who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

	2016	2015
	$	$
Salaries and other short-term benefits	7	6
Post-retirement benefits	1	1
Stock-based compensation	3	3
Total	11	10

28 › Guarantees, Commitments and Contingencies

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

Contractual and Lease Commitments

The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The Company is also part of operating leases, including offices and equipment. The minimum amounts of commitment for the next few years are as follows:

	2017	2018	2019	2020	2021 and following
	$	$	$	$	$
Products and services	52	46	40	35	146
Operating leases	23	18	15	10	9
Total	75	64	55	45	155

Commitments

The Company is committed to a third party for one of its subsidiaries. This commitment represents a maximum amount of $48 ($57 in 2015). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

Investment Commitments

In the normal course of business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements and real estate are not reflected in the financial statements and may not be fulfilled. There were $624 ($466 in 2015) of outstanding investment commitments as at December 31, 2016, of which $50 ($36 in 2015) mature in 30 days, $277 ($207 in 2015) mature in 31 to 365 days and $297 ($223 in 2015) mature in more than one year.

Letters of Credit
In the normal course of operations, banks issue letters of credit on behalf of the Company. The balance of these letters is $2 ($2 in 2015).

Indemnifications
In the normal course of business, the Company enters into several types of agreements that could include indemnities in favour of third parties. Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. These indemnifications could vary based upon the nature and terms of the agreements. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Lines of Credit
As at December 31, 2016, the Company had operating lines of credit totalling $57 ($57 as at December 31, 2015). As at December 31, 2016 and 2015, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

Legal and Regulatory Proceedings
The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management uses judgment to evaluate the possible outcomes and does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Business Acquisition
On December 5, 2016, the Company entered into an agreement to acquire HollisWealth, a Canadian financial network, for a price equal to 0.70% of assets under administration delivered at closing (estimated at $238 as at December 31, 2016), in addition to certain adjustments on the level of risk-adjusted capital and working capital, and certain acquisition-related costs. The closing of the transaction, subject to regulatory approvals, is expected in the third quarter of 2017. This commitment has not been reflected in the financial statements and may not be executed.

29 › Subsidiaries
The following is a list of directly and indirectly held major operating subsidiaries.

As at December 31, 2016	Ownership (%)	Address	Description
The Excellence Life Insurance Company	100	Montreal, Canada	Life and health insurance company that specializes in distribution of life and health insurance products
Michel Rhéaume et associés ltée	100	Montreal, Canada	Life insurance broker
IA American Life Insurance Company[1]	100	Waco, Texas, United States	Life and health insurance company that offers life insurance and annuity products in the United States
IA Clarington Investments Inc.[1]	100	Toronto, Canada	Fund management firm that markets investment products, including mutual funds and segregated funds
Investia Financial Services Inc.[1]	100	Quebec City, Canada	Mutual fund broker
National Financial Insurance Agency Inc.	100	Quebec City, Canada	Insurance broker
FundEX Investments Inc.	100	Vaughan, Canada	Mutual fund broker
Industrial Alliance Securities Inc.[1]	100	Montreal, Canada	Securities broker
Industrial Alliance Trust Inc.	100	Quebec City, Canada	Trust services
Industrial Alliance Investment Management Inc.	100	Quebec City, Canada	Investment advisor that oversees the management of the Company's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Auto and Home Insurance Inc.[1]	100	Quebec City, Canada	Property and casualty insurance company
Forstrong Global Asset Management Inc.	100	Kelowna, Canada	International wealth management and mutual fund portfolio management (exchange-traded funds)
T.E. Financial Consultants Ltd.[1]	100	Toronto, Canada	Financial planning services
iA Investment Counsel Inc.	100	Toronto, Canada	Asset portfolio management
Industrial Alliance Pacific General Insurance Corporation	100	Quebec City, Canada	Property and casualty insurance, and other ancillary products company
SAL Marketing Inc.	100	Vancouver, Canada	Extended warranty and other ancillary products company
National Warranties MRWV Limited	100	Laval, Canada	Extended warranty and other ancillary products company
CTL Corp.[1]	100	Oakville, Canada	Auto finance company

[1] These subsidiaries hold directly or indirectly other subsidiaries with essentially a 100% ownership.

30 › Comparative Figures
Certain comparative figures have been reclassified to comply with the current presentation. The reclassifications had no impact on the net income of the Company.

Industrial Alliance Board of Directors

◆ ▼

John LeBoutillier
C.M., LL.L., MBA

- Chairman of the Board since 2005
- Board member since 1997
- Lawyer

▲ ◆

Jocelyne Bourgon
P.C., O.C.

- Vice-Chair of the Board since 2016
- Board member since 2014
- President and CEO of Public Governance International (PGI) Inc.

● ◆

Pierre Brodeur

- Board member since 1999
- Corporate Director

Yvon Charest
FSA, FCIA, O.C.

- Board member since 1999
- Actuary
- President and Chief Executive Officer of iA Financial Group

●

Denyse Chicoyne

- Board member since 2014
- Corporate Director

◆ ▲

Robert Coallier
BA with Major in Economics, MBA

- Board member since 2008
- Chief Executive Officer of Agropur cooperative

●

Agathe Côté
M.Econ., ICD.D

- Board member since 2016
- Corporate Director

Emma K. Griffin

- Board member since 2016
- Corporate Director

▲

Michael Hanley
CPA, CA

- Board member since 2015
- Chartered Accountant
- Corporate Director

● ▼

Claude Lamoureux
BA, B.Comm., FSA, FCIA

- Board member since 2010
- Corporate Director

●

Jacques Martin
B.Comm., LL.B., MBA

- Board member since 2011
- Corporate Director

◆ ▼

Francis P. McGuire
MA, BA

- Board member since 2001
- Corporate Director

▲

Danielle G. Morin
FCIA

- Board member since 2014
- Corporate Director

▲

Mary C. Ritchie
FCA

- Board member since 2003
- Chartered Accountant
- President of Richford Holdings Ltd., an investment consultation services company

▼

Louis Têtu
B.Eng., ICD.D

- Board member since 2016
- President, Chief Executive Officer of Coveo Solutions Inc., an intelligent search applications company

Jennifer Dibblee
B.Sc., B.C.L., LL.B.
Corporate Secretary

Joshua R. Pedelty
J.D., BA, CLU
Assistant Corporate Secretary

● Investment Committee
▲ Audit Committee
▼ Ethics Committee
◆ Human Resources and Governance Committee

Management of iA Financial Group

Planning Committee, Corporate Services and Investments

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President and Chief Executive Officer

René Chabot – FSA, FCIA[1]
Executive Vice-President, Chief Financial Officer and Chief Actuary

Renée Laflamme – FCPA, FCA, CFA[1]
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Group Benefits and Retirement Solutions

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Executive Vice-President
Wealth Management

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Executive Vice-President and
Assistant to the President

Denis Ricard – FSA, FCIA[1]
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Individual Insurance and Annuities

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US Development

Michel Tremblay – FSA, FCIA, CFA[1]
Executive Vice-President and
Chief Investment Officer

Jean-François Boulet – B.I.R., Fellow CHRP
Senior Vice-President
Human Resources and Communications

Guy Daneau – BBA, MBA
Senior Vice-President
Information Systems

Clément Gignac – M.E.Sc.
Senior Vice-President and
Chief Economist

Jennifer Dibblee – B.Sc., B.C.L., LL.B.
Vice-President, Legal Services
Corporate Secretary

Normand Gervais – LL.B., M.Fisc.
Vice-President
Acquisitions and Corporate Development

Éric Jobin – FSA, FCIA
Vice-President
Corporate Actuarial

Jeffrey Newhouse
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Jacques Potvin – FSA, FCIA
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Geneviève Turcotte – CPA, CA
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Mario Bédard – CPA, CA
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Marie-Élaine Gaudreault – FSA, FCIA
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Frank Lachance – CFA, CPA, CGA
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General Fund

François Lalande – CFA
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Johnny Roy – RLU, F.Pl.
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Career Network

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Group of Companies
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President

The Excellence Life Insurance Company
Charles Parent – FSA, FCIA
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MRA
Daniel Riopel – Lawyer
President and General Manager

Dominique Laberge – Lawyer, BBA
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645 7th Avenue S.W.
Suite 2400
Calgary, AB T2P 4G8
403-538-3219

Vancouver

475 West Georgia Street
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1-866-266-4730

T.E. FINANCIAL CONSULTANTS LTD.

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709-579-3344

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Calgary, AB T2P 4G8
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604-684-2196

INVESTIA FINANCIAL SERVICES INC.

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Suite 300
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418-684-5548
1-888-684-5548
investia.ca

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Unit 14, Suite 341
Upper Tantallon, NS B3Z 4R3
1-888-684-5548

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Vancouver

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1-888-684-5548

FUNDEX INVESTMENTS INC.

Head Office – Vaughan

400 Applewood Crescent
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Vaughan, ON L4K 0C3
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1-800-324-6048
fundex.com

INDUSTRIAL ALLIANCE SECURITIES INC.

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Montreal, QC H3A 3P8
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1-800-361-7465
iasecurities.com

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1-866-684-5171

1040 Belvédère Avenue
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Quebec City, QC G1S 3G3
418-681-2442
1-800-207-2445

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1-866-269-7773

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Suite 701
Toronto, ON M5H 3B3
416-216-0895

Burlington

1001 Champlain Avenue
Suite 201
Burlington, ON L7L 5Z4
905-336-9544

Hamilton

21 King Street West
Suite 1101
Hamilton, ON L8P 4W7
905-528-6505

London

140 Fullarton Street
Suite 1204
London, ON N6A 5P2
519-963-8005
1-866-723-9297

Winnipeg

140 Bannatyne Avenue
Suite 500
Winnipeg, MB R3B 3C5
204-953-4400
1-866-768-6138

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224 4th Avenue S.
Suite 600
Saskatoon, SK S7K 5M5
306-385-6250
1-866-992-9928

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Suite 600
Calgary, AB T2P 1C5
403-705-4970
1-866-614-4970

Immigrant Investor Program – Montreal

2200 McGill College Avenue
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514-499-1170

INDUSTRIAL ALLIANCE TRUST INC.

Head Office – Quebec City

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iatrust.ca

INDUSTRIAL ALLIANCE AUTO AND HOME INSURANCE INC.

Head Office – Quebec City

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Quebec City, QC G1S 1C1
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1-800-463-4382
industrielleallianceauto.com

NATIONAL FINANCIAL INSURANCE AGENCY INC.

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1-888-684-5548
nfia.ca

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Vaughan, ON L4K 0C3
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1-888-332-3466

SOLICOUR INC.

Divisional Headquarters – Quebec City

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1-888-852-4444

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Tower A, Suite 615
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East
Laval, QC H7G 4R8
450-669-9454
1-888-243-7152

General Information

For information on upcoming earnings releases, investor conferences and disclosure documents, consult our website at ia.ca, under *About iA*, in the *Investor Relations* section.

For questions regarding iA Financial Group products and services, contact your agent or consult pages 129 to 131 of this annual report to find the office nearest you.

Shareholder Information

Head Office

iA Financial Group
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3

Telephone: 418-684-5000
Toll-free: 1-800-463-6236
ia.ca

Stock Exchange Listing

Industrial Alliance's common shares are listed on the Toronto Stock Exchange under the stock symbol IAG.

Annual Meeting of Shareholders

Thursday, May 11, 2017 at 2:00 PM
Quebec City Convention Centre
1000 René-Lévesque Blvd. East
Quebec City, Quebec

Dividend Reinvestment and Share Purchase Plan

Computershare Trust Company of Canada

Telephone: 514-982-7555
Toll-free: 1-877-684-5000
ia@computershare.com

Shareholder Services

For questions regarding share accounts, dividends, changes of address and ownership and other related matters, contact our transfer agent:

Computershare Investor Services Inc.

Telephone: 514-982-7555
Toll-free: 1-877-684-5000
ia@computershare.com

Investor Relations

For analysts, portfolio managers and investors requesting financial information, contact our Investor Relations Department:

Telephone: 418-684-5000, ext. 5862
Toll-free: 1-800-463-6236, ext. 5862
Fax: 418-684-5192
investors@ia.ca

About iA Financial Group

Founded in 1892, iA Financial Group has a rich history marked by impressive growth. Today, it is a major financial group with operations throughout Canada and in the United States, offering a complete range of insurance and investment solutions for both individuals and groups.

iA Financial Group is ranked among the top four life and health insurers in Canada and is one of the country's leading non-bank financial companies in the wealth management sector.

iA Financial Group serves over four million clients and employs more than 5,300 people. At December 31, 2016, the Company was managing and administering over $126 billion in assets. iA Financial Group is one of Canada's largest public companies and trades on the Toronto Stock Exchange under the ticker symbol IAG.

iA Financial Group does its part to respect and protect the environment.

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This annual report was jointly produced by the iA Financial Group Actuarial, Accounting, Investor Relations, Communications and Public Relations departments.

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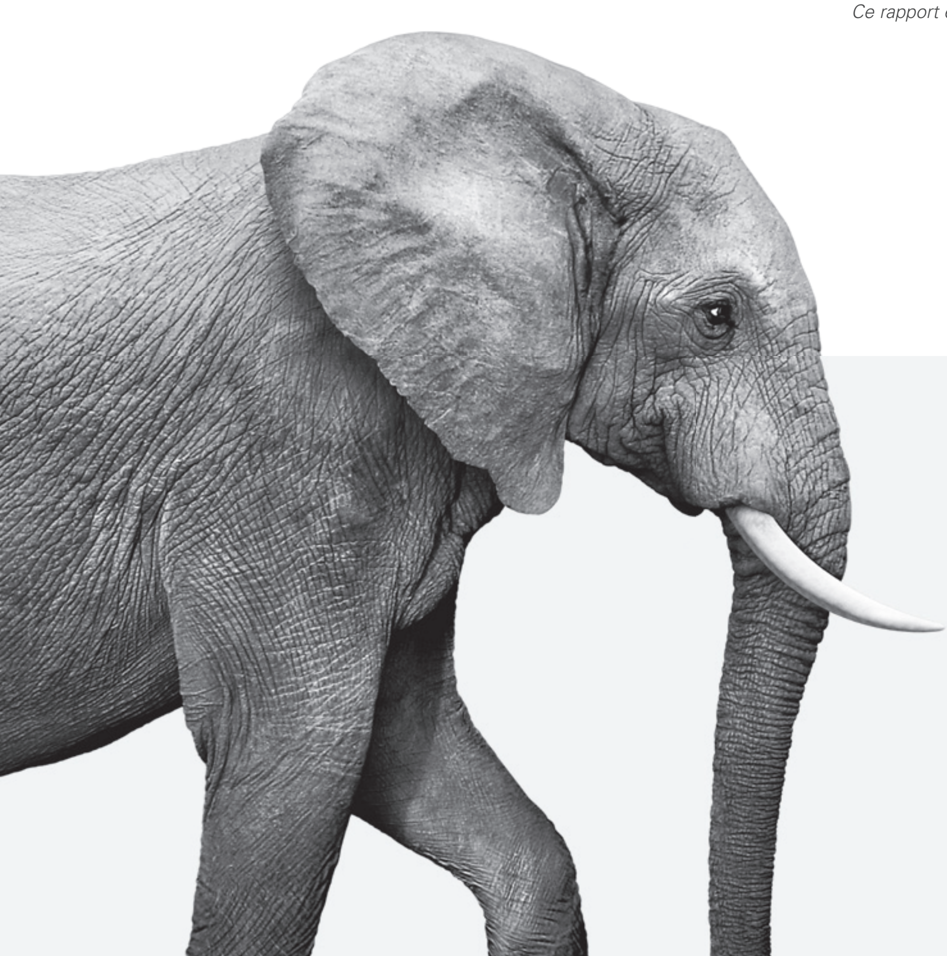


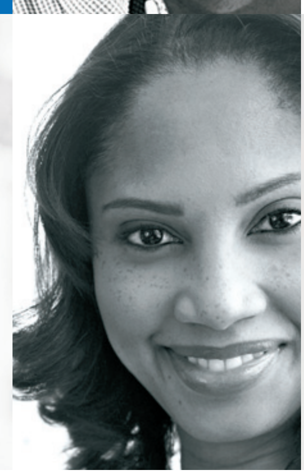
Inspired by Our Clients

At the beginning of 2016, our Client Experience project invited a number of clients to visit our offices in Quebec City, Montreal, Toronto and Vancouver and tell us about their experience as a client.

The goal of the project was to pay tribute to the men and women that make up our clientele.

Posters featuring photos of our clients along with quotes from them about their experience are displayed in our offices and subsidiaries across Canada. Some of these photos appear on the cover of this annual report.

This initiative is a daily inspiration for our employees toward achieving our Lean ambition: to be the company that best meets client expectations, in partnership with our distributors.



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