At March 31, 2017 and 2016

Condensed Consolidated Financial Statements

For the First Quarter of 2017

These interim consolidated financial statements have not been reviewed by the independent auditor.

iA Financial Group

125 YEARS

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Income Statements

(In millions of dollars, unless otherwise indicated)	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Revenues		
Premiums		
Gross premiums	**2,071**	1,745
Premiums ceded	**(130)**	(122)
Net premiums (Note 11)	**1,941**	1,623
Investment income (Note 3)		
Interest and other investment income	**293**	261
Change in fair value of investments	**305**	614
	598	875
Other revenues	**318**	288
	2,857	2,786
Policy benefits and expenses		
Gross benefits and claims on contracts	**1,281**	1,110
Ceded benefits and claims on contracts	**(92)**	(92)
Net transfer to segregated funds	**381**	231
Increase (decrease) in insurance contract liabilities	**493**	864
Increase (decrease) in investment contract liabilities	**6**	5
Decrease (increase) in reinsurance assets	**(5)**	(55)
	2,064	2,063
Commissions	**328**	296
General expenses	**275**	253
Premium and other taxes	**29**	27
Financing charges	**16**	18
	2,712	2,657
Income before income taxes	**145**	129
Income taxes	**31**	27
Net income attributed to shareholders	**114**	102
Dividends attributed to preferred shares (Note 8)	**4**	4
Net income attributed to common shareholders	**110**	98
Earnings per common share (in dollars) (Note 12)		
Basic	**1.04**	0.96
Diluted	**1.03**	0.96
Weighted average number of shares outstanding (in millions of units) (Note 12)		
Basic	**106.2**	102.5
Diluted	**107.2**	102.9
Dividends per common share (in dollars) (Note 8)	**0.35**	0.30

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Comprehensive Income Statements

(In millions of dollars)	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Net income	**114**	102
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	**41**	(1)
Reclassification of losses (gains) on available for sale financial assets included in net income	**1**	(5)
	42	(6)
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	**(4)**	(34)
Hedges of net investment in foreign operations	**3**	17
	(1)	(17)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**(21)**	(70)
Total other comprehensive income	**20**	(93)
Comprehensive income and comprehensive income attributed to shareholders	**134**	9

Income Taxes Included in Other Comprehensive Income

(In millions of dollars)	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Income taxes related to:		
Items that may be reclassified subsequently to net income:		
Unrealized gains (losses) on available for sale financial assets	**(15)**	1
Reclassification of losses (gains) on available for sale financial assets included in net income	**(1)**	2
Hedges of net investment in foreign operations	**(1)**	(7)
	(17)	(4)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**7**	26
Total income taxes included in other comprehensive income	**(10)**	22

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Statements of Financial Position

(In millions of dollars)	As at March 31 2017 (unaudited)	As at December 31 2016
	$	$
Assets		
Cash and short-term investments	**825**	912
Bonds	**21,605**	21,087
Stocks	**3,140**	3,083
Mortgages and other loans	**3,311**	3,292
Derivative financial instruments (Note 6)	**249**	262
Policy loans	**954**	946
Other invested assets	**445**	417
Investment properties	**1,236**	1,238
Total investments (Note 3)	**31,765**	31,237
Other assets	**2,237**	1,672
Reinsurance assets	**1,121**	1,122
Fixed assets	**202**	195
Deferred income tax assets	**27**	26
Intangible assets	**665**	659
Goodwill	**313**	313
General fund assets	**36,330**	35,224
Segregated funds net assets (Note 7)	**22,664**	21,826
Total assets	**58,994**	57,050
Liabilities		
Insurance contract liabilities	**24,430**	23,899
Investment contract liabilities	**616**	606
Derivative financial instruments (Note 6)	**285**	333
Other liabilities	**4,949**	4,453
Deferred income tax liabilities	**186**	173
Debentures	**996**	995
General fund liabilities	**31,462**	30,459
Segregated funds liabilities (Note 7)	**22,664**	21,826
Total liabilities	**54,126**	52,285
Equity		
Share capital and contributed surplus	**1,900**	1,893
Retained earnings and accumulated other comprehensive income	**2,929**	2,833
Participating policyholders' accounts	**39**	39
	4,868	4,765
Total liabilities and equity	**58,994**	57,050

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Equity Statements

(In millions of dollars)	As at March 31, 2017 (unaudited)						
	Participating policyholders' accounts	**Common shares**	**Preferred shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income**	**Total**
		(Note 8)	(Note 8)			(Note 9)	
	$	**$**	**$**	**$**	**$**	**$**	**$**
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	---	---	---	---	12	(12)	---
Other	---	---	---	---	(1)	---	(1)
Equity transactions							
Stock option plan	---	---	---	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
Net income attributed to shareholders	**---**	**---**	**---**	**---**	**114**	**---**	**114**
Other comprehensive income	**---**	**---**	**---**	**---**	**---**	**20**	**20**
Comprehensive income for the period	**---**	**---**	**---**	**---**	**114**	**20**	**134**
Transfer of post-employment benefits	**---**	**---**	**---**	**---**	**(21)**	**21**	**---**
Other	**---**	**---**	**---**	**---**	**3**	**---**	**3**
Equity transactions							
Stock option plan	**---**	**---**	**---**	**1**	**---**	**---**	**1**
Stock options exercised	**---**	**---**	**---**	**(1)**	**---**	**---**	**(1)**
Common shares issued	**---**	**7**	**---**	**---**	**---**	**---**	**7**
Dividends on common shares	**---**	**---**	**---**	**---**	**(37)**	**---**	**(37)**
Dividends on preferred shares	**---**	**---**	**---**	**---**	**(4)**	**---**	**(4)**
Balance as at March 31, 2017	**39**	**1,506**	**375**	**19**	**2,848**	**81**	**4,868**

(In millions of dollars)	As at March 31, 2016 (unaudited)						
	Participating policyholders' account	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
						(Note 9)	
	$	$	$	$	$	$	$
Balance as at December 31, 2015	45	1,311	375	21	2,374	58	4,184
Net income attributed to shareholders	---	---	---	---	102	---	102
Other comprehensive income	---	---	---	---	---	(93)	(93)
Comprehensive income for the period	---	---	---	---	102	(93)	9
Transfer of post-employment benefits	---	---	---	---	(70)	70	---
Other	---	---	---	---	(1)	---	(1)
Equity transactions							
Stock option plan	---	---	---	1	---	---	1
Common shares issued	---	2	---	---	---	---	2
Dividends on common shares	---	---	---	---	(31)	---	(31)
Dividends on preferred shares	---	---	---	---	(4)	---	(4)
Balance as at March 31, 2016	45	1,313	375	22	2,370	35	4,160

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Cash Flows Statements

(In millions of dollars)	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Cash flows from operating activities		
Income before income taxes	**145**	129
Financing charges	**16**	18
Income taxes paid, net of refunds	**(68)**	(31)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	**543**	886
Increase (decrease) in investment contract liabilities	**10**	(9)
Decrease (increase) in reinsurance assets	**(6)**	(55)
Unrealized losses (gains) on investments	**(304)**	(613)
Provisions for losses	**5**	2
Amortization of premiums and discounts	**9**	9
Other depreciation	**27**	26
Other items not affecting cash	**16**	32
Operating activities affecting cash:		
Sales, maturities and repayments on investments	**5,421**	4,530
Purchases of investments	**(5,675)**	(4,952)
Realized losses (gains) on investments	**(1)**	(15)
Other items affecting cash	**(148)**	25
Net cash from (used in) operating activities	**(10)**	(18)
Cash flows from investing activities		
Acquisition of businesses, net of cash	**(1)**	(2)
Sales (purchases) of fixed and intangible assets	**(28)**	(15)
Net cash from (used in) investing activities	**(29)**	(17)
Cash flows from financing activities		
Issuance of common shares	**6**	2
Dividends paid on common shares	**(37)**	(31)
Dividends paid on preferred shares	**(4)**	(4)
Interest paid on debentures	**(13)**	(7)
Net cash from (used in) financing activities	**(48)**	(40)
Foreign currency gains (losses) on cash	**---**	(5)
Increase (decrease) in cash and short-term investments	**(87)**	(80)
Cash and short-term investments at beginning	**912**	969
Cash and short-term investments at end	**825**	889
Supplementary information:		
Cash	**663**	694
Short-term investments	**162**	195
Total cash and short-term investments	**825**	889

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2017 and 2016 (unaudited) (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 the United States.

Interim Consolidated Financial Statements of the Company are established on an International Financial Reporting Standards (IFRS) basis in accordance with IAS-34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). These interim Consolidated Financial Statements do not include all the information required in a complete annual financial statement and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2016, as set out in the 2016 Annual Report. The significant accounting policies used in the preparation of these interim Consolidated Financial Statements are consistent with those found in the 2016 Annual Report.

Publication of these interim condensed Consolidated Financial Statements was authorized for issue by the Company's Board of Directors on May 11, 2017.

2 › Changes in Accounting Policies

New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2017.

Standards or amendments	Description of the standard or amendment and impact on financial statements of the Company
IAS-12 "Incomes Taxes"	*Description*: 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 applied retrospectively. *Impact*: No impact on the Company's financial statements.
IAS-7 "Statement of Cash Flows""	*Description*: 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. *Impact*: No impact on the Company's financial statements.
Annual Improvements to IFRSs 2014-2016 Cycle	*Description*: The IASB published the Annual Improvements to IFRSs 2014-2016 Cycle. The Annual Improvements clarify situations specific to the following standards: • IFRS-12 "Disclosure of Interests in Other Entities" related to the scope of the standard which applied retrospectively to financial statements. *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 were 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.

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 two 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; • 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.

3 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	As at March 31, 2017 (unaudited)					
	At fair value through profit or loss $	**Available for sale $**	**Loans and receivables $**	**Other $**	**Total $**	**Fair value $**
Cash and short-term investments	**467**	**---**	**358**	**---**	**825**	**825**
Bonds						
Governments	**8,870**	**2,048**	**126**	**---**	**11,044**	
Municipalities	**817**	**164**	**---**	**---**	**981**	
Corporate and other	**6,127**	**1,587**	**1,866**	**---**	**9,580**	
	15,814	**3,799**	**1,992**	**---**	**21,605**	**21,756**
Stocks						
Common stocks	**1,625**	**8**	**---**	**---**	**1,633**	
Preferred stocks	**265**	**362**	**---**	**---**	**627**	
Stock indexes	**388**	**35**	**---**	**---**	**423**	
Investment fund units	**449**	**8**	**---**	**---**	**457**	
	2,727	**413**	**---**	**---**	**3,140**	**3,140**
Mortgages and other loans						
Insured mortgages						
Residential	**---**	**---**	**830**	**---**	**830**	
Multi-residential	**---**	**---**	**1,296**	**---**	**1,296**	
Non-residential	**---**	**---**	**8**	**---**	**8**	
	---	**---**	**2,134**	**---**	**2,134**	
Conventional mortgages						
Residential	**---**	**---**	**81**	**---**	**81**	
Multi-residential	**51**	**---**	**192**	**---**	**243**	
Non-residential	**3**	**---**	**300**	**---**	**303**	
	54	**---**	**573**	**---**	**627**	
Other loans	**---**	**---**	**550**	**---**	**550**	
	54	**---**	**3,257**	**---**	**3,311**	**3,416**
Derivative financial instruments	**249**	**---**	**---**	**---**	**249**	**249**
Policy loans	**---**	**---**	**954**	**---**	**954**	**954**
Other invested assets	**---**	**---**	**177**	**268**	**445**	**445**
Investment properties	**---**	**---**	**---**	**1,236**	**1,236**	**1,247**
Total	**19,311**	**4,212**	**6,738**	**1,504**	**31,765**	**32,032**

	As at December 31, 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

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.

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:

	As at March 31 2017 (unaudited) **$**	As at December 31 2016 $
Carrying value of the investment	**268**	265

The share of net income and comprehensive income for the three months ended March 31, 2017 amounts to $4 ($3 for the three months ended March 31, 2016).

c) Investment Income

	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Interest	**219**	179
Dividends	**26**	30
Derivative financial instruments	**8**	6
Rental income	**38**	36
Gains (losses) realized	**1**	15
Variation in provisions for losses	**(5)**	(2)
Other	**6**	(3)
Interest and other investment income	**293**	261
Cash and short-term investments	**1**	1
Bonds	**224**	295
Stocks	**57**	8
Mortgages and other loans	**---**	(2)
Derivative financial instruments	**34**	319
Investment properties	**(9)**	(5)
Other	**(2)**	(2)
Change in fair value of investments	**305**	614
Total	**598**	875

4 › 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 uses its judgment to determine the data 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 are 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.

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

The fair value of securitization liabilities is estimated by discounting cash flows with the interest rates currently prevailing on the market for new debts with substantially the same terms.

Short-selling bonds and stocks, 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, the measure of volatility and liquidity 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.

Derivative Financial Instruments
The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 6 *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 financial 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

	As at March 31, 2017 (unaudited)			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	---	467	---	467
Bonds				
Designated at fair value through profit or loss				
Governments	210	8,660	---	8,870
Municipalities	---	789	28	817
Corporate and other	---	5,978	149	6,127
	210	15,427	177	15,814
Available for sale				
Governments	149	1,899	---	2,048
Municipalities	---	164	---	164
Corporate and other	---	1,571	16	1,587
	149	3,634	16	3,799
	359	19,061	193	19,613
Stocks				
Designated at fair value through profit or loss	1,978	---	749	2,727
Available for sale	42	363	8	413
	2,020	363	757	3,140
Mortgages and other loans				
Designated at fair value through profit or loss	---	54	---	54
Derivative financial instruments				
Held for trading	---	248	1	249
Investment properties	---	---	1,236	1,236
General fund investments accounted at fair value	2,379	20,193	2,187	24,759
Segregated funds financial instruments	16,874	5,413	10	22,297
Total financial assets at fair value	19,253	25,606	2,197	47,056

	As at December 31, 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 funds financial instruments	16,758	4,871	12	21,641
Total financial assets at fair value	19,451	24,265	2,208	45,924

There were no transfers between Level 1 and Level 2 for the period ended March 31, 2017 and the year ended December 31, 2016.

There were no transfers from Level 2 to Level 3 during the period ended March 31, 2017 ($32 for the year ended December 31, 2016). The 2016 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 require 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 during the period ended March 31, 2017 and for the year ended December 31, 2016.

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 1.38% to 3.85% as at March 31, 2017 (1.32% to 9.06% as at December 31, 2016). 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 March 31, 2017 are the discount rate, which is between 5.00% and 9.00% (5.00% and 9.00% as at December 31, 2016) and the terminal capitalization rate, which is between 3.50% and 7.50%(3.50% and 7.75% as at December 31, 2016). The discount rate is based on market activity by type of building and 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 and location. This rate 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 the 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 were to use possible alternative assumptions affecting fair value, this would not have a significant impact on the Consolidated Financial Statements.

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

	As at March 31, 2017 (unaudited)							
	Balance as at December 31, 2016 $	**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 March 31, 2017 $**	**Total unrealized gains (losses) included in net income on investments still held $**
Bonds								
Designated at fair value through profit or loss	**177**	**2**	**---**	**---**	**(2)**	**---**	**177**	**2**
Available for sale	**42**	**---**	**---**	**---**	**(26)**	**---**	**16**	**---**
Stocks								
Designated at fair value through profit or loss	**731**	**7**	**---**	**45**	**(34)**	**---**	**749**	**7**
Available for sale	**8**	**---**	**---**	**---**	**---**	**---**	**8**	**---**
Derivative financial instruments								
Held for trading	**---**	**1**	**---**	**---**	**---**	**---**	**1**	**---**
Investment properties	**1,238**	**(9)**	**---**	**7**	**---**	**---**	**1,236**	**(9)**
General fund investments accounted at fair value	**2,196**	**1**	**---**	**52**	**(62)**	**---**	**2,187**	**---**
Segregated funds financial instruments	**12**	**---**	**---**	**4**	**(6)**	**---**	**10**	**---**
Total	**2,208**	**1**	**---**	**56**	**(68)**	**---**	**2,197**	**---**

	As at December 31, 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 funds financial instruments	5	(1)	---	24	(16)	---	12	(1)
Total	1,953	(22)	(3)	389	(141)	32	2,208	(21)

Sales and settlements for investment properties included transfer to own-use properties. No transfers were made for the period ended March 31, 2017 and for the year ended December 31, 2016.

Realized and unrealized gains (losses) included in net income and *Total unrealized gains (losses) included in net income on investments still held* are presented in the *Investment income* in the Income Statement, except for the value of segregated funds assets, which are not presented in the Income Statement but are included in the change in segregated funds net assets in Note 7 *Segregated Funds Net Assets. Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 9 *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:

	As at March 31, 2017 (unaudited)			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Classified as loans and receivables				
Bonds				
Governments	**---**	**10**	**127**	**137**
Corporate and other	**---**	**275**	**1,731**	**2,006**
	---	**285**	**1,858**	**2,143**
Mortgages and other loans	**---**	**3,362**	**---**	**3,362**
Total of assets classified as loans and receivables	**---**	**3,647**	**1,858**	**5,505**

	As at December 31, 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

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:

	As at March 31, 2017 (unaudited)			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value assessments				
Other liabilities				
Held for trading	**458**	**112**	**---**	**570**
Derivative financial instruments				
Held for trading	**3**	**242**	**40**	**285**
Total of liabilities classified as held for trading	**461**	**354**	**40**	**855**
Classified at amortized cost				
Other liabilities				
Securitization liabilities	**---**	**1,082**	**---**	**1,082**
Debentures	**---**	**1,026**	**---**	**1,026**
Total of liabilities classified at amortized cost	**---**	**2,108**	**---**	**2,108**

	As at December 31, 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

5 › Management of Risks Associated with Financial Instruments

a) Impairment of Financial Assets Classified as Available for Sale

During the period ended March 31, 2017 and the year ended December 31, 2016, the Company did not reclassify any unrealized losses of stocks classified as available for sale from the *Other comprehensive income* to *Investment income* in the Income Statement.

Since the financial 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:

	As at March 31, 2017 (unaudited)			As at December 31, 2016		
	Fair value **$**	**Unrealized losses** **$**	**Unrealized gains** **$**	Fair value $	Unrealized losses $	Unrealized gains $
Bonds						
Governments	**2,048**	**(5)**	**42**	2,079	(11)	34
Municipalities	**164**	**---**	**2**	161	---	1
Corporate and other	**1,587**	**(1)**	**30**	1,572	(6)	17
	3,799	**(6)**	**74**	3,812	(17)	52
Stocks	**413**	**(16)**	**18**	364	(34)	11
Total	**4,212**	**(22)**	**92**	4,176	(51)	63

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:

	As at March 31, 2017 (unaudited)					
	Less than 12 months		**12 months or over**		**Total**	
	Fair value **$**	**Unrealized losses** **$**	**Fair value** **$**	**Unrealized losses** **$**	**Fair value** **$**	**Unrealized losses** **$**
Bonds						
Governments	**361**	**(5)**	**1**	**---**	**362**	**(5)**
Municipalities	**15**	**---**	**---**	**---**	**15**	**---**
Corporate and other	**174**	**(1)**	**2**	**---**	**176**	**(1)**
	550	**(6)**	**3**	**---**	**553**	**(6)**
Stocks	**---**	**---**	**184**	**(16)**	**184**	**(16)**
Total	**550**	**(6)**	**187**	**(16)**	**737**	**(22)**

	As at December 31, 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)

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.

b) i) Credit Quality Indicators
Bonds by Investment Grade

	As at March 31, 2017 (unaudited)	As at December 31, 2016
	Carrying amount	
	$	$
AAA	**852**	1,070
AA	**6,707**	6,188
A	**10,150**	10,092
BBB	**3,750**	3,576
BB and lower	**146**	161
Total	**21,605**	21,087

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 $2,210 ($2,229 as at December 31, 2016).

Mortgages and Other Loans

	As at March 31, 2017 (unaudited)	As at December 31, 2016
	$	$
Insured mortgages	**2,134**	2,140
Conventional mortgages	**627**	636
Other loans	**550**	516
Total	**3,311**	3,292

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

b) ii) Past Due or Impaired Financial Assets
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. 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 in assumed to be impaired. Any impaired loan which is not insured and fully guaranteed is considered as impaired investment.

	As at March 31, 2017 (unaudited)			
	Bonds classified as loans and receivables $	**Mortgages $**	**Other loans $**	**Total $**
Gross values				
Not past due and not impaired	**1,975**	**2,695**	**538**	**5,208**
Past due and not impaired				
30 – 89 days in arrears	**---**	**2**	**12**	**14**
90 – 119 days in arrears	**---**	**3**	**2**	**5**
120 days and more in arrears	**---**	**---**	**1**	**1**
Impaired	**21**	**9**	**2**	**32**
Total of gross values	**1,996**	**2,709**	**555**	**5,260**
Specific provisions for losses	**4**	**2**	**---**	**6**
	1,992	**2,707**	**555**	**5,254**
Collective provisions	**---**	**---**	**5**	**5**
Total of net values	**1,992**	**2,707**	**550**	**5,249**

	As at December 31, 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

Foreclosed Properties
During the period ended March 31, 2017, the Company did not take possession of properties which it held as collateral on mortgages ($1 as at December 31, 2016). Foreclosed properties that the Company still held at the end of the period are presented as *Real estate held for resale* in the line *Other assets.*

Specific Provisions for Losses

	As at March 31, 2017 (unaudited)			
	Bonds classified as loans and receivables $	**Mortgages $**	**Other loans $**	**Total $**
Balance at beginning and at end	**4**	**2**	**---**	**6**

	As at December 31, 2016			
	Bonds classified as loans and receivables $	Mortgages $	Other loans $	Total $
Balance at beginning and at end	4	2	---	6

b) iii) Other Information on Credit Risk
Securities Borrowing
During the period ended March 31, 2017, the Company began borrowing securities. Borrowed securities are not recognized in the Statement of Financial Position given that the Company does not possess the benefits and risks associated with them. As part of these transactions, the Company gives guarantees in the form of securities. Guarantees in the form of securities remain recorded according to their nature as investment assets in the Statement of Financial Position given that the benefits and risks are retained. The interest income on securities given as guarantees are accounted in the investment income. The borrowing costs are recorded as *Financing charges*.

6 › 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.

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 direct 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 $248 ($261 as at December 31, 2016). The Company's exposure at the end of each period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

	As at March 31, 2017 (unaudited)					
	Notional amount				Fair value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Swap contracts	309	---	55	364	17	(2)
Futures contracts	497	---	---	497	---	(2)
Options	367	---	---	367	1	(3)
Currency contracts						
Forward contracts	2,354	86	---	2,440	10	(12)
Swap contracts	20	597	1,200	1,817	32	(112)
Interest rate contracts						
Swap contracts	524	2,484	3,074	6,082	188	(110)
Forward contracts	513	---	50	563	---	(4)
Other derivative contracts	1	2	343	346	1	(40)
Total	4,585	3,169	4,722	12,476	249	(285)

	As at December 31, 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)

	As at March 31, 2017 (unaudited)		
	Notional amount	Fair value	
	$	Positive $	Negative $
Derivative financial instruments not designated as hedge accounting	11,140	245	(278)
Net investment hedge	626	4	(5)
Fair value hedges			
Interest risk	697	---	(2)
Cash flow hedges			
Interest risk	13	---	---
Total of derivative financial instruments	12,476	249	(285)

	As at December 31, 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)

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 as at December 31, 2016). 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 periods ended March 31, 2017 and 2016, 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 (less than one year as at December 31, 2016). 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 *Comprehensive Income Statement*.

The Company used a hedging relationship in order to reduce its exposure to interest rate risk on financial liabilities classified as financial liabilities at amortized cost. To do this, the Company uses interest rate swap contracts with maturities ranging from less than 1 year to 9 years (less than 1 year to 9 years as at December 31, 2016).

The effective portion of the fair value hedging relationship is recorded in *Net income*. For the period ended March 31, 2017, the Company has recognized a loss of $3 on the hedging instruments (no gain or loss as at March 31, 2016) and a gain of $2 on the hedged items (no gain or loss as at March 31, 2016). For the period ended March 31, 2017, the Company has recognized an ineffectiveness of $1 (no ineffectiveness as at March 31, 2016).

Cash Flow Hedges
The Company used 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 one year (less than one year as at December 31, 2016). For the periods ended March 31, 2017 and 2016, the Company has recognized no ineffectiveness.

7 › Segregated Funds Net Assets

	As at March 31, 2017	As at December 31, 2016
	(unaudited)	
	$	$
Assets		
Cash, short-term and other investments	**1,355**	989
Bonds	**4,873**	4,460
Stocks	**16,428**	16,340
Derivative financial instruments	**---**	23
Other assets	**1,048**	189
	23,704	22,001
Liabilities		
Accounts payable and accrued expenses	**1,038**	175
Derivative financial instruments	**2**	---
	1,040	175
Net assets	**22,664**	21,826

The following table presents the change in segregated funds net assets:

	Three months ended March 31	
	2017	2016
	(unaudited)	
	$	$
Balance at beginning	**21,826**	19,777
Add:		
Amounts received from policyholders	**1,034**	963
Interest and dividends	**91**	96
Net realized gains	**142**	79
Net increase (decrease) in fair value	**342**	(72)
	23,435	20,843
Less:		
Amounts withdrawn by policyholders	**662**	740
Operating expenses	**109**	95
	771	835
Balance at end	**22,664**	20,008

8 › Share Capital

	As at March 31, 2017 (unaudited)		As at December 31, 2016	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	**106,205**	**1,499**	102,435	1,311
Shares issued on exercise of stock options	**153**	**7**	1,020	40
Shares issued	**---**	**---**	2,750	148
Balance at end	**106,358**	**1,506**	106,205	1,499
Preferred shares, Class A				
Balance at beginning and at end	**15,000**	**375**	15,000	375
Total of share capital		**1,881**		1,874

Stock Options

As at March 31, 2017, the number of outstanding stock options (in thousands) was 3,136 (2,798 as at December 31, 2016). For the period ended March 31, 2017, the Company granted 491 stock options exercisable at $55.85 (491 stock options exercisable at $40.91 for the year ended December 31, 2016).

Dividends

	Three months ended March 31			
	2017		2016	
	(unaudited)			
	Total $	**Per share (in dollars)**	Total $	Per share (in dollars)
Common shares	**37**	**0.35**	31	0.30
Preferred shares				
Class A – Series B	**1**	**0.29**	1	0.29
Class A – Series G	**3**	**0.27**	3	0.27
	4		4	
Total	**41**		35	

Dividends Declared and Not Recognized on Common Shares

A dividend of $0.35 per share was approved by the Board of Directors on May 11, 2017. This dividend was not recorded as a liability in the interim financial statements. This dividend will be paid on June 15, 2017 to the shareholders of record as of May 26, 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 common shares issued under the plan will be purchased on the secondary market.

9 › Accumulated Other Comprehensive Income

	Bonds	Stocks	Currency translation	Hedging	Total
	$	$	$	$	$
Balance as at December 31, 2016	**30**	**(17)**	**93**	**(66)**	**40**
Unrealized gains (losses)	**31**	**25**	**---**	**---**	**56**
Income taxes on unrealized gains (losses)	**(8)**	**(7)**	**---**	**---**	**(15)**
Other	**---**	**---**	**(4)**	**4**	**---**
Income taxes on other	**---**	**---**	**---**	**(1)**	**(1)**
	23	**18**	**(4)**	**3**	**40**
Realized losses (gains)	**2**	**---**	**---**	**---**	**2**
Income taxes on realized losses (gains)	**(1)**	**---**	**---**	**---**	**(1)**
	1	**---**	**---**	**---**	**1**
Balance as at March 31, 2017 (unaudited)	**54**	**1**	**89**	**(63)**	**81**
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
Balance as at December 31, 2015	43	(27)	107	(65)	58
Unrealized gains (losses)	16	(18)	---	---	(2)
Income taxes on unrealized gains (losses)	(4)	5	---	---	1
Other	---	---	(34)	24	(10)
Income taxes on other	---	---	---	(7)	(7)
	12	(13)	(34)	17	(18)
Realized losses (gains)	(7)	---	---	---	(7)
Income taxes on realized losses (gains)	2	---	---	---	2
	(5)	---	---	---	(5)
Balance as at March 31, 2016 (unaudited)	50	(40)	73	(48)	35

10 › Capital Management

The Company manages its capital on a consolidated basis. In the management of its capital and given its financial flexibility, the Company has set a target range of 175% to 200% for its solvency ratio. The solvency ratio was 222% as at March 31, 2017 (225% as at December 31, 2016). Hence, the Company has maintained a ratio satisfying both the regulatory requirements and the target level it has set for itself for each of these periods.

11 › 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.

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 mainly 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

	Three months ended March 31, 2017 (unaudited)					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Revenues						
Net premiums	434	648	341	451	67	1,941
Investment income	460	6	31	60	41	598
Other revenues	34	270	13	21	(20)	318
	928	924	385	532	88	2,857
Operating expenses						
Gross benefits and claims on contracts	235	464	256	280	46	1,281
Ceded benefits and claims on contracts	(69)	(8)	(17)	(7)	9	(92)
Net transfer to segregated funds	---	171	---	210	---	381
Increase (decrease) in insurance contract liabilities	477	8	(3)	18	(7)	493
Increase (decrease) in investment contract liabilities	---	---	6	---	---	6
Decrease (increase) in reinsurance assets	(11)	2	(4)	2	6	(5)
Commissions, general and other expenses	237	233	132	22	8	632
Financing charges	3	---	3	---	10	16
	872	870	373	525	72	2,712
Net income before income taxes and allocation of other activities	56	54	12	7	16	145
Allocation of other activities	15	(1)	2	---	(16)	---
Income before income taxes	71	53	14	7	---	145
Income taxes	11	14	4	2	---	31
Net income attributed to shareholders	60	39	10	5	---	114

	Three months ended March 31, 2016 (unaudited)					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Revenues						
Net premiums	411	513	321	318	60	1,623
Investment income	620	126	28	65	36	875
Other revenues	40	247	9	18	(26)	288
	1,071	886	358	401	70	2,786
Operating expenses						
Gross benefits and claims on contracts	213	376	247	238	36	1,110
Ceded benefits and claims on contracts	(69)	(7)	(17)	(6)	7	(92)
Net transfer to segregated funds	---	149	---	82	---	231
Increase (decrease) in insurance contract liabilities	674	132	(8)	66	---	864
Increase (decrease) in investment contract liabilities	---	---	5	---	---	5
Decrease (increase) in reinsurance assets	(42)	(4)	(8)	(1)	---	(55)
Commissions, general and other expenses	222	218	116	20	---	576
Financing charges	4	---	2	---	12	18
	1,002	864	337	399	55	2,657
Net income before income taxes and allocation of other activities	69	22	21	2	15	129
Allocation of other activities	13	(1)	2	1	(15)	---
Income before income taxes	82	21	23	3	---	129
Income taxes	14	11	1	1	---	27
Net income attributed to shareholders	68	10	22	2	---	102

Segmented Premiums

	Three months ended March 31, 2017 (unaudited)					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Gross premiums						
Invested in general fund	540	97	382	42	41	1,102
Invested in segregated funds	---	554	---	415	---	969
Total	540	651	382	457	41	2,071
Premiums ceded						
Invested in general fund	(106)	(3)	(41)	(6)	26	(130)
Net premiums	434	648	341	451	67	1,941

	Three months ended March 31, 2016 (unaudited)					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Gross premiums						
Invested in general fund	514	62	358	73	33	1,040
Invested in segregated funds	---	454	---	251	---	705
Total	514	516	358	324	33	1,745
Premiums ceded						
Invested in general fund	(103)	(3)	(37)	(6)	27	(122)
Net premiums	411	513	321	318	60	1,623

Segmented Assets and Liabilities

	As at March 31, 2017 (unaudited)					
	Individual		Group			
	Insurance $	Wealth Management $	Insurance $	Savings and Retirement $	Other $	Total $
Assets						
Invested assets	18,047	2,124	1,703	3,282	6,609	31,765
Segregated funds assets	---	13,746	---	8,918	---	22,664
Reinsurance assets	315	277	337	158	34	1,121
Other	96	---	---	---	3,348	3,444
Total assets	18,458	16,147	2,040	12,358	9,991	58,994
Liabilities						
Insurance contract liabilities and investment contract liabilities	17,784	1,710	2,164	3,416	(28)	25,046
Segregated funds liabilities	---	13,746	---	8,918	---	22,664
Other	184	51	3	1	6,177	6,416
Total liabilities	17,968	15,507	2,167	12,335	6,149	54,126

	As at December 31, 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 funds 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 funds 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

12 › 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.

	Three months ended March 31	
	2017	2016
	(unaudited)	
Net income attributed to common shareholders	**110**	98
Weighted average number of outstanding shares (in millions of units)	**106.2**	102.5
Basic earnings per share (in dollars)	**1.04**	0.96

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 in an average 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 period). For the three months ended March 31, 2017, an average of 93,338 antidilutive stock options (260,471 for the three months ended March 31, 2016) were excluded from the calculation.

	Three months ended March 31	
	2017	2016
	(unaudited)	
Net income attributed to common shareholders	**110**	98
Weighted average number of outstanding shares (in millions of units)	**106.2**	102.5
Add: dilutive effect of stock options granted and outstanding (in millions of units)	**1.0**	0.4
Weighted average number of outstanding shares on a diluted basis (in millions of units)	**107.2**	102.9
Diluted earnings per share (in dollars)	**1.03**	0.96

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.

13 › Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits and defined contribution plans.

The Company also 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.

Amounts Recognized in Net Income and Other Comprehensive Income

	Three months ended March 31 (unaudited)			
	2017		2016	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Benefit for all plan expenses				
Service cost				
Current service cost	**9**	**1**	9	1
Net interest	**1**	**---**	1	---
Components of the cost of defined benefits recognized in the net income	**10**	**1**	10	1
Re-measurement of net liabilities (assets) as defined benefits[1]				
Rate of return of assets (excluding amounts included in the net interest above)	**(12)**	**---**	(5)	---
Actuarial losses (gains) on financial assumption changes	**40**	**---**	100	1
Losses (gains) of components of the cost of defined benefits recognized in the accumulated other comprehensive income	**28**	**---**	95	1
Total of defined benefit cost components	**38**	**1**	105	2

[1] Market based assumptions, such as return on plan assets and changes in financial assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

Items that will not be reclassified subsequently to net income:

	Three months ended March 31 (unaudited)			
	2017		2016	
	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	**28**	**---**	95	1
Income taxes on remeasurement of post-employment benefits	**(7)**	**---**	(26)	---
Total	**21**	**---**	69	1

14 › Commitments

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 $662 ($624 as at December 31, 2016) of outstanding commitments as at March 31, 2017, of which $66 ($50 as at December 31, 2016) mature in 30 days, $258 ($277 as at December 31, 2016) mature in 31 to 365 days and $338 ($297 as at December 31, 2016) mature in more than one year.

Lines of Credit

As at March 31, 2017, the Company had operating lines of credit totalling $56 ($57 as at December 31, 2016). The lines of credit were not used as at March 31, 2017 and December 31, 2016. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

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 that had been 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.