Consolidated Financial Statements

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Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of IGM Financial Inc. have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the information presented, including selecting appropriate accounting principles and making judgments and estimates. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in this Annual Report is consistent with that in the Consolidated Financial Statements for comparable periods.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance of the reliability of financial information and the safeguarding of all assets controlled by the Company. These controls and supporting procedures include quality standards in hiring and training employees, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated extensively by the internal auditor and are subject to scrutiny by the external auditors.

Ultimate responsibility for the Consolidated Financial Statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting entirely of independent directors. This Committee reviews the Consolidated Financial Statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the external auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the external auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the Consolidated Financial Statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related findings.

Murray J. Taylor
Co-President and Chief Executive Officer

Charles R. Sims
Co-President and Chief Executive Officer

Gregory D. Tretiak
Executive Vice-President, Finance

Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

We have audited the accompanying consolidated financial statements of IGM Financial Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

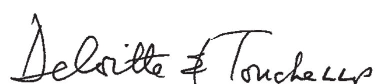
Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is 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 audits 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 IGM Financial Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Chartered Accountants
February 10, 2012
Winnipeg, Manitoba

Consolidated Statements of Earnings

For the years ended December 31 *(in thousands of Canadian dollars, except shares and per share amounts)*	2011	2010
Revenues		
Management fees	**$ 1,892,728**	$ 1,836,884
Administration fees	**344,887**	334,748
Distribution fees	**333,461**	296,181
Net investment income and other	**81,887**	78,235
Proportionate share of affiliate's earnings *(Note 9)*	**79,489**	62,639
	2,732,452	2,608,687
Expenses		
Commission	**894,860**	855,109
Non-commission *(Note 4)*	**637,487**	634,348
Interest	**102,807**	111,374
	1,635,154	1,600,831
Earnings before income taxes and discontinued operations	**1,097,298**	1,007,856
Income taxes *(Note 15)*	**250,497**	268,805
Net earnings from continuing operations	**846,801**	739,051
Net earnings from discontinued operations *(Note 3)*	**62,644**	1,753
Net earnings	**909,445**	740,804
Perpetual preferred share dividends	**8,850**	10,105
Net earnings available to common shareholders	**$ 900,595**	$ 730,699
Average number of common shares *(in thousands) (Note 24)*		
– Basic	**258,151**	261,855
– Diluted	**259,075**	262,867
Earnings per share *(in dollars) (Note 24)*		
Net earnings from continuing operations		
– Basic	**$ 3.25**	$ 2.78
– Diluted	**$ 3.24**	$ 2.77
Net earnings available to common shareholders		
– Basic	**$ 3.49**	$ 2.79
– Diluted	**$ 3.48**	$ 2.78

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Comprehensive Income

For the years ended December 31 *(in thousands of Canadian dollars)*	2011	2010
Net earnings	**$ 909,445**	$ 740,804
Other comprehensive income (loss), net of tax		
Employee benefits		
Net actuarial gains (losses), *net of tax of $11,293 and $9,010*	**(30,548)**	(24,359)
Available for sale securities		
Net unrealized gains (losses), *net of tax of $188 and $(2,132)*	**(1,788)**	8,085
Reclassification of realized (gains) losses to net earnings, *net of tax of $1,555 and $781*	**(3,488)**	(3,806)
	(5,276)	4,279
Investment in affiliate and other		
Other comprehensive income (loss), *net of tax of $57 and $(13)*	**816**	(10,691)
	(35,008)	(30,771)
Comprehensive income	**$ 874,437**	$ 710,033

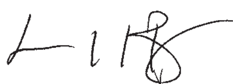
(See accompanying notes to consolidated financial statements.)

Consolidated Balance Sheets

(in thousands of Canadian dollars)	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Assets			
Cash and cash equivalents	**$ 1,052,423**	$ 1,573,626	$ 945,081
Securities *(Note 5)*	**292,432**	954,691	1,246,259
Accounts and other receivables	**281,982**	203,381	183,938
Loans *(Note 6)*	**4,085,929**	4,094,652	3,928,361
Derivative instruments *(Note 22)*	**88,092**	40,879	57,990
Other assets *(Note 8)*	**40,228**	56,647	126,547
Investment in affiliate *(Note 9)*	**612,480**	580,478	574,754
Capital assets	**109,953**	104,672	101,678
Deferred selling commissions *(Note 10)*	**750,763**	794,555	847,427
Deferred income taxes *(Note 15)*	**59,612**	67,618	55,901
Intangible assets *(Note 11)*	**1,117,858**	1,123,006	1,121,269
Goodwill *(Note 11)*	**2,640,523**	2,643,123	2,613,532
	$ 11,132,275	$ 12,237,328	$ 11,802,737
Liabilities			
Accounts payable and accrued liabilities	**$ 300,094**	$ 306,079	$ 274,340
Income taxes payable	**35,020**	129,420	102,541
Repurchase agreements *(Note 5)*	**227,280**	635,302	629,817
Derivative instruments *(Note 22)*	**111,424**	78,711	108,058
Deposits and certificates *(Note 12)*	**150,716**	834,801	907,343
Other liabilities *(Note 13)*	**357,959**	324,409	269,503
Obligations to securitization entities *(Note 7)*	**3,827,339**	3,505,451	3,310,084
Deferred income taxes *(Note 15)*	**308,968**	330,869	344,357
Long-term debt *(Note 16)*	**1,325,000**	1,775,000	1,575,000
	6,643,800	7,920,042	7,521,043
Shareholders' Equity			
Share capital			
Perpetual preferred shares	**150,000**	150,000	150,000
Common shares	**1,578,270**	1,567,725	1,562,925
Contributed surplus	**35,842**	37,785	37,845
Retained earnings	**2,726,285**	2,559,238	2,521,974
Accumulated other comprehensive income (loss)	**(1,922)**	2,538	8,950
	4,488,475	4,317,286	4,281,694
	$ 11,132,275	$ 12,237,328	$ 11,802,737

(See accompanying notes to consolidated financial statements.)

These financial statements were approved and authorized for issuance by the Board of Directors on February 10, 2012.



Murray J. Taylor
Director

John McCallum
Director

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)	SHARE CAPITAL: PERPETUAL PREFERRED SHARES (Note 17)	SHARE CAPITAL: COMMON SHARES (Note 17)	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 20)	TOTAL SHAREHOLDERS' EQUITY
2011						
Balance, beginning of year	**$ 150,000**	**$ 1,567,725**	**$ 37,785**	**$ 2,559,238**	**$ 2,538**	**$ 4,317,286**
Net earnings	**-**	**-**	**-**	**909,445**	**-**	**909,445**
Net actuarial losses on employee benefit plans, net of tax	**-**	**-**	**-**	**(30,548)**	**-**	**(30,548)**
Other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**(4,460)**	**(4,460)**
Total comprehensive income (loss)	**-**	**-**	**-**	**878,897**	**(4,460)**	**874,437**
Common shares						
Issued under stock option plan	**-**	**36,093**	**-**	**-**	**-**	**36,093**
Purchased for cancellation	**-**	**(25,548)**	**-**	**-**	**-**	**(25,548)**
Stock options						
Current period expense	**-**	**-**	**2,231**	**-**	**-**	**2,231**
Exercised	**-**	**-**	**(4,174)**	**-**	**-**	**(4,174)**
Perpetual preferred share dividends	**-**	**-**	**-**	**(8,850)**	**-**	**(8,850)**
Common share dividends	**-**	**-**	**-**	**(541,002)**	**-**	**(541,002)**
Common share cancellation excess and other *(Note 17)*	**-**	**-**	**-**	**(161,998)**	**-**	**(161,998)**
Balance, end of year	**$ 150,000**	**$ 1,578,270**	**$ 35,842**	**$ 2,726,285**	**$ (1,922)**	**$ 4,488,475**
2010						
Balance, beginning of year	$ 150,000	$ 1,562,925	$ 37,845	$ 2,521,974	$ 8,950	$ 4,281,694
Net earnings	-	-	-	740,804	-	740,804
Net actuarial losses on employee benefit plans, net of tax	-	-	-	(24,359)	-	(24,359)
Other comprehensive income (loss), net of tax	-	-	-	-	(6,412)	(6,412)
Total comprehensive income (loss)	-	-	-	716,445	(6,412)	710,033
Common shares						
Issued under stock option plan	-	28,573	-	-	-	28,573
Purchased for cancellation	-	(23,773)	-	-	-	(23,773)
Stock options						
Current period expense	-	-	2,587	-	-	2,587
Exercised	-	-	(2,647)	-	-	(2,647)
Perpetual preferred share dividends	-	-	-	(10,105)	-	(10,105)
Common share dividends	-	-	-	(536,053)	-	(536,053)
Common share cancellation excess and other *(Note 17)*	-	-	-	(133,023)	-	(133,023)
Balance, end of year	$ 150,000	$ 1,567,725	$ 37,785	$ 2,559,238	$ 2,538	$ 4,317,286

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

For the years ended December 31 *(in thousands of Canadian dollars)*	2011	2010
Operating activities – continuing operations		
Earnings before income taxes and discontinued operations	**$ 1,097,298**	$ 1,007,856
Income taxes paid	**(307,329)**	(260,825)
Adjustments to determine net cash from operating activities		
Commission amortization	**281,540**	291,751
Amortization of capital and intangible assets	**33,121**	32,342
Changes in operating assets and liabilities and other	**(90,288)**	(8,512)
	1,014,342	1,062,612
Commissions paid	**(237,748)**	(238,879)
	776,594	823,733
Financing activities – continuing operations		
Net decrease in deposits and certificates	**(3,593)**	(3,524)
Net (decrease) increase in obligations related to assets sold under repurchase agreements	**(408,022)**	5,486
Net increase in obligations to securitization entities	**318,619**	192,939
Issue of long-term debt	**-**	200,000
Repayment of long-term debt	**(450,000)**	-
Issue of common shares	**35,098**	33,180
Common shares purchased for cancellation	**(185,826)**	(156,919)
Perpetual preferred share dividends paid	**(8,850)**	(7,892)
Common share dividends paid	**(536,154)**	(537,557)
	(1,238,728)	(274,287)
Investing activities – continuing operations		
Purchase of securities	**(17,114)**	(6,773)
Proceeds from the sale of securities	**446,922**	287,321
Net increase in loans	**(370,360)**	(161,202)
Net additions to capital assets	**(19,844)**	(15,129)
Net cash used in acquisitions and additions to intangible assets	**(9,531)**	(44,128)
Proceeds on disposal of business *(Note 3)*	**198,693**	-
	228,766	60,089
(Decrease) increase in cash and cash equivalents from continuing operations	**(233,368)**	609,535
(Decrease) increase in cash and cash equivalents from discontinued operations	**(287,835)**	19,010
Cash and cash equivalents from continuing and discontinued operations, beginning of year	**1,573,626**	945,081
Cash and cash equivalents, end of year	**1,052,423**	1,573,626
Less: Cash and cash equivalents from discontinued operations, end of year	**-**	(287,835)
Cash and cash equivalents, end of year – continuing operations	**$ 1,052,423**	$ 1,285,791
Cash	**$ 96,966**	$ 99,496
Cash equivalents	**955,457**	1,186,295
	$ 1,052,423	$ 1,285,791
Supplemental disclosure of cash flow information from operating activities		
Amount of interest and dividends received	**$ 203,246**	$ 205,412
Amount of interest paid during the year	**$ 186,153**	$ 179,742

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

DECEMBER 31, 2011 AND 2010 *(In thousands of Canadian dollars, except shares and per share amounts)*

1. CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada, R3C 3B6. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). As these Consolidated Financial Statements represent the Company's initial annual presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 1, Presentation of Financial Statements, and IFRS 1, First-time Adoption of IFRS (IFRS 1). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

The Company's Consolidated Financial Statements were previously prepared in accordance with Canadian generally accepted accounting principles (previous Canadian GAAP). Previous Canadian GAAP differs in some areas from IFRS. In preparing these Consolidated Financial Statements, management has amended certain accounting policies and valuation methods applied in the previous Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these differences. Reconciliations and descriptions of the effect of the transition from previous Canadian GAAP to IFRS are included in Note 28.

Use of judgment, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment that significant influence exists for its investment in affiliate. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, deferred selling commissions, provisions and employee benefits. Actual results may differ from such estimates.

Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

Investment in affiliate represents the Company's investment in Great-West Lifeco Inc. (Lifeco) over which the Company has significant influence but not control and is accounted for using the equity method. The investment in Lifeco was initially recorded at cost and the carrying amount is increased or decreased to recognize the Company's share of comprehensive income and the dividends received since the date of acquisition.

Revenue recognition

Management fees are based on the net asset value of mutual fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from mutual fund and securities transactions are recognized on a trade date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

All financial assets are classified in one of the following categories: available for sale, at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Financial assets at fair value through profit or loss are financial assets classified as held for trading or upon initial recognition are designated by the Company as fair value through profit or loss. Financial assets are classified as held for trading if acquired with the intent to sell in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories.

All financial assets are carried at fair value in the Consolidated Balance Sheets, except loans and receivables which are carried at amortized cost using the effective interest method. Financial liabilities are classified either as financial liabilities measured at amortized cost using the effective interest method or as fair value through profit or loss, which are carried at fair value.

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

Cash and cash equivalents

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

Securities

Investment securities, which are recorded on a trade date basis, are classified as either available for sale or fair value through profit or loss.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary investment funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Earnings. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

Fair value through profit or loss securities are held for trading and are comprised of Canada Mortgage Bonds and fixed income securities. Unrealized and realized gains and losses as well as interest income on these securities are recorded in Net investment income and other in the Consolidated Statements of Earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans

Loans are classified as either held for trading or loans and receivables, based on the Company's intent to sell the loans in the near term.

Loans classified as held for trading are recorded at fair value, with changes in fair value recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans classified as loans and receivables are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, the collective allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by management suggests that losses have occurred but where such losses cannot yet be identified on an individual loan basis.

Derecognition

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

Deferred selling commissions

Commissions paid on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by the Company. Any unamortized deferred selling commission asset recognized on the initial sale of these mutual fund units is recorded as a disposal. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

Capital assets

Capital assets are recorded at cost of $274.5 million at December 31, 2011 (December 31, 2010 – $267.5 million; January 1, 2010 –$260.7 million), less accumulated amortization of $164.6 million (December 31, 2010 – $162.8 million; January 1, 2010 – $159.0 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 10 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill and intangible assets

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

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

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

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

Employee benefits

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

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

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities. The defined benefit pension plan assets are invested in proprietary equity, balanced and fixed income mutual funds and are carried at fair value.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-employment benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, and the expected return on plan assets. Benefits expense or income also includes past service costs or past service credits related to the pension plan, SERPs and other post-employment benefits. Unvested past service costs or credits are amortized over the vesting period which is the expected average remaining service life of the affected employee group for the pension plan and SERPs and over the period to full eligibility for the post-employment benefit plan. Vested past service costs or credits are recognized immediately in benefits expense or income.

The Company recognizes actuarial gains and losses immediately through other comprehensive income.

The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in Other assets or Other liabilities.

Share-based payments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

Income taxes

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

Earnings per share

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

Derivative financial instruments

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

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

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

Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets and the changes in fair value are recorded in the Consolidated Statements of Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future accounting changes

The Company continues to monitor the potential changes proposed by the International Accounting Standards Board (IASB) and to analyze the effect that changes in the standards may have on the Company's operations.

IFRS 7 Financial Instruments Disclosures

The IASB amended IFRS 7 which requires additional disclosures related to transfers of financial assets (securitization transactions). There will be no impact to the operating results or the financial position of the Company as this standard only affects disclosure. The standard is effective for annual periods beginning on or after July 1, 2011.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 that amends the classification and measurement criteria for financial instruments included within the scope of IAS 39. The standard is currently effective for annual periods beginning on or after January 1, 2015.

IFRS 10 Consolidated Financial Statements

The IASB issued IFRS 10 which introduces a single consolidation model for all entities which focuses on control, including the rights an investor has to variable returns resulting from its involvement with the investee and the investor's ability to affect those returns through its power over the investee. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013.

IFRS 12 Disclosures of Interests in Other Entities

The IASB issued IFRS 12 which integrates all of the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities into a single standard. The required disclosures provide information to evaluate the nature of, and risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial statements. The standard is effective for periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

The IASB issued IFRS 13 to consolidate all the fair value measurement and disclosure guidance into one standard. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires more extensive financial statement disclosure. The standard is effective on a prospective basis for periods beginning on or after January 1, 2013.

IAS 1 Presentation of Financial Statements

The IASB amended IAS 1 with respect to the presentation of other comprehensive income (OCI). The most significant change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether or not they will be reclassified subsequently to net earnings. The amendments are applied retroactively and effective for periods beginning on or after July 1, 2012.

IAS 19 Employee Benefits

The IASB issued IAS 19 that amends the measurement and presentation of defined benefit plans. Amendments include:

- The elimination of the deferral and amortization approach (corridor approach) for recognizing actuarial gains and losses in Net earnings. Actuarial gains and losses may be recognized immediately in net earnings or in OCI. Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods.
- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized in the period in which the plan amendments or curtailment occurs, without regard to vesting.
- The elimination of the concept of an expected return on assets (EROA). Amended IAS 19 requires the use of the discount rate in the place of EROA in the determination of the net interest component of the pension expense.

The amended standard requires additional disclosures in the financial statements. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013.

3. DISCONTINUED OPERATIONS

On November 16, 2011, the Company completed the sale of 100% of the common shares of M.R.S. Trust Company and M.R.S Inc. (MRS). Cash consideration was $198.7 million in addition to the repayment of $20 million of subordinated debt and the assumption of the liability related to amounts held on deposit with MRS by Investors Group Securities Inc.

In accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the operating results and cash flows of MRS, which were previously included in the Mackenzie reportable segment, have been classified as discontinued operations.

Net earnings from discontinued operations

	PERIOD ENDED NOVEMBER 15, 2011	YEAR ENDED DECEMBER 31, 2010
Revenues		
Fees	**$ 19,026**	$ 22,786
Net investment income and other	**13,490**	13,635
	32,516	36,421
Expenses	**26,778**	30,794
Earnings before income taxes	**5,738**	5,627
Income taxes		
Operations	**1,579**	1,807
Change in estimate related to tax filing positions	**(28,162)**	2,067
	(26,583)	3,874
	32,321	1,753
Gain on sale	**32,246**	-
Income taxes	**1,923**	-
	30,323	-
Net earnings from discontinued operations	**$ 62,644**	$ 1,753

Cash flows from discontinued operations

Included within the Company's cash flows are the following amounts attributable to discontinued operations:

	PERIOD ENDED NOVEMBER 15, 2011	YEAR ENDED DECEMBER 31, 2010
Net cash flows from operating activities	**$ 7,256**	$ 6,047
Net cash flows used in financing activities	**(32,867)**	(69,019)
Net cash flows from investing activities	**164,431**	81,982
Net increase in cash and cash equivalents	**$ 138,820**	$ 19,010

4. NON-COMMISSION EXPENSE

	2011	2010
Salaries and employee benefits	**$ 294,501**	$ 291,198
Amortization of capital and intangible assets	**33,121**	32,342
Occupancy	**49,023**	44,283
Other	**260,842**	266,525
	$ 637,487	$ 634,348

5. SECURITIES

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	COST	FAIR VALUE	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:						
Common shares	**$ 4,876**	**$ 4,876**	$ 5,843	$ 7,698	$ 236,383	$ 237,085
Proprietary investment funds	**30,725**	**31,173**	32,214	37,794	41,259	41,341
Fixed income securities	**-**	**-**	243,939	243,748	314,260	315,387
	35,601	**36,049**	281,996	289,240	591,902	593,813
Fair value through profit or loss:						
Canada Mortgage Bonds	**220,432**	**227,206**	647,318	637,850	647,318	624,703
Fixed income securities	**30,817**	**29,177**	31,301	27,601	31,443	27,743
	251,249	**256,383**	678,619	665,451	678,761	652,446
	$ 286,850	**$ 292,432**	$ 960,615	$ 954,691	$ 1,270,663	$ 1,246,259

Available for sale

Common shares and proprietary investment funds

Impairment losses on available for sale securities are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings. The Company has recorded impairment losses on certain available for sale securities of $1.1 million in 2011 (2010 – $4.0 million).

Fixed income securities

Fixed income securities related to MRS were nil (December 31, 2010 – $243.7 million; January 1, 2010 – $315.4 million). These securities were disposed of as part of the sale of MRS (Note 3).

Fair value through profit or loss

Canada Mortgage Bonds

As part of the Company's interest rate risk management activities relating to its mortgage banking operations, Canada Mortgage Bonds were purchased and subsequently sold under repurchase agreements, which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future.

These securities had a fair value of $227.2 million at December 31, 2011. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of $227.3 million. The interest expense related to these obligations is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

5. SECURITIES *(continued)*

Fixed income securities

Fixed income securities of $29.2 million at December 31, 2011 (December 31, 2010 – $27.6; January 1, 2010 – $27.7) were comprised of the restructured notes of the master asset vehicle (MAV) conduits.

The Company's valuation of the restructured notes of the MAV conduits was based on its assessment of the prevailing conditions at December 31, 2011. The estimated fair value reflects the allocation of the floating rate notes the Company received which are expected to mature in January 2017. The Company estimated the fair value of the senior and subordinated notes by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information. The fair value of the Ineligible Asset Tracking long-term floating rate notes was estimated using observable market inputs from independent pricing sources or by using discounted expected cash flows reflecting the Company's best available information, including reference to prevailing market yields on debt instruments in the Canadian market.

6. LOANS

	CONTRACTUAL MATURITY					
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	DECEMBER 31, 2011 TOTAL	DECEMBER 31, 2010 TOTAL	JANUARY 1, 2010 TOTAL
Loans and receivables						
Residential mortgages	**$ 519,700**	**$ 3,269,969**	**$ 4,944**	**$ 3,794,613**	$ 3,591,022	$ 3,389,578
Investment loans	**-**	**-**	**-**	**-**	283,570	305,335
	$ 519,700	**$ 3,269,969**	**$ 4,944**	**3,794,613**	3,874,592	3,694,913
Less: Collective allowance				**793**	4,338	6,943
				3,793,820	3,870,254	3,687,970
Held for trading				**292,109**	224,398	240,391
				$ 4,085,929	$ 4,094,652	$3,928,361

The change in the collective allowance for credit losses is as follows:	2011	2010
Balance, beginning of year	**$ 4,338**	$ 6,943
Write-offs	**-**	(121)
Recoveries	**(70)**	20
Provision for credit losses	**285**	(2,504)
Allowance for credit losses – sale of MRS	**(3,760)**	-
Balance, end of year	**$ 793**	$ 4,338

Loans related to MRS were nil (December 31, 2010 – $394.7 million; January 1, 2010 – $404.4 million). These loans were disposed of as part of the sale of MRS (Note 3).

Total impaired loans as at December 31, 2011 were $1,078 (December 31, 2010 – $1,106; January 1, 2010 – $1,495).

Total interest income on loans classified as loans and receivables was $147.6 million (2010 – $151.5 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $84.3 million (2010 – $68.5 million). These amounts were included in Net investment income and other. Net investment income and other also includes mortgage banking related gains on sales and fair value adjustments, and other items.

7. SECURITIZATIONS

The Company enters into transactions that result in the transfer of financial assets to third parties. The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company has retained prepayment risk and certain elements of credit risk associated with the transferred assets. Accordingly, the Company has recorded these loans on its balance sheets at a carrying value of $3.76 billion at December 31, 2011 (December 31, 2010 – $3.47 billion; January 1, 2010 – $3.26 billion), and has recorded an offsetting liability, Obligations to securitization entities, of $3.83 billion (December 31, 2010 – $3.51 billion; January 1, 2010 – $3.31 billion) which is carried at amortized cost.

The Company's credit risk on its securitization activities is limited through the use of insurance as substantially all securitized mortgages are insured. Additional information related to the management of credit risk can be found in the risk management discussion (Note 21).

8. OTHER ASSETS

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Deferred and prepaid expenses	**$ 30,362**	$ 36,449	$ 64,016
Accrued benefit asset *(Note 14)*	**-**	12,822	43,382
Other	**9,866**	7,376	19,149
	$ 40,228	$ 56,647	$ 126,547

Total other assets of $14.7 million as at December 31, 2011 are expected to be realized within one year.

9. INVESTMENT IN AFFILIATE

The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings. At December 31, 2011, the Company held 37,787,388 (December 31, 2010 – 37,787,388; January 1, 2010 – 37,787,388) shares of Lifeco, which represented an equity interest of 4.0% (December 31, 2010 – 4.0%; January 1, 2010 – 4.0%). The Company uses the equity method to account for its investment in Lifeco as it exercises significant influence. Significant influence arises from several factors, including but not limited to, the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and services agreements that influence the financial and operating policies of both companies.

	2011	2010
Balance, beginning of year	**$ 580,478**	$ 574,754
Proportionate share of earnings	**74,529**	70,799
Proportionate share of affiliate's provision	**4,960**	(8,160)
Dividends received	**(46,478)**	(46,478)
Proportionate share of other comprehensive income (loss) and other adjustments	**(1,009)**	(10,437)
Balance, end of year	**$ 612,480**	$ 580,478
Share of equity, end of year	**$ 479,710**	$ 447,472
Fair value, end of year	**$ 768,973**	$ 996,076

Lifeco owned 9,203,309 shares of the Company at December 31, 2011.

Lifeco's financial information as at December 31, 2011 can be obtained in its publicly available information.

10. DEFERRED SELLING COMMISSIONS

	December 31, 2011	December 31, 2010	January 1, 2010
Cost	**$ 1,551,410**	$ 1,623,053	$ 1,633,315
Less: accumulated amortization	**(800,647)**	(828,498)	(785,888)
	$ 750,763	$ 794,555	$ 847,427
Changes in deferred selling commissions:			
Balance, beginning of year	**$ 794,555**	$ 847,427	
Changes due to:			
Sales of mutual funds	**237,748**	238,879	
Amortization	**(281,540)**	(291,751)	
	(43,792)	(52,872)	
Balance, end of year	**$ 750,763**	$ 794,555	

Amortization of deferred selling commissions includes $44.3 million (2010 – $48.2 million) of disposals related to redemption activity and is recorded in Commission expense in the Consolidated Statements of Earnings.

11. GOODWILL AND INTANGIBLE ASSETS

The components of goodwill and intangible assets are as follows:

	FINITE-LIFE		INDEFINITE-LIFE			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
DECEMBER 31, 2011						
Cost	**$ 77,610**	**$ 107,994**	**$ 739,750**	**$ 285,177**	**$ 1,210,531**	**$ 2,640,523**
Less: accumulated amortization	**(58,165)**	**(34,508)**	**-**	**-**	**(92,673)**	**-**
	$ 19,445	**$ 73,486**	**$ 739,750**	**$ 285,177**	**$ 1,117,858**	**$ 2,640,523**
Changes in goodwill and intangible assets:						
Balance, beginning of year	**$ 20,894**	**$ 77,185**	**$ 739,750**	**$ 285,177**	**$ 1,123,006**	**$ 2,643,123**
Additions	**6,513**	**3,581**	**-**	**-**	**10,094**	**-**
Disposals	**(577)**	**(120)**	**-**	**-**	**(697)**	**(2,600)**
Amortization	**(7,385)**	**(7,160)**	**-**	**-**	**(14,545)**	**-**
Balance, end of year	**$ 19,445**	**$ 73,486**	**$ 739,750**	**$ 285,177**	**$ 1,117,858**	**$ 2,640,523**
DECEMBER 31, 2010						
Cost	$ 71,679	$ 104,532	$ 739,750	$ 285,177	$ 1,201,138	$ 2,643,123
Less: accumulated amortization	(50,785)	(27,347)	-	-	(78,132)	-
	$ 20,894	$ 77,185	$ 739,750	$ 285,177	$ 1,123,006	$ 2,643,123
Changes in goodwill and intangible assets:						
Balance, beginning of year	$ 22,889	$ 75,881	$ 737,322	$ 285,177	$ 1,121,269	$ 2,613,532
Additions	6,367	8,471	2,428	-	17,266	29,591
Disposals	(24)	(259)	-	-	(283)	-
Amortization	(8,338)	(6,908)	-	-	(15,246)	-
Balance, end of year	$ 20,894	$ 77,185	$ 739,750	$ 285,177	$ 1,123,006	$ 2,643,123
JANUARY 1, 2010						
Cost	$ 66,076	$ 96,326	$ 737,322	$ 285,177	$ 1,184,901	$ 2,613,523
Less: accumulated amortization	(43,187)	(20,445)	-	-	(63,632)	-
	$ 22,889	$ 75,881	$ 737,322	$ 285,177	$ 1,121,269	$ 2,613,532

11. GOODWILL AND INTANGIBLE ASSETS *(continued)*

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

	DECEMBER 31, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	GOODWILL	**INDEFINITE LIFE INTANGIBLE ASSETS**	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
Investors Group	**$ 1,347,781**	**$ -**	$ 1,347,781	$ -	$ 1,347,781	$ -
Mackenzie	**1,170,149**	**1,002,681**	1,172,749	1,002,681	1,166,842	1,002,681
Other	**122,593**	**22,246**	122,593	22,246	98,909	19,818
Total	**$ 2,640,523**	**$ 1,024,927**	$ 2,643,123	$ 1,024,927	$ 2,613,532	$ 1,022,499

The recoverable amount of goodwill for all CGUs at December 31, 2011 is based on fair value less costs to sell. The valuation models used to assess fair value utilized assumptions that included levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data from comparable transactions.

The fair value less costs to sell was compared with the carrying amount of goodwill and indefinite life intangible assets and it was determined there was no impairment in the value of these assets.

12. DEPOSITS AND CERTIFICATES

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

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, securities, loans, and accounts and other receivables amounting to $150.7 million (December 31, 2010 – $834.8 million; January 1, 2010 – $907.3 million) related to deposits and certificates.

		TERM TO MATURITY					
	DEMAND	**1 YEAR OR LESS**	**1–5 YEARS**	**OVER 5 YEARS**	**DECEMBER 31 2011 TOTAL**	DECEMBER 31 2010 TOTAL	JANUARY 1 2010 TOTAL
Deposits	**$ 121,666**	**$ 9,299**	**$ 13,634**	**$ 2,050**	**$ 146,649**	$ 830,398	$ 902,637
Certificates	**-**	**300**	**1,200**	**2,567**	**4,067**	4,403	4,706
	$ 121,666	**$ 9,599**	**$ 14,834**	**$ 4,617**	**$ 150,716**	$ 834,801	$ 907,343

Deposits related to MRS were nil (December 31, 2010 – $680.5 million; January 1, 2010 – $749.5 million). These deposits were disposed of as part of the sale of MRS (Note 3).

13. OTHER LIABILITIES

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Dividends payable	**$ 140,166**	$ 135,317	$ 134,609
Interest payable	**26,719**	34,564	31,029
Accrued benefit liabilities *(Note 14)*	**115,105**	77,422	54,315
Provisions	**54,416**	53,805	35,212
Other	**21,553**	23,301	14,338
	$ 357,959	$ 324,409	$ 269,503

The Company establishes restructing provisions related to business acquisitions and divestitures and other provisions in the normal course of its operations. Changes in provisions during 2011 consisted of additional estimates of $18.6 million and payments of $18.0 million.

Total other liabilities of $210.0 million as at December 31, 2011 are expected to be realized within one year.

14. EMPLOYEE BENEFITS

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

An actuarial valuation is performed for funding purposes every three years for the registered defined benefit pension plan. The most recent actuarial valuation was completed as at December 31, 2009 and the next valuation will be completed as at December 31, 2012. Based on the most recent actuarial valuation, currently the Company does not expect to make contributions in 2012.

Plan assets, benefit obligations and funded status:

	2011			2010		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	**$ 226,584**	**$ -**	**$ -**	$ 206,924	$ -	$ -
Employee contributions	**4,007**	**-**	**-**	3,828	-	-
Employer contributions	**-**	**-**	**-**	505	-	-
Benefits paid	**(7,642)**	**-**	**-**	(8,110)	-	-
Expected return	**15,733**	**-**	**-**	14,354	-	-
Actuarial (losses) gains	**(31,536)**	**-**	**-**	9,083	-	-
Balance, end of year	**207,146**	**-**	**-**	226,584	-	-
Accrued benefit obligation						
Balance, beginning of year	**213,762**	**36,218**	**32,818**	163,542	16,822	26,759
Benefits paid	**(7,642)**	**(1,382)**	**(1,087)**	(8,110)	(948)	(1,002)
Current service cost	**8,469**	**858**	**919**	6,049	-	776
Employee contributions	**4,007**	**-**	**-**	3,828	-	-
Interest cost	**12,106**	**2,058**	**1,714**	11,099	1,043	1,683
Past service cost	**-**	**4,287**	**-**	-	17,131	1,674
Actuarial losses (gains)	**10,173**	**(70)**	**202**	37,354	2,170	2,928
Balance, end of year	**240,875**	**41,969**	**34,566**	213,762	36,218	32,818
Funded status – plan surplus (deficit)	**(33,729)**	**(41,969)**	**(34,566)**	12,822	(36,218)	(32,818)
Unamortized past service cost	**-**	**2,482**	**(7,323)**	-	-	(8,386)
Accrued benefit asset (liability)	**$ (33,729)**	**$ (39,487)**	**$ (41,889)**	$ 12,822	$ (36,218)	$ (41,204)
Actuarial assumptions to calculate benefit obligation						
Discount rate	**5.35%**	**4.95%-5.30%**	**5.00%**	5.60%	5.40%	5.20%
Rate of compensation increase	**4.36%**	**4.36%**	**N/A**	4.36%	4.36%	N/A

14. EMPLOYEE BENEFITS *(continued)*

Summarized plan information:

	2011			2010		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS
Present value of defined benefit obligation	**$ 240,875**	**$ 41,969**	**$ 34,566**	$ 213,762	$ 36,218	$ 32,818
Fair value of plan assets	**207,146**	**-**	**-**	226,584	-	-
(Deficit)/surplus in the plan	**$ (33,729)**	**$ (41,969)**	**$ (34,566)**	$ 12,822	$ (36,218)	$ (32,818)
Experience gains (losses) on:						
Plan liabilities	**$ (10,173)**	**$ 70**	**$ (202)**	$ (37,354)	$ (2,170)	$ (2,928)
Plan assets	**(31,536)**	**N/A**	**N/A**	9,083	N/A	N/A

Asset allocation of defined benefit pension plan by asset category:

	2011	2010
Equity securities	**64.4 %**	66.0 %
Fixed income securities	**33.9 %**	33.0 %
Cash and cash equivalents	**1.7 %**	1.0 %
	100.0 %	100.0 %

In determining the assumption for the expected long-term rate of return on assets for the defined benefit pension plan, the Company considered the historical returns and the future expectations for returns for each asset class as well as the investment policy of the plan. As a result, the assumption for the expected long-term rate of return on assets for 2011 was 7.00% (2010 – 7.00%). In 2011, the actual return on plan assets was $(15.8) million (2010: $23.4 million).

Benefit expense:

	2011			2010		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	**$ 8,469**	**$ 858**	**$ 919**	$ 6,049	$ -	$ 776
Past service cost	**-**	**1,805**	**(1,063)**	-	17,131	(786)
Interest cost on accrued benefit obligation	**12,106**	**2,058**	**1,714**	11,099	1,043	1,683
Expected return on plan assets	**(15,733)**	**-**	**-**	(14,354)	-	-
	$ 4,842	**$ 4,721**	**$ 1,570**	$ 2,794	$ 18,174	$ 1,673

14. EMPLOYEE BENEFITS *(continued)*

Actuarial assumptions to calculate benefit expense:

	2011			2010		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	**5.60%**	**5.40%-5.50%**	**5.20%**	6.75%	6.38%	6.20%
Expected long-term rate of return on plan assets	**7.00%**	**N/A**	**N/A**	7.00%	N/A	N/A
Rate of compensation increase	**4.36%**	**4.36%**	**N/A**	4.36%	4.36%	N/A
Health care cost trend rate(1)	**N/A**	**N/A**	**6.60%**	N/A	N/A	6.70%

(1) Trending to 4.50% in 2029 and remaining at that rate thereafter.

The cumulative amount of actuarial gains and losses recognized in other comprehensive income as at December 31, 2011 is $75.2 million (2010 – $33.4 million).

Sensitivity analysis:

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-employment benefit obligation of $2.6 million as at December 31, 2011. The increase in the 2011 other post-employment benefit expense would not be significant. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-employment benefit obligation of $2.2 million as at December 31, 2011. The decrease in the 2011 other post-employment benefit expense would not be significant.

Group RSP

In addition, the Company maintains a group RSP available only to certain employees. In 2011, the Company's contributions totalling $5.3 million (2010 – $5.3 million) were expensed as paid.

15. INCOME TAXES

Income tax expense on continuing operations:

	2011	2010
Income taxes recognized in net earnings		
Current taxes	**$ 252,478**	$ 283,335
Deferred taxes	**(1,981)**	(14,530)
	$ 250,497	$ 268,805
Deferred income taxes recovery in retained earnings	**$ (11,293)**	$ (9,010)

Effective income tax rate on continuing operations:

	2011	2010
Income taxes at Canadian federal and provincial statutory rates	**28.15 %**	30.06 %
Effect of:		
Proportionate share of affiliate's earnings *(Note 9)*	**(1.92)**	(2.11)
Loss consolidation *(Note 26)*	**(2.33)**	-
Other items	**(0.94)**	(1.52)
Proportionate share of affiliate's provision *(Note 9)*	**(0.13)**	0.24
Effective income tax rate	**22.83 %**	26.67 %

As of January 1, 2011, the federal corporate tax rate decreased from 18% to 16.5%. As of July 1, 2011, the Ontario provincial corporate tax rate decreased from 12% to 11.5%.

Deferred income taxes

Sources of deferred income taxes:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax assets			
Accrued benefit liabilities	**$ 31,069**	$ 20,905	$ 14,665
Loss carryforwards	**19,501**	11,416	7,195
Other	**41,940**	71,291	85,182
	92,510	103,612	107,042
Deferred income tax liabilities			
Deferred selling commissions	**197,252**	213,979	238,158
Intangible assets	**134,339**	136,888	133,457
Accrued benefit asset	**-**	3,462	11,714
Other	**10,275**	12,534	12,169
	341,866	366,863	395,498
	$ 249,356	$ 263,251	$ 288,456

Deferred tax assets and liabilities consisted of:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets	**$ 59,612**	$ 67,618	$ 55,901
Deferred tax liabilities	**308,968**	330,869	344,357
	$ 249,356	$ 263,251	$ 288,456

As at December 31, 2011, the Company has non-capital losses of $5.1 million (2010 – $38.5 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2023 – $1.7 million; 2024 – $1.1 million; 2025 – $0.9 million; 2026 – $0.4 million; 2027 – $0.3 million; 2028 – $0.7 million.

16. LONG-TERM DEBT

MATURITY	RATE	SERIES	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
May 9, 2011	6.75%	2001	**$ -**	$ 450,000	$ 450,000
March 7, 2018	6.58%	2003	**150,000**	150,000	150,000
April 8, 2019	7.35%	2009	**375,000**	375,000	375,000
December 13, 2027	6.65%	1997	**125,000**	125,000	125,000
May 9, 2031	7.45%	2001	**150,000**	150,000	150,000
December 31, 2032	7.00%	2002	**175,000**	175,000	175,000
March 7, 2033	7.11%	2003	**150,000**	150,000	150,000
December 10, 2040	6.00%	2010	**200,000**	200,000	-
			$ 1,325,000	$ 1,775,000	$ 1,575,000

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

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

Interest expense relating to long-term debt was $102.8 million (2010 – $111.4 million).

The $450.0 million 2001 Series 6.75% debentures matured and were repaid on May 9, 2011.

On December 9, 2010, the Company issued $200.0 million of 6.00% debentures maturing December 10, 2040.

17. SHARE CAPITAL

Authorized

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares

Issued and outstanding

	2011		2010	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	**6,000,000**	**$ 150,000**	6,000,000	$ 150,000
Common shares:				
Balance, beginning of year	**259,717,507**	**$ 1,567,725**	262,633,255	$ 1,562,925
Issued under Stock Option Plan *(Note 19)*	**1,125,981**	**36,093**	1,040,952	28,573
Purchased for cancellation	**(4,185,000)**	**(25,548)**	(3,956,700)	(23,773)
Balance, end of year	**256,658,488**	**$ 1,578,270**	259,717,507	$ 1,567,725

Normal course issuer bid

In 2011, 4,185,000 (2010 - 3,956,700) shares were purchased at a cost of $185.8 million (2010 – $156.9 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid, effective for one year, on April 12, 2011. Pursuant to this bid, the Company may purchase up to 12.9 million or 5% of its common shares outstanding as at March 31, 2011. On April 12, 2010, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.1 million or 5% of its common shares outstanding as at March 31, 2010.

18. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include trust companies, securities advisors, securities dealers and mutual fund dealers. In addition, during the third quarter of 2010, certain subsidiaries of the Company applied to be registered as Investment Fund Managers with the applicable securities commissions as required under National Instrument 31-103. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was $1,325.0 million at December 31, 2011, compared to $1,775.0 million at December 31, 2010. The decrease of $450.0 million is related to the maturity of the 2001 Series, 6.75% debentures on May 9, 2011. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of $150 million remain unchanged.

The Company purchased 4,185,000 common shares during the year ended December 31, 2011 at a cost of $185.8 million under its normal course issuer bid (Note 17). The Company commenced a normal course issuer bid on April 12, 2011 to purchase up to 5% of its common shares in order to provide flexibility to purchase common shares as conditions warrant. Other activities in 2011 included the declaration of perpetual preferred share dividends of $8.9 million or $1.475 per share and common share dividends of $541.0 million or $2.10 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

19. SHARE-BASED PAYMENTS

Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met. At December 31, 2011, 12,450,941 (2010 – 13,576,922) common shares were reserved for issuance under the Plan.

During 2011, the Company granted 876,820 options to employees (2010 - 1,182,125). The weighted-average fair value of options granted during the year ended December 31, 2011 has been estimated at $6.59 per option (2010 – $5.53) using the Black-Scholes option pricing model. The weighted average share price at the grant dates was $47.47. The assumptions used in these valuation models include:

	2011	2010
Exercise price	**$ 46.70**	$ 42.15
Risk-free interest rate	**3.02 %**	3.11 %
Expected option life	**6 years**	6 years
Expected volatility	**22.00 %**	22.00 %
Expected dividend yield	**4.39 %**	4.87 %

19. SHARE-BASED PAYMENTS *(continued)*

Stock option plan *(continued)*

Expected volatility has been estimated based on the historic volatility of the Company's share price over 6 years which is reflective of the expected option life. Stock options were exercised regularly throughout 2011 and the average share price in 2011 was $45.79.

The Company recorded compensation expense related to its stock option program of $2.2 million (2010 – $2.6 million).

	2011		2010	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, beginning of year	**8,958,494**	**$ 37.59**	9,415,005	$ 35.76
Granted	**876,820**	**46.70**	1,182,125	42.15
Exercised	**(1,125,981)**	**28.34**	(1,040,952)	24.91
Forfeited	**(294,941)**	**41.44**	(597,684)	39.87
Balance, end of year	**8,414,392**	**$ 39.64**	8,958,494	$ 37.59
Exercisable, end of year	**3,737,122**	**$ 37.90**	4,234,649	$ 34.86

Options outstanding at December 31, 2011	EXPIRY DATE	EXERCISE PRICE ($)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2012	**27.81**	**29,650**	**25,150**
	2013	**25.66 - 28.66**	**569,765**	**569,765**
	2014	**33.52 - 35.77**	**757,909**	**518,273**
	2015	**37.09 - 37.78**	**1,311,199**	**954,931**
	2016	**46.68**	**568,866**	**391,737**
	2017	**50.60 - 50.92**	**1,088,336**	**455,582**
	2018	**42.09 - 44.60**	**924,646**	**352,683**
	2019	**26.67 - 44.00**	**1,283,154**	**330,416**
	2020	**40.45 - 42.82**	**1,044,377**	**138,585**
	2021	**42.49 - 46.72**	**836,490**	**-**
			8,414,392	**3,737,122**

19. SHARE-BASED PAYMENTS *(continued)*

Performance share units

In 2011, the Company introduced a Performance Share Unit (PSU) plan for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. Under the terms of the plan, PSUs are awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Company's common shares. The PSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional PSUs and deferred share units are issued in respect of dividends payable on common shares based on a value of the PSU or deferred share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of $2.6 million in 2011 and a liability of $2.5 million at December 31, 2011.

Share purchase plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $9.8 million (2010 – $9.4 million).

Deferred share unit plan

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual retainer in the form of DSUs and may elect to receive the balance of their annual retainer in cash or DSUs. Directors may elect to receive their attendance fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of deferred share unit). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2011, the fair value of the DSUs outstanding was $13.3 million (2010 – $11.3 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	NET UNREALIZED GAIN (LOSSES), NET OF TAX		
2011	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
Balance, beginning of year	**$ 5,600**	**$ (3,062)**	**$ 2,538**
Other comprehensive income (loss)	**(5,276)**	**816**	**(4,460)**
Balance, end of year	**$ 324**	**$ (2,246)**	**$ (1,922)**
2010			
Balance, beginning of year	$ 1,321	$ 7,629	$ 8,950
Other comprehensive income (loss)	4,279	(10,691)	(6,412)
Balance, end of year	$ 5,600	$ (3,062)	$ 2,538

21. RISK MANAGEMENT

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

Liquidity risk related to financial instruments

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due.

The Company's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by Committees of the Board of Directors.

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

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are sold or securitized to:

- Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;
- Third parties, including CHMC or Canadian bank sponsored securitization trusts; or
- Institutional investors through private placements.

Certain subsidiaries of Investors Group are approved issuers of National Housing Act Mortgage Backed Securities (NHA MBS) and are approved sellers into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides the Company with additional funding sources for residential mortgages. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for the trust subsidiary which engages in financial intermediary activities are based on policies approved by a committee of its Board of Directors. As at December 31, 2011, the trust subsidiary's liquidity was in compliance with these policies.

The Company's contractual maturities were as follows:

As at December 31, 2011 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	$ 121.7	$ 9.6	$ 14.8	$ 4.6	$ 150.7
Derivative instruments	-	34.2	73.1	4.1	111.4
Obligations to securitization entities	-	547.0	3,261.0	19.3	3,827.3
Long-term debt	-	-	-	1,325.0	1,325.0
Operating leases[1]	-	46.9	135.4	80.3	262.6
Total contractual obligations	$ 121.7	$ 637.7	$ 3,484.3	$ 1,433.3	$ 5,677.0

(1) Includes office space and equipment used in the normal course of business.
Lease payments are charged to earnings in the period of use.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's operating lines of credit. The Company's operating lines of credit with various Schedule I Canadian chartered banks totalled $325 million as at December 31, 2011, unchanged from December 31, 2010. The operating lines of credit as at December 31, 2011 consisted of committed lines of $150 million (2010 – $150 million) and uncommitted lines of $175 million (2010 – $175 million). The Company has accessed its uncommitted operating lines of credit in the past; however, any advances made by the banks under the uncommitted operating lines are at the banks' sole discretion. As at December 31, 2011 and 2010, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

21. RISK MANAGEMENT *(continued)*

Liquidity risk related to financial instruments *(continued)*

The Company accessed capital markets most recently in December 2010; however, its ability to access capital markets to raise funds in future is dependent on market conditions.

The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2010.

Credit risk related to financial instruments

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

At December 31, 2011, cash and cash equivalents of $1,052.4 million consisted of cash balances of $97.0 million on deposit with Canadian chartered banks and cash equivalents of $955.4 million. Cash equivalents are comprised primarily of Government of Canada treasury bills totalling $521.0 million, provincial government and government guaranteed commercial paper of $340.4 million and bankers' acceptances issued by Canadian chartered banks of $93.7 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of $227.2 million and fixed income securities which are comprised of the restructured notes of the MAV conduits with a fair value of $29.2 million. These fair values represent the maximum exposure to credit risk at December 31, 2011 (Note 5).

The Company regularly reviews the credit quality of the mortgage portfolios, related to the Company's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2011, mortgages related to continuing operations totalled $4.09 billion and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled $3.76 billion compared to $3.47 billion at December 31, 2010. In applying the derecognition criteria under IAS 39 Financial Instruments, the Company has recorded these loans on its balance sheet following securitization. An offsetting liability, Obligations to securitization entities, has been recorded and totalled $3.83 billion at December 31, 2011, compared to $3.51 billion at December 31, 2010.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled $292.1 million compared to $187.3 million at December 31, 2010. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled $31.3 million at December 31, 2011, compared to $39.5 million at December 31, 2010.

As at December 31, 2011, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (2010 – 100%) and 99.4% insured (2010 – 99.0%). As at December 31, 2011, impaired and uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2010. The characteristics of the mortgage portfolio have not changed significantly during 2011.

The Company purchases portfolio insurance from CMHC on newly funded qualifying conventional mortgages. Under the NHA MBS and CMB Program, it is a requirement that securitized mortgages be insured against default by an approved insurer, and the Company has also insured substantially all loans securitized through ABCP programs. At December 31, 2011, 93.0% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 94.1% at December 31, 2010. As at December 31, 2011, impaired loans on these portfolios were $1.1 million, compared to $1.0 million at December 31, 2010. At December 31, 2011, there were no uninsured non-performing mortgages over 90 days on these portfolios, compared to $0.3 million at December 31, 2010.

21. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

The collective allowance for credit losses related to continuing operations was $0.8 million at December 31, 2011, compared to $0.6 million at December 31, 2010, and is considered adequate by management to absorb all credit related losses in the mortgage portfolios.

The Company retains certain elements of credit risk on securitized loans. At December 31, 2011, 96.2% of securitized loans were insured against credit losses. The fair value of the Company's retained interests in securitized mortgages was $24.3 million at December 31, 2011 compared to $107.0 million at December 31, 2010. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were $10.7 million and $90.5 million, respectively, at December 31, 2011. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

  The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of $44.9 million is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and the Company's credit risk on insured loans is to the insurer. At December 31, 2011, 86.5% of the $1.1 billion in outstanding mortgages securitized under these programs were insured.

  Rights to future net interest income under the NHA MBS and CMB Program totalled $56.3 million. Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. Outstanding mortgages securitized under these programs are $2.7 billion.
- *Fair value of principal reinvestment account swaps* – had a negative fair value of $76.9 million at December 31, 2011 which is reflected on the Company's balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was $556.3 million at December 31, 2011.

The Company's exposure to credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios has been significantly reduced since December 31, 2010 as a result of the sale of MRS. However, the Company's management of credit risk on its continuing operations has not changed materially since December 31, 2010.

The Company utilizes derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements.

The Company participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by the Company are between the Company and the Canadian Housing Trust. The Company receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. The Company also enters into interest rate swaps to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled $25.9 million at December 31, 2011 and the outstanding notional amount was $4.4 billion. Certain of these swaps relate to securitized mortgages that have been recorded on the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of $2.7 billion and having a negative fair value of $33.3 million, are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of $1.7 billion and having fair value of $7.4 million, are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $87.1 million at December 31, 2011 compared to $21.7 million at December 31, 2010.

21. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

The Company utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled $23.4 million on an outstanding notional amount of $1.0 billion at December 31, 2011. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $0.6 million at December 31, 2011 compared to $1.3 million at December 31, 2010.

The Company also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled $7.4 million on an outstanding notional amount of $200.0 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, was nil at December 31, 2011 compared to $15.1 million at December 31, 2010.

The Company enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by the Company as well as total return swaps and forward agreements on the Company's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was nil on an outstanding notional amount of $76.4 million at December 31, 2011 compared to a fair value of $0.8 million on an outstanding notional amount of $118.1 million at December 31, 2010. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was $0.8 million at December 31, 2011, unchanged from December 31, 2010.

The aggregate credit risk exposure related to derivatives that are in a gain position of $88.5 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was $0.3 million at December 31, 2011. Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2011. Management of credit risk related to derivatives has not changed materially since December 31, 2010.

Market risk related to financial instruments

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

Interest Rate Risk

The Company is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial instruments used in the Company's mortgage banking and intermediary operations.

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2011, the total gap between deposit assets and liabilities was within the Company's trust subsidiary's stated guidelines.

The Company utilizes interest rate swaps with Canadian Schedule I chartered bank counterparties in order to reduce the impact of fluctuating interest rates on its mortgage banking operations, as follows:

- The Company has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, the Company remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptances rates that it receives on its hedges.
- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages declines. As previously discussed, as part of the CMB Program, the Company also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. The Company hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.

21. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments *(continued)*

Interest Rate Risk *(continued)*

- The Company is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. The Company enters into interest rate swaps with Canadian Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.
- The Company is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by the Company. The Company may enter into interest rate swaps to hedge this risk.

As at December 31, 2011, the impact to annual net earnings of a 100 basis point change in interest rates would have been approximately $4.3 million. The Company's exposure to and management of interest rate risk has not changed materially since December 31, 2010.

Equity Price Risk

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities (Note 5). Unrealized gains and losses on these securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

Risk related to assets under management

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

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented below without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

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

	NOTIONAL AMOUNT					FAIR VALUE	
DECEMBER 31, 2011	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	ASSET	LIABILITY
Swaps	**$ 617,138**	**$ 1,914,894**	**$ 407,862**	**$ 2,939,894**	**$ 88,092**	**$ 88,092**	**$ 110,662**
Forward contracts	**-**	**10,233**	**-**	**10,233**	**-**	**-**	**762**
	$ 617,138	**$ 1,925,127**	**$ 407,862**	**$ 2,950,127**	**$ 88,092**	**$ 88,092**	**$ 111,424**
DECEMBER 31, 2010							
Swaps	$ 779,697	$ 2,338,289	$ 458,715	$ 3,576,701	$ 40,879	$ 40,879	$ 78,701
Forward contracts	1,268	-	-	1,268	-	-	10
	$ 780,965	$ 2,338,289	$ 458,715	$ 3,577,969	$ 40,879	$ 40,879	$ 78,711
JANUARY 1, 2010							
Swaps	$ 749,912	$ 2,351,742	$ 409,432	$ 3,511,086	$ 57,990	$ 57,990	$ 108,005
Forward contracts	1,399	-	-	1,399	-	-	53
	$ 751,311	$ 2,351,742	$ 409,432	$ 3,512,485	$ 57,990	$ 57,990	$ 108,058

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of financial instruments using the valuation methods and assumptions described below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets						
Cash and cash equivalents	**$ 1,052,423**	**$ 1,052,423**	$ 1,573,626	$ 1,573,626	$ 945,081	$ 945,081
Securities	**292,432**	**292,432**	954,691	954,691	1,246,259	1,246,259
Accounts and other receivables	**281,982**	**281,982**	203,381	203,381	183,938	183,938
Loans	**4,085,929**	**4,144,347**	4,094,652	4,176,618	3,928,361	4,032,301
Derivative instruments	**88,092**	**88,092**	40,879	40,879	57,990	57,990
Other financial assets	**6,300**	**6,300**	5,000	5,000	16,683	16,683
Total financial assets	**$ 5,807,158**	**$ 5,865,576**	$ 6,872,229	$ 6,954,195	$ 6,378,312	$ 6,482,252
Liabilities						
Accounts payable and accrued liabilities	**$ 300,094**	**$ 300,094**	$ 306,079	$ 306,079	$ 274,340	$ 274,340
Repurchase agreements	**227,280**	**227,280**	635,302	635,302	629,817	629,817
Derivative instruments	**111,424**	**111,424**	78,711	78,711	108,058	108,058
Deposits and certificates	**150,716**	**151,978**	834,801	840,068	907,343	916,057
Other financial liabilities	**221,301**	**221,301**	223,686	223,686	200,850	200,850
Obligations to securitization entities	**3,827,339**	**3,930,446**	3,505,451	3,564,387	3,310,084	3,349,130
Long-term debt	**1,325,000**	**1,586,710**	1,775,000	1,966,486	1,575,000	1,714,307
Total financial liabilities	**$ 6,163,154**	**$ 6,529,233**	$ 7,359,030	$ 7,614,719	$ 7,005,492	$ 7,192,559

Fair value is determined using the following methods and assumptions:

The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, repurchase agreements, certain other financial assets and other financial liabilities.

Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk and maturity.

Obligations to securitization entities are valued by discounting the expected future cash flows by prevailing market yields for securities issued by these securitization entities having like maturities and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each respective debenture available in the market.

Derivative financial instruments fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

All financial instruments measured at fair value are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

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

Level 1 assets include liquid, exchange-traded equity securities, liquid open-end investment fund units, and investments in Government of Canada Bonds and Canada Mortgage Bonds in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, investment funds with less frequent than daily transaction activity, mortgages classified as fair value through profit or loss and derivative instruments. The fair value of fixed income securities, which include Canadian chartered bank senior deposit notes and floating rate notes and corporate bonds, are determined using quoted market prices or independent dealer price quotes, which are evaluated for reasonableness. The fair value of investment funds are based on calculated fund net asset values. Mortgages classified as fair value through profit or loss are valued by discounting the expected future cash flows at observable market rates for loans with similar credit risk and maturity. The fair value of derivative instruments, which include interest rate swaps, total return swaps and forward contracts, are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs.

Level 3 assets and liabilities include restructured notes of the MAV, derivative instruments and financial liabilities. See Note 5 for further discussion on valuation techniques and assumptions related to restructured notes of the MAV.

The Company records substantially all of its financial instruments at fair value or amounts that approximate fair value. The following table presents the balances of assets and liabilities measured at fair value on a recurring basis.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

DECEMBER 31, 2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets				
Securities				
– Available for sale	**$ 36,049**	**$ -**	**$ -**	**$ 36,049**
– Held for trading	**227,206**	**-**	**29,177**	**256,383**
Loans				
– Held for trading	**-**	**292,109**	**-**	**292,109**
Derivative instruments	**-**	**88,092**	**-**	**88,092**
	$ 263,255	**$ 380,201**	**$ 29,177**	**$ 672,633**
Liabilities				
Derivative instruments	**$ -**	**$ 34,486**	**$ 76,938**	**$ 111,424**
Financial liabilities	**-**	**-**	**26,106**	**26,106**
	$ -	**$ 34,486**	**$ 103,044**	**$ 137,530**
DECEMBER 31, 2010				
Assets				
Securities				
– Available for sale	$ 45,492	$ 243,748	$ -	$ 289,240
– Held for trading	637,850	-	27,601	665,451
Loans				
– Held for trading	-	224,398	-	224,398
Derivative instruments	-	38,965	1,914	40,879
	$ 683,342	$ 507,111	$ 29,515	$ 1,219,968
Liabilities				
Derivative instruments	$ -	$ 50,690	$ 28,021	$ 78,711
Financial liabilities	-	-	18,592	18,592
	$ -	$ 50,690	$ 46,613	$ 97,303
JANUARY 1, 2010				
Assets				
Securities				
– Available for sale	$ 278,426	$ 315,387	$ -	$ 593,813
– Held for trading	624,703	-	27,743	652,446
Loans				
– Held for trading	-	240,391	-	240,391
Derivative instruments	-	44,807	13,183	57,990
Other assets				
– Funds held in escrow	10,161	6,522	-	16,683
	$ 913,290	$ 607,107	$ 40,926	$ 1,561,323
Liabilities				
Derivative instruments	$ -	$ 105,078	$ 2,980	$ 108,058
Financial liabilities	-	-	15,506	15,506
	$ -	$ 105,078	$ 18,486	$ 123,564

There were no significant transfers between Level 1 and Level 2 in 2011.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

2011	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS[1]	PURCHASES AND ISSUANCES	SETTLEMENTS	BALANCE DECEMBER 31
Assets					
Securities					
– Held for trading	**$ 27,601**	**$ 2,060**	**$ -**	**$ 484**	**$ 29,177**
Liabilities					
Derivative instruments, net	**26,107**	**(61,543)**	**121**	**10,833**	**76,938**
Financial liabilities	**18,592**	**(4,951)**	**3,184**	**621**	**26,106**
2010					
Assets					
Securities					
– Held for trading	$ 27,743	$ -	$ -	$ 142	$ 27,601
Liabilities					
Derivative instruments, net	(10,203)	(44,107)	(1,307)	6,490	26,107
Financial liabilities	15,506	(522)	7,279	4,715	18,592

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

There were no transfers in or out of Level 3 in 2011 and 2010.

24. EARNINGS PER COMMON SHARE

	2011	2010
Earnings		
Net earnings from continuing operations	**$ 846,801**	$ 739,051
Net earnings from discontinued operations	**62,644**	1,753
Net earnings	**909,445**	740,804
Perpetual preferred share dividends	**8,850**	10,105
Net earnings available to common shareholders	**$ 900,595**	$ 730,699
Number of common shares *(in thousands)*		
Average number of common shares outstanding		
Add:	**258,151**	261,855
– Potential exercise of outstanding stock options	**924**	1,012
Average number of common shares outstanding		
– Diluted basis	**259,075**	262,867
Earnings per common share *(in dollars)*		
Basic		
From continuing operations	**$ 3.25**	$ 2.78
From discontinued operations	**0.24**	0.01
Net earnings available to common shareholders	**$ 3.49**	$ 2.79
Diluted		
From continuing operations	**$ 3.24**	$ 2.77
From discontinued operations	**0.24**	0.01
Net earnings available to common shareholders	**$ 3.48**	$ 2.78

25. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

Contingent liabilities

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

Commitments

The Company is committed to the following annual lease payments under its operating leases: 2012 – $46.9 million; 2013 – $42.5 million; 2014 – $36.4 million; 2015 – $31.5 million; and 2016 and thereafter – $105.3 million.

Guarantees

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

26. RELATED PARTY TRANSACTIONS

Transactions and balances with related entities

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

- During 2011 and 2010, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $62.8 million in distribution fees (2010 – $55.6 million). The Company received $15.9 million (2010 – $14.5 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid $52.2 million (2010 – $44.7 million) to London Life related to the distribution of certain mutual funds of the Company.
- During 2011, the Company sold residential mortgage loans to Great-West and London Life for $201.7 million (2010 – $225.9 million).

The Company agreed to a tax loss consolidation transaction with its parent company, Power Financial Corporation, in February 2011 after obtaining advance tax rulings:

- On February 23, 2011, the Company acquired $1.0 billion of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $1.0 billion of 6.00% secured demand debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.
- On December 30, 2011, the Company acquired the shares of a wholly-owned subsidiary of Power Financial Corporation which had entered into a transaction similar to that described above that generated tax losses. This transaction was unwound immediately prior to the Company's acquisition of the shares. The Company has recognized the benefit of the tax losses acquired.
- On January 10, 2012, the Company acquired an additional $250 million of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued $250 million of 6.00% secured demand debentures to Power Financial Corporation.

26. RELATED PARTY TRANSACTIONS *(continued)*

Key management compensation

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

	2011	2010
Compensation and employee benefits	**$ 3,373**	$ 3,664
Post-employment benefits	**1,388**	8,997
Share-based payments	**2,790**	2,656
	$ 7,551	$ 15,317

27. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

These segments reflect the current organizational structure and internal financial reporting. Management measures and evaluates the performance of these segments based on earnings before interest and taxes.

Investors Group and Mackenzie earn fee-based revenues in the conduct of their core business activities which are primarily related to the distribution, management and administration of their mutual funds. Fee revenues are also derived from the provision of brokerage services. Intermediary revenues are derived primarily from the assets funded by deposit and certificate products and from mortgage banking and servicing activities. In addition, Investors Group earns fee revenue from the distribution of insurance products.

The operating results of Mackenzie exclude discontinued operations (Note 3).

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco (Note 9), net investment income on unallocated investments, and also includes consolidation elimination entries.

27. SEGMENTED INFORMATION *(continued)*

				2011
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 1,152,380	$ 695,268	$ 45,080	$ 1,892,728
Administration fees	225,980	108,344	10,563	344,887
Distribution fees	188,172	20,166	125,123	333,461
Net investment income and other	70,190	2,455	83,771	156,416
	1,636,722	826,233	264,537	2,727,492
Expenses				
Commission	489,573	285,894	119,393	894,860
Non-commission	351,989	239,757	45,741	637,487
	841,562	525,651	165,134	1,532,347
Earnings before undernoted	$ 795,160	$ 300,582	$ 99,403	1,195,145
Interest expense				(102,807)
Proportionate share of affiliate's provision				4,960
Earnings before income taxes				1,097,298
Income taxes				250,497
Net earnings from continuing operations				846,801
Net earnings from discontinued operations				62,644
Net earnings				909,445
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				$ 900,595
Identifiable assets	$ 5,314,838	$ 1,317,151	$ 1,859,763	$ 8,491,752
Goodwill	1,347,781	1,170,149	122,593	2,640,523
Total assets	$ 6,662,619	$ 2,487,300	$ 1,982,356	$ 11,132,275

27. SEGMENTED INFORMATION *(continued)*

				2010
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 1,112,039	$ 687,215	$ 37,630	$ 1,836,884
Administration fees	218,383	107,847	8,518	334,748
Distribution fees	177,258	22,942	95,981	296,181
Net investment income and other	62,127	282	86,625	149,034
	1,569,807	818,286	228,754	2,616,847
Expenses				
Commission	472,045	290,793	92,271	855,109
Non-commission	327,865	232,264	44,949	605,078
	799,910	523,057	137,220	1,460,187
Earnings before undernoted	$ 769,897	$ 295,229	$ 91,534	1,156,660
Interest expense				(111,374)
Proportionate share of affiliate's provision				(8,160)
Non-recurring items related to transition to IFRS				(29,270)
Earnings before income taxes				1,007,856
Income taxes				268,805
Net earnings from continuing operations				739,051
Net earnings from discontinued operations				1,753
Net earnings				740,804
Perpetual preferred share dividends				10,105
Net earnings available to common shareholders				$ 730,699
Identifiable assets	$ 5,219,606	$ 2,331,084	$ 2,043,515	$ 9,594,205
Goodwill	1,347,781	1,172,749	122,593	2,643,123
Total assets	$ 6,567,387	$ 3,503,833	$ 2,166,108	$ 12,237,328

28. TRANSITION TO IFRS

These Consolidated Financial Statements represent the first annual financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. The Company adopted IFRS in accordance with IFRS 1. The first date at which IFRS was applied was January 1, 2010 (Transition Date). In accordance with IFRS, the Company has provided comparative financial information, applied the same accounting policies throughout all periods presented, retrospectively applied all effective IFRS standards as of December 31, 2011 as required, and applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

During the year, the Company adopted accounting policies in accordance with guidance from the International Accounting Standards Board related to: the treatment of put options over non-controlling interest and the measurement of available for sale securities. The Company also reassessed its provisions and the accounting for the reversal of restructuring costs recorded on business combinations occurring prior to January 1, 2010. These changes affected the net earnings recorded in 2010. Refer to note a) under Initial elections upon adoption and notes (viii), (x) and (xi) under Changes in accounting policies in this note for additional information.

The Company's Consolidated Financial Statements were previously prepared in accordance with Canadian generally accepted accounting principles (previous Canadian GAAP).

Initial elections upon adoption

IFRS 1 elected exemptions from full retroactive application that the Company applied in the conversion from previous Canadian GAAP to IFRS are detailed as follows:

a) Business combinations:

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value determined under previous Canadian GAAP as a result of applying these exemptions.

b) Employee benefits:

IFRS 1 provides the option to retrospectively apply IAS 19, Employee Benefits, for the recognition of actuarial gains and losses, or to recognize all cumulative actuarial gains and losses deferred under previous Canadian GAAP in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening retained earnings for all of its employee defined benefit plans.

IFRS requires disclosure of the present value of the defined benefit obligation, the fair value of plan assets, the surplus and deficit on the plan and the experience gains and losses for the current year and the four prior years. In accordance with IFRS 1 the Company has elected to disclose this information from the Transition Date.

c) Fair value as deemed cost:

IFRS 1 provides the option to measure capital assets at the Transition Date at fair value and use that fair value as deemed cost at that date. The Company elected to utilize this option for certain items of capital assets.

28. TRANSITION TO IFRS *(continued)*

Reconciliations of previous Canadian GAAP to IFRS

The reconciliations from previous Canadian GAAP to IFRS for net earnings, comprehensive income, shareholders' equity, cash flows and the balance sheet are as follows:

Reconciliation of Net Earnings

	REFERENCE	2010 TWELVE MONTHS ENDED DECEMBER 31
Net earnings under previous Canadian GAAP		$ 735,585
Differences increasing (decreasing) reported net earnings (net of tax):		
Derecognition	i	25,619
Deferred selling commissions	ii	8,913
Share-based compensation	iii	260
Capital assets	iv	31
Employee benefits	v	(13,700)
Investment in affiliate	vi	(1,086)
Deferred income taxes	vii	319
Provisions	viii	(5,783)
Business combinations	ix	(5,620)
Financial liabilities	x	(454)
Available for sale securities	xi	(3,280)
		5,219
Net earnings under IFRS		$ 740,804

Reconciliation of Comprehensive Income

	REFERENCE	2010 TWELVE MONTHS ENDED DECEMBER 31
Comprehensive income under previous Canadian GAAP		$ 725,098
Differences increasing (decreasing) reported comprehensive income (net of tax):		
Increase in net earnings as a result of IFRS		5,219
Actuarial losses on employee benefit plans	v	(24,359)
Investment in affiliate	vi	833
Available for sale securities	xi	3,242
		(15,065)
Comprehensive income under IFRS		$ 710,033

28. TRANSITION TO IFRS *(continued)*

Reconciliations of previous Canadian GAAP to IFRS *(continued)*

Reconciliation of Shareholders' Equity

		2010	
	REFERENCE	JANUARY 1	DECEMBER 31
Shareholders' equity under previous Canadian GAAP		$ 4,424,813	$ 4,475,529
Differences increasing (decreasing) reported shareholders' equity (net of tax):			
Derecognition	i	(90,752)	(65,133)
Deferred selling commissions	ii	(1,127)	7,786
Capital assets	iv	8,299	8,330
Employee benefits	v	1,537	(36,522)
Investment in affiliate	vi	(23,467)	(23,519)
Deferred income taxes	vii	(2,786)	(2,467)
Provisions	viii	(22,820)	(28,603)
Business combinations	ix	-	(5,620)
Financial liabilities	x	(12,003)	(12,495)
		(143,119)	(158,243)
Shareholders' equity under IFRS		$ 4,281,694	$ 4,317,286

28. TRANSITION TO IFRS *(continued)*

Reconciliations of previous Canadian GAAP to IFRS *(continued)*

Reconciliation of Cash Flows

		2010
	REFERENCE	TWELVE MONTHS ENDED DECEMBER 31
Operating activities:		
Operating cash flows under previous Canadian GAAP		$ 863,231
Less: Operating cash flows related to discontinued operations		(6,047)
Differences increasing (decreasing) reported operating cash flows:		
Increase in net earnings as a result of IFRS		5,219
Derecognition	i	(69,305)
Deferred income taxes		6,189
Other		24,446
Operating cash flows under IFRS		$ 823,733
Financing activities:		
Financing cash flows under previous Canadian GAAP		$ (536,244)
Less: Financing cash flows related to discontinued operations		69,019
Differences increasing (decreasing) reported financing cash flows:		
Derecognition	i	192,938
Financing cash flows under IFRS		$ (274,287)
Investing activities:		
Investing cash flows under previous Canadian GAAP		$ 301,558
Less: Investing cash flows related to discontinued operations		(81,982)
Differences increasing (decreasing) reported investing cash flows:		
Derecognition	i	(159,487)
Investing cash flows under IFRS		$ 60,089

28. TRANSITION TO IFRS *(continued)*

Reconciliations of previous Canadian GAAP to IFRS *(continued)*

Reconciliation of Balance Sheet

			January 1, 2010	
	Reference	Previous Canadian GAAP	Differences	IFRS
Assets				
Cash and cash equivalents		$ 945,081	$ -	$ 945,081
Securities		1,246,259	-	1,246,259
Accounts and other receivables	i	250,301	(66,363)	183,938
Loans	i	671,556	3,256,805	3,928,361
Derivative instruments	i	120,378	(62,388)	57,990
Other assets	v	132,062	(5,515)	126,547
Investment in affiliate	vi	598,221	(23,467)	574,754
Capital assets	iv	90,167	11,511	101,678
Deferred selling commissions	ii	850,082	(2,655)	847,427
Deferred income taxes	vii, xii	15,812	40,089	55,901
Intangible assets	vii	1,128,280	(7,011)	1,121,269
Goodwill		2,613,532	-	2,613,532
		$ 8,661,731	$ 3,141,006	$ 11,802,737
Liabilities				
Accounts payable and accrued liabilities	i, x	$ 303,073	$ (28,733)	$ 274,340
Income taxes payable		85,291	17,250	102,541
Repurchase agreements		629,817	-	629,817
Derivative instruments	i	112,680	(4,622)	108,058
Deposits and certificates		907,343	-	907,343
Other liabilities	i, v, viii	279,285	(9,782)	269,503
Obligations to securitization entities	i	-	3,310,084	3,310,084
Deferred income taxes	vii, xii	344,429	(72)	344,357
Long-term debt		1,575,000	-	1,575,000
		4,236,918	3,284,125	7,521,043
Shareholders' equity				
Share capital				
Perpetual preferred shares		150,000	-	150,000
Common shares		1,562,925	-	1,562,925
Contributed surplus	iii	32,702	5,143	37,845
Retained earnings		2,737,785	(215,811)	2,521,974
Accumulated other comprehensive income (loss)		(58,599)	67,549	8,950
		4,424,813	(143,119)	4,281,694
		$ 8,661,731	$ 3,141,006	$11,802,737

28. TRANSITION TO IFRS *(continued)*

Changes in accounting policies

In addition to the exemptions previously discussed, there are a number of differences between the Company's previous Canadian GAAP accounting policies and its current IFRS accounting policies. An explanation of these differences follows:

i. Derecognition

Previous Canadian GAAP – Derecognition focused on surrendering control over transferred assets in order to derecognize the assets and recognize a sale.

IFRS - Derecognition focuses to a greater extent on the transfer of risks and rewards of ownership in order to derecognize the asset and recognize a sale under IFRS. As a result, the Company's securitization transactions are accounted for as secured borrowings in accordance with IFRS rather than sales, which results in an increase in total assets and liabilities recorded on the Consolidated Balance Sheets. The increase in the mortgage balances was $3.5 billion at December 31, 2010 (January 1, 2010 – $3.3 billion) with a corresponding increase in liabilities. Certain other mortgage related assets and liabilities, which were recorded under previous Canadian GAAP, including retained interests, certain derivative instruments and servicing liabilities, were adjusted accordingly. At December 31, 2010, the decrease in other assets was $91 million (January 1, 2010 – $129 million) and other liabilities was $85 million (January 1, 2010 – $55 million).

In addition, as these transactions are treated as financing transactions rather than sale transactions, a transitional adjustment to opening retained earnings is required to reflect this change in accounting treatment. Opening retained earnings, revenue and expenses have been adjusted to reflect this change.

ii. Deferred selling commissions

Previous Canadian GAAP – Deferred selling commissions were finite life intangible assets under previous Canadian GAAP. Previous Canadian GAAP does not specifically address the accounting for disposals of finite life intangible assets and as a result, the Company utilized a shorter amortization period in order to account for disposals.

IFRS – Deferred selling commissions are finite life intangible assets under IFRS. IFRS more specifically addresses the approach to record the amortization and disposals of intangible assets. Opening retained earnings and expenses have been adjusted to reflect the change.

iii. Share-based payments

Previous Canadian GAAP – For grants of share-based awards, the total fair value of the award was recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS – Each tranche in an award with graded vesting is considered a separate grant with a different vesting date. Each grant is accounted for on that basis. Opening retained earnings, opening contributed surplus and expenses for share-based awards have been adjusted to reflect the change.

iv. Capital assets

IFRS – The Company has elected under IFRS 1 to record certain capital assets at fair value as at the Transition Date and utilize this value as the deemed cost under IFRS. The aggregate fair value of the assets where this election was utilized was $34.3 million. As a result of the increase in fair value, opening retained earnings increased by $8.6 million. The effect of this adjustment on the depreciation expense is not significant.

v. Employee benefits

IFRS – In accordance with IFRS 1, the Company has elected to record all unamortized actuarial gains or losses through opening retained earnings. In addition, IFRS requires that vested past service costs or past service credits be recognized immediately in benefits expense or income. As a result, opening retained earnings and expenses have been adjusted. The Company has elected to recognize actuarial gains and losses related to its defined benefit plans in other comprehensive income rather than amortize them through earnings.

28. TRANSITION TO IFRS *(continued)*

Changes in accounting policies *(continued)*

vi. Investment in affiliate
The Company's investment in its affiliate is recorded using the equity method of accounting. Opening retained earnings, accumulated other comprehensive income, and equity earnings reflect the changes made by the investee company upon its conversion to IFRS.

vii. Deferred income taxes
Previous Canadian GAAP – The cost of assets acquired outside of a business combination was adjusted for the tax effect on differences between the accounting cost and the tax cost at the time of the acquisition.

IFRS – The cost of assets acquired outside of a business combination are not adjusted for the tax effect on any differences between the accounting cost and the tax cost at the time of the acquisition. Opening retained earnings and expenses have been adjusted to reflect the difference in amortization expense related to certain intangible assets where deferred taxes increased the cost of the asset acquired.

viii. Provisions
Previous Canadian GAAP – A contingent liability was recognized as a result of a past transaction or event if it was likely that it would result in a loss and the amount of the loss could be reasonably estimated.

IFRS – A provision is recognized where: there is a present obligation as a result of a past transaction or event; it is "probable" that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. The previous Canadian GAAP recognition criterion of "likely" was a higher threshold than "probable" which results in additional provisions being recognized under IFRS. In determining the best estimate for a provision, IFRS provides for the use of the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes.

ix. Business combinations
Previous Canadian GAAP – Costs directly related to an acquisition were included in the purchase price allocation. If certain conditions were met, the costs of a plan to exit an activity of an acquired company, to involuntarily terminate employees of an acquired company, or to relocate employees of an acquired company were liabilities assumed in the purchase and were included in the allocation of the purchase price allocation.

IFRS – Costs directly related to an acquisition are expensed as incurred and not included in the purchase price allocation. Restructuring provisions are only included as part of the acquired liabilities when the acquiree has recognized an existing liability for restructuring in accordance with applicable IFRS standards. As a result, restructuring provisions recorded as part of the purchase price allocation under previous Canadian GAAP are charged to earnings under IFRS.

x. Financial liabilities
IFRS – In accordance with IAS 32, financial liabilities relating to put options written over non-controlling interest are measured at fair value at each reporting period. Opening retained earnings, Other liabilities and Net investment income and other have been adjusted to reflect the change.

xi. Available for sale securities
Previous Canadian GAAP – Impairment losses on available for sale securities were recorded if the losses were other than temporary. After an impairment loss was recorded, any further declines in value were recorded in other comprehensive income until such time that the subsequent losses were assessed to be other than temporary.

IFRS – Impairment losses are recorded if the loss is significant or prolonged and any further losses are recorded immediately to earnings. On transition to IFRS, the assessment of significant or prolonged is based on the original purchase date of the security. Accumulated other comprehensive income and Net investment income and other have been adjusted to reflect the change.

xii. Deferred tax impact of IFRS adjustments
Deferred tax adjustments, except the Deferred tax adjustment noted in (vii) above, represents the tax effect on all IFRS adjustments.