

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three and six months ended June 30, 2011 and should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements (Interim Financial Statements), as well as the 2010 IGM Financial Inc. Annual Report and the 2011 IGM Financial Inc. First Quarter Report to Shareholders filed on www.sedar.com. Commentary in the MD&A as at and for the three and six months ended June 30, 2011 is as of August 4, 2011.

Basis of Presentation and Summary of Accounting Policies

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises which is International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 1 of the Interim Financial Statements).

FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a

conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

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

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of

International Financial Reporting Standards), operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.

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

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

Additional information about the risks and uncertainties of the Company's business is provided in its disclosure materials filed with the securities regulatory authorities in Canada, available at www.sedar.com.

IGM Financial Inc.

Summary of Consolidated Operating Results

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

Total assets under management were \$130.2 billion as at June 30, 2011 compared with \$115.7 billion as at June 30, 2010 and \$129.5 billion at December 31, 2010.

Net earnings available to common shareholders for the second quarter ended June 30, 2011 were \$216.9 million or 84 cents per share compared to \$178.3 million or 68 cents per share in the second quarter of 2010. This represents an increase of 23.5% on a per share basis.

Net earnings available to common shareholders for the six months ended June 30, 2011 were \$428.7 million or \$1.65 per share compared to \$370.0 million or \$1.40 per share for the comparative period in 2010. This represents an increase of 17.9% on a per share basis.

Shareholders' equity was \$4.4 billion as at June 30, 2011 compared to \$4.3 billion as at December 31, 2010. Return on average common equity for the six months ended June 30, 2011 was 20.4% compared with 17.8% in 2010. The quarterly dividend per common share declared in the second quarter of 2011 was 51.25 cents, unchanged from the first quarter of 2011.

NON-IFRS FINANCIAL MEASURES

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

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

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

"Earnings before interest and taxes" (EBIT) and "earnings before interest, taxes, depreciation and amortization" (EBITDA) are also non-IFRS financial measures. EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. These non-IFRS financial measures

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
EBITDA – Non-IFRS measure	\$ 388.7	\$ 398.6	\$ 347.7	\$ 787.3	\$ 723.3
Commission amortization	(70.7)	(72.5)	(73.6)	(143.1)	(148.3)
Amortization of property, plant and equipment and intangible assets and other	(8.6)	(8.4)	(8.4)	(17.1)	(16.6)
Interest expense on long-term debt	(26.2)	(30.4)	(27.6)	(56.6)	(55.0)
Earnings before income taxes	283.2	287.3	238.1	570.5	503.4
Income taxes	(64.1)	(73.3)	(57.6)	(137.4)	(127.7)
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(4.4)	(5.7)
Net earnings available to common shareholders	\$ 216.9	\$ 211.8	\$ 178.3	\$ 428.7	\$ 370.0

do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

Refer to the appropriate reconciliations of these non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 to 4.

REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie
- Corporate and Other.

Management measures and evaluates the performance of these segments based on EBIT as shown in Tables 2, 3 and 4. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Tables 2, 3 and 4 are not allocated to segments:

- *Interest expense* – Represents interest expense on long-term debt. The change in interest expense for all comparative periods reflected the repayment of the \$450.0 million 2001 Series 6.75% debentures on May 9, 2011. The change in interest expense for the three and six month periods ended June 30, 2011 compared to 2010 also reflected the issuance of the \$200 million 6.00% debentures issued on December 9, 2010.
- *Income taxes* – Changes in the effective tax rates are shown in Table 5.

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

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2011 VS. Q2 2010

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
Revenues								
Fee income	\$ 404.3	\$ 375.2	\$ 219.7	\$ 210.0	\$ 44.7	\$ 31.4	\$ 668.7	\$ 616.6
Net investment income and other	12.8	(6.2)	4.1	3.0	24.6	23.3	41.5	20.1
	417.1	369.0	223.8	213.0	69.3	54.7	710.2	636.7
Expenses								
Commission	124.9	119.0	73.8	72.6	30.2	20.4	228.9	212.0
Non-commission	92.1	83.6	69.2	67.1	10.7	8.3	172.0	159.0
	217.0	202.6	143.0	139.7	40.9	28.7	400.9	371.0
Earnings before interest and taxes	\$ 200.1	\$ 166.4	\$ 80.8	\$ 73.3	\$ 28.4	\$ 26.0	309.3	265.7
Interest expense							26.1	27.6
Earnings before income taxes							283.2	238.1
Income taxes							64.1	57.6
Net earnings							219.1	180.5
Perpetual preferred share dividends							2.2	2.2
Net earnings available to common shareholders							\$ 216.9	\$ 178.3

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2011 VS. YTD 2010

Six months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
Revenues								
Fee income	\$ 807.5	\$ 743.2	\$ 442.5	\$ 418.5	\$ 93.2	\$ 66.0	\$1,343.2	\$1,227.7
Net investment income and other	34.3	18.9	8.6	6.4	44.5	49.0	87.4	74.3
	841.8	762.1	451.1	424.9	137.7	115.0	1,430.6	1,302.0
Expenses								
Commission	249.1	234.8	149.6	147.0	63.8	43.9	462.5	425.7
Non-commission	177.9	165.1	140.9	136.3	22.4	16.6	341.2	318.0
	427.0	399.9	290.5	283.3	86.2	60.5	803.7	743.7
Earnings before interest and taxes	\$ 414.8	\$ 362.2	\$ 160.6	\$ 141.6	\$ 51.5	\$ 54.5	626.9	558.3
Interest expense							56.4	54.9
Earnings before income taxes							570.5	503.4
Income taxes							137.4	127.7
Net earnings							433.1	375.7
Perpetual preferred share dividends							4.4	5.7
Net earnings available to common shareholders							\$ 428.7	\$ 370.0

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2011 VS. Q1 2011

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2011 JUN. 30	2011 MAR. 31	2011 JUN. 30	2011 MAR. 31	2011 JUN. 30	2011 MAR. 31	2011 JUN. 30	2011 MAR. 31
Revenues								
Fee income	\$ 404.3	\$ 403.2	\$ 219.7	\$ 222.8	\$ 44.7	\$ 48.5	\$ 668.7	\$ 674.5
Net investment income and other	12.8	21.5	4.1	4.5	24.6	19.9	41.5	45.9
	417.1	424.7	223.8	227.3	69.3	68.4	710.2	720.4
Expenses								
Commission	124.9	124.2	73.8	75.8	30.2	33.6	228.9	233.6
Non-commission	92.1	85.8	69.2	71.7	10.7	11.7	172.0	169.2
	217.0	210.0	143.0	147.5	40.9	45.3	400.9	402.8
Earnings before interest and taxes	\$ 200.1	\$ 214.7	\$ 80.8	\$ 79.8	\$ 28.4	\$ 23.1	309.3	317.6
Interest expense							26.1	30.3
Earnings before income taxes							283.2	287.3
Income taxes							64.1	73.3
Net earnings							219.1	214.0
Perpetual preferred share dividends							2.2	2.2
Net earnings available to common shareholders							\$ 216.9	\$ 211.8

TABLE 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
Income taxes at Canadian federal and provincial statutory rates	28.14 %	28.16 %	30.08 %	28.15 %	30.07 %
Effect of:					
Dividend income	(0.01)	(0.01)	(0.03)	(0.01)	(0.10)
Net capital gains and losses	–	–	(0.03)	–	(0.19)
Proportionate share of affiliate's earnings	(1.81)	(1.67)	(2.26)	(1.74)	(2.10)
Loss consolidation ⁽¹⁾	(2.55)	(1.14)	–	(1.84)	–
Other items	(1.13)	0.16	(3.57)	(0.48)	(2.32)
Effective income tax rate – net earnings	22.64 %	25.50 %	24.19 %	24.08 %	25.36 %

(1) See the Transactions with Related Parties section of this MD&A for additional information.

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares issued on December 8, 2009. The dividends declared for the six months ending June 30, 2010 included the initial dividend of \$0.57788 per share or \$3.5 million and related to the period from December 8, 2009 to April 30, 2010.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$130.2 billion at June 30, 2011 compared to \$115.7 billion at June 30, 2010. Changes in assets under management are detailed in Tables 6 and 7.

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

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q2 2011 VS. Q2 2010

Three months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED ⁽¹⁾	
	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
Mutual Funds								
Gross sales –								
money market	\$ 157.9	\$ 166.9	\$ 134.9	\$ 141.9	\$ 14.9	\$ 11.6	\$ 307.7	\$ 320.4
Gross sales – long term	1,246.7	1,149.2	1,223.5	1,569.9	118.7	103.1	2,588.6	2,822.2
Total mutual fund gross sales	\$ 1,404.6	\$ 1,316.1	\$ 1,358.4	\$ 1,711.8	\$ 133.6	\$ 114.7	\$ 2,896.3	\$ 3,142.6
Net sales – money market	\$ (25.7)	\$ (46.2)	\$ (35.6)	\$ (80.5)	\$ 9.7	\$ 5.7	\$ (51.6)	\$ (121.0)
Net sales – long term	(119.7)	(56.8)	(308.7)	(86.1)	42.1	26.8	(386.6)	(116.1)
Total mutual fund net sales	\$ (145.4)	\$ (103.0)	\$ (344.3)	\$ (166.6)	\$ 51.8	\$ 32.5	\$ (438.2)	\$ (237.1)
Sub-advisory, institutional and other accounts								
Gross sales	\$ –	\$ –	\$ 1,325.5	\$ 1,631.5	\$ –	\$ –	\$ 1,064.6	\$ 1,556.1
Net sales	–	–	171.7	(349.7)	–	–	(47.7)	(383.9)
Combined								
Gross sales	\$ 1,404.6	\$ 1,316.1	\$ 2,683.9	\$ 3,343.3	\$ 133.6	\$ 114.7	\$ 3,960.9	\$ 4,698.7
Net sales	(145.4)	(103.0)	(172.6)	(516.3)	51.8	32.5	(485.9)	(621.0)
Change in total assets under management								
Net sales	\$ (145.4)	\$ (103.0)	\$ (172.6)	\$ (516.3)	\$ 51.8	\$ 32.5	\$ (485.9)	\$ (621.0)
Market and income	(1,745.3)	(3,652.2)	(1,698.8)	(3,453.9)	(40.4)	(115.3)	(3,435.5)	(7,052.5)
Net change in assets	(1,890.7)	(3,755.2)	(1,871.4)	(3,970.2)	11.4	(82.8)	(3,921.4)	(7,673.5)
Beginning assets	64,048.6	59,223.6	70,678.9	64,857.2	2,833.6	2,254.1	134,080.1	123,367.6
Ending assets	\$ 62,157.9	\$ 55,468.4	\$ 68,807.5	\$ 60,887.0	\$ 2,845.0	\$ 2,171.3	\$ 130,158.7	\$ 115,694.1

(1) Total Gross Sales and Net Sales excluded \$262 million and \$220 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$75 million and \$35 million in 2010).

Total assets under management excluded \$3.7 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$2.8 billion at June 30, 2010).

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – YTD 2011 VS. YTD 2010

Six months ended (\$ millions)	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED ⁽¹⁾	
	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30	2011 JUN. 30	2010 JUN. 30
Mutual Funds								
Gross sales –								
money market	\$ 370.5	\$ 353.6	\$ 290.9	\$ 295.2	\$ 34.3	\$ 25.0	\$ 695.7	\$ 673.8
Gross sales – long term	3,080.0	2,842.7	3,029.4	3,003.2	268.1	222.5	6,376.8	6,068.4
Total mutual fund gross sales	\$ 3,450.5	\$ 3,196.3	\$ 3,320.3	\$ 3,298.4	\$ 302.4	\$ 247.5	\$ 7,072.5	\$ 6,742.2
Net sales – money market	\$ 5.0	\$ (51.2)	\$ (71.4)	\$ (246.3)	\$ 24.7	\$ 13.1	\$ (41.7)	\$ (284.4)
Net sales – long term	353.6	508.7	(316.1)	(268.1)	100.5	80.6	137.3	321.2
Total mutual fund net sales	\$ 358.6	\$ 457.5	\$ (387.5)	\$ (514.4)	\$ 125.2	\$ 93.7	\$ 95.6	\$ 36.8
Sub-advisory, institutional and other accounts								
Gross sales	\$ –	\$ –	\$ 2,849.8	\$ 3,272.4	\$ –	\$ –	\$ 2,464.6	\$ 3,075.8
Net sales	–	–	335.6	99.0	–	–	37.5	1.7
Combined								
Gross sales	\$ 3,450.5	\$ 3,196.3	\$ 6,170.1	\$ 6,570.8	\$ 302.4	\$ 247.5	\$ 9,537.1	\$ 9,818.0
Net sales	358.6	457.5	(51.9)	(415.4)	125.2	93.7	133.1	38.5
Change in total assets under management								
Net sales	\$ 358.6	\$ 457.5	\$ (51.9)	\$ (415.4)	\$ 125.2	\$ 93.7	\$ 133.1	\$ 38.5
Market and income	14.0	(2,644.1)	513.1	(2,277.0)	31.7	(61.9)	542.1	(4,889.6)
Net change in assets	372.6	(2,186.6)	461.2	(2,692.4)	156.9	31.8	675.2	(4,851.1)
Beginning assets	61,785.3	57,655.0	68,346.3	63,579.4	2,688.1	2,139.5	129,483.5	120,545.2
Ending assets	\$ 62,157.9	\$ 55,468.4	\$ 68,807.5	\$ 60,887.0	\$ 2,845.0	\$ 2,171.3	\$ 130,158.7	\$ 115,694.1

(1) Total Gross Sales and Net Sales excluded \$386 million and \$299 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$196 million and \$98 million in 2010).

Total assets under management excluded \$3.7 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel (\$2.8 billion at June 30, 2010).

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 8 includes:

- The six most recent quarters based on IFRS and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.
- The two quarters in 2009 based on previous Canadian GAAP and the reconciliation of non-Canadian GAAP financial measures to net earnings in accordance with previous Canadian GAAP.

Quarterly operating earnings available to common shareholders are primarily dependent on the level of mutual fund assets under management. Average daily

mutual fund assets under management are shown in Table 8. Improving market conditions beginning in the second quarter of 2009 resulted in increasing levels of average daily mutual fund assets under management in the third and fourth quarters of 2009. Average daily mutual fund assets under management remained relatively constant in each of the first three quarters of 2010 and increased in the fourth quarter of 2010, consistent with improving market conditions. Average daily mutual fund assets under management increased in the first quarter of 2011 and remained at that level in the second quarter.

TABLE 8: SUMMARY OF QUARTERLY RESULTS

	IFRS						PREVIOUS CANADIAN GAAP	
	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
Consolidated Statements of Earnings (\$ millions)								
Revenues								
Management fees	\$ 491.7	\$ 492.0	\$ 479.0	\$ 452.5	\$ 455.5	\$ 449.7	\$ 449.7	\$ 432.1
Administration fees	93.0	92.8	90.8	87.8	89.2	88.5	88.3	88.6
Distribution fees	84.0	89.7	83.7	69.1	71.9	72.9	70.7	62.0
Net investment income and other	41.5	45.9	52.4	41.2	20.1	54.2	28.9	43.8
	710.2	720.4	705.9	650.6	636.7	665.3	637.6	626.5
Expenses								
Commission	228.9	233.6	221.4	207.3	212.0	213.7	213.5	205.3
Non-commission	172.0	169.2	160.4	157.9	159.0	159.0	148.7	148.7
Interest	26.1	30.3	28.7	27.8	27.6	27.3	33.2	33.0
	427.0	433.1	410.5	393.0	398.6	400.0	395.4	387.0
	283.2	287.3	295.4	257.6	238.1	265.3	242.2	239.5
Non-recurring items related to transition to IFRS	–	–	(29.3)	–	–	–	–	–
Proportionate share of affiliate's provision	–	–	–	(8.2)	–	–	–	–
Non-cash charge on AFS equity securities	–	–	–	–	–	–	(76.5)	–
Premium paid on redemption of preferred shares	–	–	–	–	–	–	(14.4)	–
Earnings before income taxes	283.2	287.3	266.1	249.4	238.1	265.3	151.3	239.5
Income taxes	64.1	73.3	73.7	73.0	57.6	70.1	37.6	72.1
Net earnings	219.1	214.0	192.4	176.4	180.5	195.2	113.7	167.4
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	3.5	–	–
Net earnings available to common shareholders	\$ 216.9	\$ 211.8	\$ 190.2	\$ 174.2	\$ 178.3	\$ 191.7	\$ 113.7	\$ 167.4
Reconciliation of Non-IFRS and Non-Canadian GAAP Financial Measures ⁽¹⁾ (\$ millions)								
Operating earnings available to common shareholders – non-IFRS or non-Canadian GAAP measure	\$ 216.9	\$ 211.8	\$ 212.0	\$ 182.4	\$ 178.3	\$ 191.7	\$ 176.5	\$ 167.4
Other items:								
Non-recurring items related to transition to IFRS, net of tax	–	–	(21.8)	–	–	–	–	–
Proportionate share of affiliate's provision	–	–	–	(8.2)	–	–	–	–
Non-cash charge on AFS equity securities, net of tax	–	–	–	–	–	–	(66.2)	–
Non-cash income tax benefit	–	–	–	–	–	–	17.8	–
Premium paid on redemption of preferred shares	–	–	–	–	–	–	(14.4)	–
Net earnings available to common shareholders – IFRS or Previous Canadian GAAP	\$ 216.9	\$ 211.8	\$ 190.2	\$ 174.2	\$ 178.3	\$ 191.7	\$ 113.7	\$ 167.4
Earnings per Share (¢)								
Net earnings available to common shareholders								
– Basic	84	82	73	67	68	73	43	63
– Diluted	84	81	73	66	68	73	43	63
Operating earnings available to common shareholders ⁽¹⁾								
– Basic	84	82	81	70	68	73	67	63
– Diluted	84	81	81	69	68	73	67	63
Average Daily Mutual Fund Assets (\$ billions)								
Fund Assets	\$ 109.9	\$ 110.0	\$ 105.0	\$ 99.4	\$ 100.5	\$ 100.4	\$ 98.6	\$ 94.4
Total Mutual Fund Assets Under Management (\$ billions)								
Under Management	\$ 108.6	\$ 111.7	\$ 107.9	\$ 102.3	\$ 96.5	\$ 102.8	\$ 100.4	\$ 98.4
Total Assets Under Management (\$ billions)								
Management	\$ 130.2	\$ 134.1	\$ 129.5	\$ 122.7	\$ 115.7	\$ 123.4	\$ 120.5	\$ 117.9

(1) Q4 2010 – refer to Table 1 in the First Quarter MD&A for an explanation of Other items used to calculate the Non-IFRS financial measure.

Refer to the Summary of Consolidated Operating Results section included in the MD&A of the 2010 IGM Financial Inc. Annual Report for an explanation of Other items used to calculate the Non-IFRS or Non-Canadian GAAP financial measures for other periods.

Investors Group

Review of the Business

INVESTORS GROUP STRATEGY

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

1. Growing our distribution network by expanding the number of region offices, attracting new Consultants to our industry and supporting existing Consultants in their growth and development.
2. Emphasizing the delivery of financial planning advice, products and services through our exclusive network of Consultants.
3. Providing an effective level of administrative support to our Consultants and clients, including active communication during all economic cycles.
4. Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
5. Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to clients and Consultants, result in increased efficiency, and improved control over expenditures.

CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants based in 101 region offices across Canada. Two new region offices in London and Drummondville were recently announced which will expand our network to 103 region offices.

At June 30, 2011, Investors Group had 4,592 Consultants, compared with 4,586 at March 31, 2011, 4,686 at the end of 2010, and 4,667 one year ago. In early 2011, Investors Group refined its selection and recruitment practices which will be beneficial to the future growth of the Consultant network. However, this change has resulted in a short-term reduction in the number of Consultant appointments. Terminations of Consultants in the second quarter of 2011 were below recent comparable periods.

The number of Consultants with more than four years experience totalled 2,659 at June 30, 2011 compared to 2,655 at March 31, 2011, 2,641 at the end of 2010 and 2,612 a year earlier.

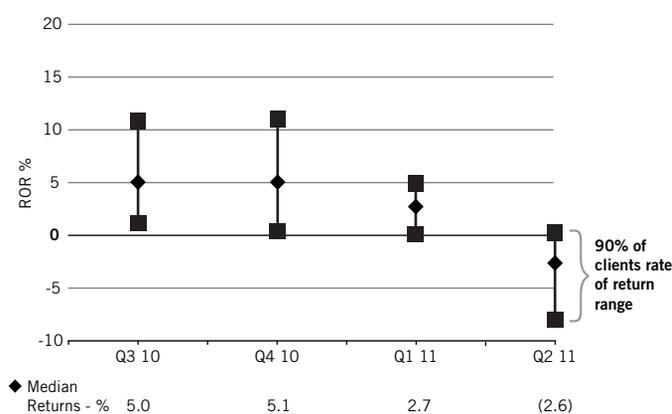
ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

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

This administrative support is provided from both the Company's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from the Company's head office in Winnipeg for Consultants and clients in the rest of Canada. The Quebec General Office has approximately 200 employees, including operating units for most functions in support of the 17 region offices and approximately 800 Consultants throughout Quebec. Mutual funds under management in Quebec were in excess of \$10 billion as at June 30, 2011.

Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of their net cash flow and fund holdings in each quarter as illustrated on the accompanying chart. This chart reflects in-quarter client median rates of return for the four most recent quarters and also illustrates upper and lower range of rates of return around the median for 90% of Investors Group clients.

In-Quarter Client Rate of Return (ROR) Experience



For the twelve months ending June 30, 2011, the client median rate of return was approximately 12%.

TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

Three months ended (\$ millions)	2011		2010	% CHANGE	
	JUN. 30	MAR. 31	JUN. 30	MAR. 31	JUN. 30
Sales	\$ 1,404.6	\$ 2,045.9	\$ 1,316.1	(31.3)%	6.7 %
Redemptions	1,550.0	1,541.9	1,419.1	0.5	9.2
Net sales (redemptions)	(145.4)	504.0	(103.0)	N/M	(41.2)
Market and income	(1,745.3)	1,759.3	(3,652.2)	N/M	52.2
Net change in assets	(1,890.7)	2,263.3	(3,755.2)	N/M	49.7
Beginning assets	64,048.6	61,785.3	59,223.6	3.7	8.1
Ending assets	\$ 62,157.9	\$ 64,048.6	\$ 55,468.4	(3.0)%	12.1 %
Average daily assets	\$ 62,848.4	\$ 63,005.6	\$ 57,862.8	(0.2)%	8.6 %

Six months ended (\$ millions)	2011		2010	% CHANGE
	JUN. 30	JUN. 30	JUN. 30	
Sales	\$ 3,450.5	\$ 3,196.3		8.0 %
Redemptions	3,091.9	2,738.8		12.9
Net sales		358.6	457.5	(21.6)
Market and income		14.0	(2,644.1)	N/M
Net change in assets		372.6	(2,186.6)	N/M
Beginning assets		61,785.3	57,655.0	7.2
Ending assets		\$ 62,157.9	\$ 55,468.4	12.1 %
Average daily assets		\$ 62,926.6	\$ 57,803.0	8.9 %

As a result of the significant market volatility experienced in the last few years, communications to Consultants and clients increased substantially. Consultants, in turn, maintain a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice provided by our Consultants through varying economic cycles.

ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 9.

Fund Performance

At June 30, 2011, 63% of Investors Group mutual funds (Investors, partner and portfolio funds) had a rating of three stars or better from the Morningstar[†] fund ranking service and 21% had a rating of four or five stars. This compared to the Morningstar[†] universe of 66% for three stars or better and 29% for four and five star funds at June 30, 2011. Morningstar[†] Ratings are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Change in Mutual Fund Assets Under Management – 2011 vs. 2010

Investors Group's mutual fund assets under management were \$62.2 billion at June 30, 2011, a decrease of 3.0% from \$64.0 billion at March 31, 2011 and an increase of

12.1% from \$55.5 billion at June 30, 2010. Average daily mutual fund assets were \$62.8 billion in the second quarter of 2011, down 0.2% from \$63.0 billion in the first quarter of 2011 and up 8.6% from \$57.9 billion in the second quarter of 2010.

For the second quarter ended June 30, 2011, sales of Investors Group mutual funds through its Consultant network were \$1.4 billion, an increase of 6.7% from 2010. Mutual fund redemptions totalled \$1.6 billion compared to \$1.4 billion in 2010. Investors Group's twelve month trailing redemption rate for long-term funds was 8.5% at June 30, 2011 compared to 7.7% at June 30, 2010, and remains well below the corresponding average redemption rate of approximately 15.5% for all other members of the Investment Funds Institute of Canada (IFIC) at June 30, 2011. Net redemptions of Investors Group mutual funds for the second quarter of 2011 were \$145 million compared with net redemptions of \$103 million in 2010. Sales of long-term funds were \$1.2 billion for the second quarter of 2011, compared with \$1.1 billion in 2010, an increase of 8.5%. Net redemptions of long-term funds for the second quarter of 2011 were \$120 million compared to net redemptions of \$57 million in 2010. During the second quarter, market and income resulted in a decrease of \$1.7 billion in mutual fund assets compared to a decrease of \$3.7 billion in the second quarter of 2010.

For the six months ended June 30, 2011, sales of Investors Group mutual funds through its Consultant network were \$3.5 billion, an increase of 8.0% from 2010. Mutual fund redemptions totalled \$3.1 billion compared to \$2.7 billion in 2010. Net sales of Investors Group mutual funds for the first half of 2011 were \$359 million compared with net sales of \$458 million in 2010. Sales of long-term funds were \$3.1 billion for the first half of 2011, compared with \$2.8 billion in 2010, an increase of 8.3%. Net sales of long-term funds for the first half of 2011 were \$354 million compared to net sales of \$509 million in 2010. During the six month period, market and income resulted in an increase of \$14 million in mutual fund assets compared to a decrease of \$2.6 billion in 2010.

Change in Mutual Fund Assets Under Management – Q2 2011 vs. Q1 2011

Investors Group's mutual fund assets under management were \$62.2 billion at June 30, 2011, a decrease of 3.0% from \$64.0 billion at March 31, 2011. Average daily mutual fund assets were \$62.8 billion in the second

quarter of 2011 compared to \$63.0 billion in the first quarter of 2011.

For the second quarter ended June 30, 2011, sales of Investors Group mutual funds through its Consultant network were \$1.4 billion, a decrease of 31.3% from the first quarter of 2011. Mutual fund redemptions, which totalled \$1.6 billion for the same period, increased 0.5% from the previous quarter. Net redemptions of Investors Group mutual funds for the current quarter were \$145 million compared with net sales of \$504 million in the previous quarter. Sales of long-term funds were \$1.2 billion for the current quarter, compared with \$1.8 billion in the previous quarter, a decrease of 32.0%. Net redemptions of long-term funds for the current quarter were \$120 million compared to net sales of \$473 million in the previous quarter.

OTHER PRODUCTS AND SERVICES

Segregated Funds

The Guaranteed Investment Funds (GIFs) offering of Great-West Life segregated funds includes 14 segregated fund-of-fund portfolios and 6 segregated funds. These funds offer an enhanced selection of death benefit and maturity guarantees and also include a new Lifetime Income Benefit (LIB) protection feature on select GIFs. The investment components of these segregated funds are managed by Investors Group. At June 30, 2011, total segregated fund assets were \$980 million compared to \$662 million in 2010.

Insurance

Investors Group distributes insurance products through I.G. Insurance Services Inc. For the three months ended June 30, 2011, sales of insurance products as measured by new annualized premiums were \$16.1 million, an increase of 13.0% over \$14.2 million in 2010. For the six months ended June 30, 2011, sales of insurance products were \$31.0 million, an increase of 13.5% over \$27.3 million in 2010.

Securities Operations

Investors Group provides securities services to clients through Investors Group Securities Inc. At June 30, 2011, total assets under administration were \$6.3 billion compared to \$5.5 billion in 2010.

Mortgage Operations

Clients who are seeking residential mortgages are referred to Investors Group mortgage planning

specialists who originate mortgages in key residential markets. For the three months ended June 30, 2011, mortgage originations were \$404 million compared with \$402 million in 2010. For the six months ended June 30, 2011, mortgage originations were \$734 million compared to \$687 million in 2010. At June 30, 2011, mortgages serviced by Investors Group totalled \$6.0 billion compared to \$5.7 billion at December 31, 2010.

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

Solutions Banking[†]

Investors Group's Solutions Banking[†] continues to experience high rates of utilization by Consultants and clients. The offering consists of a wide range of products and services provided by the National Bank of Canada under a long-term distribution agreement and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to a network of banking machines, as well as a private labeled client website and private labeled client service centre. The Solutions Banking[†] offering supports Investors Group's approach to delivering total financial solutions for our clients through a broad financial planning platform.

Additional Products and Services

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

Review of Segment Operating Results

Investors Group's earnings before interest and taxes are presented in Table 10.

2011 VS. 2010

Fee Income

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and

Solutions Banking[†] products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$298.7 million in the second quarter of 2011, an increase of \$23.0 million or 8.3% from \$275.7 million in 2010. For the six months ended

TABLE 10: OPERATING RESULTS – INVESTORS GROUP

Three months ended (\$ millions)	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	% CHANGE	
				2011 MAR. 31	2010 JUN. 30
Revenues					
Management fees	\$ 298.7	\$ 297.6	\$ 275.7	0.4 %	8.3 %
Administration fees	58.3	57.9	54.6	0.7	6.8
Distribution fees	47.3	47.7	44.9	(0.8)	5.3
	404.3	403.2	375.2	0.3	7.8
Net investment income and other	12.8	21.5	(6.2)	(40.5)	N/M
	417.1	424.7	369.0	(1.8)	13.0
Expenses					
Commission	68.1	68.0	67.2	0.1	1.3
Asset retention bonus and premium	56.8	56.2	51.8	1.1	9.7
Non-commission	92.1	85.8	83.6	7.3	10.2
	217.0	210.0	202.6	3.3	7.1
Earnings before interest and taxes	\$ 200.1	\$ 214.7	\$ 166.4	(6.8)%	20.3 %
Six months ended (\$ millions)					
			2011 JUN. 30	2010 JUN. 30	% CHANGE
Revenues					
Management fees			\$ 596.3	\$ 547.4	8.9 %
Administration fees			116.2	109.1	6.5
Distribution fees			95.0	86.7	9.6
			807.5	743.2	8.7
Net investment income and other			34.3	18.9	81.5
			841.8	762.1	10.5
Expenses					
Commission			136.1	131.9	3.2
Asset retention bonus and premium			113.0	102.9	9.8
Non-commission			177.9	165.1	7.8
			427.0	399.9	6.8
Earnings before interest and taxes			\$ 414.8	\$ 362.2	14.5 %

June 30, 2011, management fees were \$596.3 million, an increase of \$48.9 million or 8.9% from \$547.4 million in 2010. The increase in management fees in both periods was primarily due to the increase of 8.6% and 8.9%, respectively, in average daily mutual fund assets as shown in Table 9. Management fees were 191 basis points of average daily mutual fund assets for all periods under review. Management fee income and average management fee rates for all of the periods under review also reflected the effect of Investors Group waiving a portion of the investment management fees on its money market funds to ensure that these funds maintained a positive yield. For the three and six month periods, these waivers totalled \$1.0 million and \$2.0 million, respectively, in 2011 compared to \$1.8 million and \$3.8 million, respectively, in the prior year.

Administration fees totalled \$58.3 million in the current quarter compared to \$54.6 million a year ago, an increase of 6.8%. Administration fees were \$116.2 million for the six month period ended June 30, 2011 compared to \$109.1 million in 2010. The increases resulted primarily from the increase of average daily mutual fund assets under management of 8.6% and 8.9%, respectively, in the three and six month periods offset by the impact of reductions in the fixed rate on administration fees charged on certain mutual funds, effective July 1, 2010.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking[†], an arrangement with the National Bank of Canada.

Distribution fee income of \$47.3 million for the second quarter of 2011 increased by \$2.4 million from \$44.9 million in 2010. For the six month period, distribution fees of \$95.0 million increased by \$8.3 million from \$86.7 million in 2010. Distribution fee income from insurance and banking products and from securities services increased in both periods of 2011 compared to 2010. Redemption fee income increased by \$0.2 million to \$12.6 million in the second quarter of 2011 compared to 2010. For the six month period, redemption fee income increased by \$2.0 million to \$26.3 million. Redemption fee income may vary

depending on the level of deferred sales charge attributable to fee-based redemptions.

Net Investment Income and Other

Net investment income and other includes income related to mortgage banking activities as well as interest earned on cash and cash equivalents, securities and mortgage loans related to intermediary operations. Investors Group reports net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities and interest on bank indebtedness, if any.

Net investment income and other was \$12.8 million in the second quarter of 2011, an increase of \$19.0 million from a loss of \$6.2 million in 2010. For the six months ended June 30, 2011, net investment income and other totalled \$34.3 million, an increase of \$15.4 million from \$18.9 million in 2010. The increases in net investment income related primarily to Investors Group's mortgage banking operations. A summary of mortgage banking activities for the three and six month periods under review are presented in Table 11.

Net investment income related to Investors Group's mortgage banking operations totalled \$12.6 million and \$33.7 million in the three and six month periods ended June 30, 2011 compared to a net loss of \$6.6 million and net income of \$18.8 million in the comparable periods in 2010 primarily due to:

- Fair value adjustments – related to financial instruments and interest rate swaps utilized for hedging purposes in securitization transactions and for warehouse mortgage loans which are classified as held for trading. Negative fair value adjustments as a result of interest rate changes were \$4.5 million for the three and six month periods ended June 30, 2011 compared to \$29.0 million and \$32.8 million in the comparative periods in 2010. The Company's exposure to and management of interest rate risk is discussed further in the Financial Instruments section of this MD&A.
- Net interest income on securitized loans – which totalled \$15.6 million and \$31.9 million for the three and six month periods ended June 30, 2011 compared to \$21.7 million and \$42.8 million in the comparative periods in 2010. Increases in asset-backed commercial paper yields during the periods under review resulted in a lower net interest income margin which accounted for \$4.6 million and \$2.5 million of the decrease in the respective

TABLE 11: MORTGAGE BANKING ACTIVITIES – INVESTORS GROUP

(\$ millions)	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	% CHANGE	
				2011 MAR. 31	2010 JUN. 30
(As at)					
Mortgages serviced	\$ 5,982	\$ 5,808	\$ 5,608	3.0 %	6.7 %
Mortgage warehouse⁽¹⁾	\$ 363	\$ 289	\$ 358	25.6 %	1.4 %
(Three months ended)					
Average mortgages serviced					
CMB/MBS Programs	\$ 2,300	\$ 2,113	\$ 1,627	8.8 %	41.4 %
Bank-sponsored ABCP programs	1,108	1,281	1,554	(13.5)	(28.7)
Securitizations	3,408	3,394	3,181	0.4	7.1
Other	2,511	2,367	2,350	6.1	6.9
	\$ 5,919	\$ 5,761	\$ 5,531	2.7 %	7.0 %
Mortgage originations⁽²⁾	\$ 404	\$ 330	\$ 402	22.4 %	0.5 %
Mortgage sales to:⁽³⁾					
Securitizations	\$ 236	\$ 291	\$ 351	(18.9)%	(32.8)%
Other ⁽⁴⁾	189	198	200	(4.5)	(5.5)
	\$ 425	\$ 489	\$ 551	(13.1)%	(22.9)%
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	\$ 36.2	\$ 36.7	\$ 36.8	(1.4)%	(1.6)%
Interest expense	(20.6)	(20.4)	(15.1)	(1.0)	(36.4)
Net interest income	15.6	16.3	21.7	(4.3)	(28.1)
Gains on sales ⁽⁵⁾	2.2	3.3	(0.2)	(33.3)	N/M
Mark-to-market and other income	(5.2)	1.5	(28.1)	N/M	81.5
	\$ 12.6	\$ 21.1	\$ (6.6)	(40.3)%	N/M %

(1) Warehouse activities include mortgage fundings, mortgage renewals and mortgage refinances.

(2) Excludes renewals and refinances.

(3) Represents principal amounts sold.

(4)(5) Represents sales to both institutional investors through private placements and to Investors Mortgage and Short Term Income Fund and gains realized on those sales.

periods. The remainder of the decrease related to a reduction in the proportion of securitized loans residing in asset-backed commercial paper programs to total securitized loans which declined to 32% at June 30, 2011 from 49% at June 30, 2010. These loans currently have a higher net interest margin than those securitized in the Canada Mortgage Bond Program.

Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with

TABLE 11: MORTGAGE BANKING ACTIVITIES – INVESTORS GROUP (CONTINUED)

(\$ millions)	2011 JUN. 30	2010 JUN. 30	% CHANGE
(Six months ended)			
Average mortgages serviced			
CMB/MBS Programs	\$ 2,218	\$ 1,569	41.4 %
Bank-sponsored ABCP programs	1,184	1,635	(27.6)
Securitizations	3,402	3,204	6.2
Other	2,443	2,262	8.0
	\$ 5,845	\$ 5,466	6.9 %
Mortgage originations⁽²⁾	\$ 734	\$ 687	6.8 %
Mortgage sales to:⁽³⁾			
Securitizations	\$ 527	\$ 555	(5.0)%
Other ⁽⁴⁾	387	433	(10.6)
	\$ 914	\$ 988	(7.5)%
Total mortgage banking income			
Net interest income on securitized loans			
Interest income	\$ 72.9	\$ 73.2	(0.4)%
Interest expense	(41.0)	(30.4)	(34.9)
Net interest income	31.9	42.8	(25.5)
Gains on sales ⁽⁵⁾	5.5	5.2	5.8
Mark-to-market and other income	(3.7)	(29.2)	87.3
	\$ 33.7	\$ 18.8	79.3 %

redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense for the second quarter of 2011 increased by \$0.9 million to \$68.1 million compared with \$67.2 million in 2010 and for the six month period increased by \$4.2 million to \$136.1 million compared with \$131.9 million in 2010. These increases were due to increases in the distribution of mutual funds and other financial services and products.

Asset retention bonus and premium expense is comprised of the following:

- Asset retention bonus which is paid monthly is based on the value of assets under management. Asset retention bonus expense increased by \$4.6 million and \$9.2 million for the three and six month periods ended June 30, 2011 to \$48.4 million

and \$96.2 million, respectively, compared to 2010. The increases were primarily as a result of changes in average assets under management.

- Asset retention premium which is paid annually is a deferred component of compensation designed to promote Consultant retention and is based on assets under management at each year-end. Asset retention premium expense increased by \$0.4 million and \$0.9 million in the three and six month periods to \$8.4 million and \$16.8 million, respectively, compared to 2010.

Non-commission expenses incurred by Investors Group related primarily to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as subadvisory fees related to mutual funds under management. Non-commission expenses were

\$92.1 million for the second quarter of 2011 compared to \$83.6 million in 2010, an increase of \$8.5 million or 10.2%. For the six month period, non-commission expenses were \$177.9 million compared to \$165.1 million in 2010, an increase of \$12.8 million or 7.8%.

Q2 2011 VS. Q1 2011

Fee Income

Management fee income increased by \$1.1 million or 0.4% to \$298.7 million in the second quarter of 2011 compared with the first quarter of 2011. There was one additional calendar day in the second quarter of 2011 compared to the first quarter of 2011 which resulted in a \$3.3 million increase in fee income in the current quarter. Excluding the impact of the additional calendar day in the current quarter, management fee income declined consistent with the decrease in average daily mutual fund assets of 0.2% as shown in Table 9 and the decrease in the management fee rate to 191 basis points of average daily mutual fund assets from 192 basis points in the prior quarter. Money market fund waivers totalled \$1.0 million in both the first and second quarters of 2011.

Administration fees increased to \$58.3 million in the second quarter of 2011 from \$57.9 million in the first quarter of 2011 due primarily to the impact of the additional calendar day in the quarter.

Distribution fee income of \$47.3 million in the second quarter of 2011 decreased by \$0.4 million from \$47.7 million in the first quarter. The decrease was primarily due to a decrease in redemption fee income of \$1.1 million, offset in part by an increase in distribution fee income from insurance products.

Net Investment Income and Other

Net investment income and other was \$12.8 million in the second quarter of 2011, a decrease of \$8.7 million from \$21.5 million in the previous quarter. The decrease in net investment income related primarily to Investors Group's mortgage banking operations, which decreased by \$8.5 million during the quarter as shown in Table 11. As previously discussed, the Company recorded negative fair value adjustments of \$4.5 million during the second quarter relating to its hedges of interest rate risk associated with fixed-rate mortgages securitized through asset-backed commercial paper programs. There were no fair value adjustments in the previous quarter. Gains on sales to the Investors Mortgage and Short Term Income Fund and institutional investors decreased by \$1.0 million as a result of lower margins during the period. Net interest income on securitized loans decreased by \$0.7 million due to a reduction in the proportion of securitized loans residing in bank-sponsored asset-backed commercial paper programs, as these loans currently have a higher net interest margin than those securitized in the Canada Mortgage Bond Program.

Expenses

Commission expense in the current quarter was \$68.1 million compared with \$68.0 million in the previous quarter. The asset retention bonus and premium expense increased by \$0.6 million to \$56.8 million in the second quarter of 2011.

Non-commission expenses increased \$6.3 million to \$92.1 million in the second quarter of 2011 compared with the first quarter due primarily to seasonal patterns of expenses related to the support of the Consultant network and mutual fund operations.

Mackenzie

Review of the Business

MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of shareholders, dealers, advisors, investment clients and employees are closely aligned. Mackenzie's business approach embraces current trends and practices in the global financial services industry and our strategic plan is focused on:

1. The delivery of consistent long-term investment results.
2. Offering a diversified suite of investment solutions for financial advisors and investors.
3. Continuing to build and solidify our distribution relationships.
4. Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to investment management, distribution and client service.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our sales model focuses on multiple third party distribution channels engaged in the provision of financial advice to investors. This approach is particularly relevant in the current economic environment as investors look for assistance in positioning their financial plans. We are committed to continuing to partner with the advice channel going forward.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances, sub-advisory accounts, private asset management and the institutional marketplace. Mackenzie attracts new institutional business through its relationships with pension and management consultants, through direct sales efforts and through additional mandates from its existing client relationships.

Mackenzie faces strong competition from other asset management companies, banks, insurance companies and other financial institutions which distribute their products and services to the same customers that Mackenzie is seeking to attract. Mackenzie continues to be well positioned with its team of experienced investment professionals, broad product shelf, competitively priced

products and its focus on customer service to continue to build and enhance its distribution relationships.

ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 12.

The change in Mackenzie's assets under management is determined by: (1) the increase or decrease in the market value of the securities held in the portfolios of investments; (2) the level of sales as compared to the level of redemptions; and (3) acquisitions.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At June 30, 2011, 46% of Mackenzie's mutual funds were rated in the top two performance quartiles for the one year time frame, 67% for the three year time frame and 65% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar[†] fund ranking service. At June 30, 2011, 82% of Mackenzie's mutual fund assets measured by Morningstar[†] had a rating of three stars or better and 45% had a rating of four or five stars. This compared to the Morningstar[†] universe of 81% for three stars or better and 41% for four and five star funds at June 30, 2011.

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. During the current period, Mackenzie continued to adjust its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients. A summary of product initiatives undertaken this quarter included the following:

- April 21 – Mackenzie announced the conversion of the Canadian Shield Fund from a closed-end investment fund to an open-end mutual fund. The conversion took place on July 8, 2011 and the new fund was named Mackenzie Universal Canadian Shield Fund.
- May 27 – Mackenzie announced that it appointed Putnam Investments as sub-advisor to several Mackenzie high-yield corporate bond funds, effective June 1, 2011.

2011 vs. 2010

Mackenzie's total assets under management at June 30, 2011 were \$68.8 billion, an increase of 13.0% from \$60.9 billion at June 30, 2010. Mackenzie's mutual fund

TABLE 12: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

Three months ended (\$ millions)				% CHANGE	
	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	2011 MAR. 31	2010 JUN. 30
Sales	\$ 2,683.9	\$ 3,486.2	\$ 3,343.3	(23.0)%	(19.7)%
Redemptions	2,856.5	3,365.5	3,859.6	(15.1)	(26.0)
Net sales (redemptions)	(172.6)	120.7	(516.3)	N/M	66.6
Market and income	(1,698.8)	2,211.9	(3,453.9)	N/M	50.8
Net change in assets	(1,871.4)	2,332.6	(3,970.2)	N/M	52.9
Beginning assets	70,678.9	68,346.3	64,857.2	3.4	9.0
Ending assets	\$ 68,807.5	\$ 70,678.9	\$ 60,887.0	(2.6)%	13.0 %
Consists of:					
Mutual funds	\$ 43,601.3	\$ 44,824.2	\$ 38,867.3	(2.7)%	12.2 %
Sub-advisory, institutional and other accounts	25,206.2	25,854.7	22,019.7	(2.5)	14.5
	\$ 68,807.5	\$ 70,678.9	\$ 60,887.0	(2.6)%	13.0 %
Daily average mutual fund assets	\$ 44,176.0	\$ 44,219.0	\$ 40,431.5	(0.1)%	9.3 %
Monthly average total assets⁽¹⁾	\$ 69,934.2	\$ 69,546.5	\$ 63,406.3	0.6 %	10.3 %
Six months ended (\$ millions)					% CHANGE
			2011 JUN. 30	2010 JUN. 30	
Sales			\$ 6,170.1	\$ 6,570.8	(6.1)%
Redemptions			6,222.0	6,986.2	(10.9)
Net sales (redemptions)			(51.9)	(415.4)	87.5
Market and income			513.1	(2,277.0)	N/M
Net change in assets			461.2	(2,692.4)	N/M
Beginning assets			68,346.3	63,579.4	7.5
Ending assets			\$ 68,807.5	\$ 60,887.0	13.0 %
Daily average mutual fund assets			\$ 44,197.4	\$ 40,482.1	9.2 %
Monthly average total assets⁽¹⁾			\$ 69,695.7	\$ 63,430.9	9.9 %

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

assets under management were \$43.6 billion at June 30, 2011, an increase of 12.2% from \$38.9 billion at June 30, 2010. Mackenzie's sub-advisory, institutional and other accounts at June 30, 2011 were \$25.2 billion, an increase of 14.5% from \$22.0 billion last year.

In the three months ended June 30, 2011, Mackenzie's gross sales were \$2.7 billion, a decline of 19.7% from \$3.3 billion in the comparative period last year. Redemptions in the current period were

\$2.9 billion, a decline of 26.0% from \$3.9 billion last year. Net redemptions for the three months ended June 30, 2011 were \$173 million, as compared to net redemptions of \$516 million last year. During the current quarter, market and income resulted in assets decreasing by \$1.7 billion as compared to a decrease of \$3.5 billion in 2010.

Mackenzie's gross sales were higher by \$0.5 billion and redemptions were higher by \$0.4 billion in the

quarter ended June 30, 2010 as a result of rebalance transactions by two institutional investors.

In the six months ended June 30, 2011, Mackenzie's gross sales were \$6.2 billion, a decrease of 6.1% from \$6.6 billion in the comparative period last year. Redemptions in the current period were \$6.2 billion, a decrease of 10.9% from \$7.0 billion last year. Net redemptions for the six months ended June 30, 2011 were \$52 million, as compared to net redemptions of \$415 million last year. During the current period, market and income resulted in assets increasing by \$0.5 billion as compared to a decrease of \$2.3 billion in 2010.

Redemptions of long-term mutual funds in the six months ended June 30, 2011 were \$3.3 billion unchanged from last year. As at June 30, 2011, Mackenzie's twelve-month trailing redemption rate for long-term funds was 15.9%, as compared to 15.7% last year. The average twelve-month trailing redemption rate for long-term funds for all other members of IFIC was 14.6% at June 30, 2011. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales

charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Q2 2011 vs. Q1 2011

Mackenzie's total assets under management at June 30, 2011 were \$68.8 billion, a decrease of 2.6% from \$70.7 billion at March 31, 2011 as summarized in Table 12. Mackenzie's mutual fund assets under management decreased \$1.2 billion or 2.7% to \$43.6 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts decreased \$0.7 billion or 2.5% to \$25.2 billion at June 30, 2011.

Redemptions of long-term mutual fund assets in the current quarter were \$1.5 billion as compared to \$1.8 billion in the quarter ended March 31, 2011. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended June 30, 2011 was 14.1% as compared to 17.0% in the first quarter of 2011.

Review of Segment Operating Results

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

2011 VS. 2010

Revenues

Mackenzie's management fee revenues are earned from services it provides as fund manager to the Mackenzie mutual funds and as investment advisor to sub-advisory and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis. Mackenzie also offers certain series of its mutual funds with management fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. Mackenzie does not pay commissions on these non-retail series of its mutual funds. At June 30, 2011, there were \$10.6 billion of mutual fund assets in these series of funds, as compared to \$8.9 billion at June 30, 2010.

Management fees were \$181.6 million for the three months ended June 30, 2011, an increase of \$10.9 million or 6.4% from \$170.7 million last year. For the six months ended June 30, 2011, management fees were \$364.9 million, an increase of \$24.9 million or 7.3% from \$340.0 million in 2010. The increase in management fees in both periods was due to the change in Mackenzie's monthly average total assets under management combined with the change in the mix of assets under management.

Monthly average total assets under management were \$69.9 billion in the three month period ended June 30, 2011 compared to \$63.4 billion in 2010, an increase of 10.3%. Monthly average total assets under management for the six month period ended June 30, 2011 were \$69.7 billion as compared to \$63.4 billion in 2010, an increase of 9.9%.

Mackenzie's average management fee rate was 104.2 basis points in the three month period ended June 30, 2011, and 105.6 basis points in the six month period

TABLE 13: OPERATING RESULTS – MACKENZIE

Three months ended (\$ millions)	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	% CHANGE	
				2011 MAR. 31	2010 JUN. 30
Revenues					
Management fees	\$ 181.6	\$ 183.3	\$ 170.7	(0.9)%	6.4 %
Administration fees	32.8	33.1	33.1	(0.9)	(0.9)
Distribution fees	5.3	6.4	6.2	(17.2)	(14.5)
	219.7	222.8	210.0	(1.4)	4.6
Net investment income and other	4.1	4.5	3.0	(8.9)	36.7
	223.8	227.3	213.0	(1.5)	5.1
Expenses					
Commission	23.6	25.7	27.0	(8.2)	(12.6)
Trailing commission	50.2	50.1	45.6	0.2	10.1
Non-commission	69.2	71.7	67.1	(3.5)	3.1
	143.0	147.5	139.7	(3.1)	2.4
Earnings before interest and taxes	\$ 80.8	\$ 79.8	\$ 73.3	1.3 %	10.2 %
Six months ended (\$ millions)					
			2011 JUN. 30	2010 JUN. 30	% CHANGE
Revenues					
Management fees			\$ 364.9	\$ 340.0	7.3 %
Administration fees			65.9	65.8	0.2
Distribution fees			11.7	12.7	(7.9)
			442.5	418.5	5.7
Net investment income and other			8.6	6.4	34.4
			451.1	424.9	6.2
Expenses					
Commission			49.3	56.0	(12.0)
Trailing commission			100.3	91.0	10.2
Non-commission			140.9	136.3	3.4
			290.5	283.3	2.5
Earnings before interest and taxes			\$ 160.6	\$ 141.6	13.4 %

ended June 30, 2011, compared to 108.0 basis points and 108.1 basis points respectively in 2010. Factors contributing to the net decrease in the average management fee rate as compared to 2010 are as follows:

- Institutional assets and non-retail mutual funds have lower management fees than retail mutual funds. The proportion of Mackenzie's institutional accounts and non-retail mutual funds increased as a percentage of Mackenzie's total assets under management

resulting in a decrease to the average management fee rate.

- The lower level of waivers of management fees on its money market funds relative to last year increased Mackenzie's average management fee rate. Due to the continuing low interest rate environment in the current year, Mackenzie waived a portion of its management fees on these funds in order to maintain positive net returns for investors. In the

three and six month periods ended June 30, 2011, Mackenzie waived management fees of \$0.1 million and \$0.2 million respectively on its money market funds as compared to \$1.8 million and \$4.1 million in 2010.

Administration fees include the following main components:

- Administration fees for providing services to the Mackenzie mutual funds.
- Trustee and other administration fees generated from the MRS account administration business.

Administration fees were \$32.8 million for the three months ended June 30, 2011, as compared to \$33.1 million in 2010. Administration fees were \$65.9 million for the six months ended June 30, 2011, as compared to \$65.8 million in 2010.

Effective August 1, 2007, Mackenzie assumed responsibility for the operating expenses of the Mackenzie funds, other than GST/HST and certain specified fund costs, in return for a fixed rate administration fee established for each fund based on the following criteria:

- From August 1, 2007 until December 31, 2009, and thereafter as may be applicable, the funds that existed as at August 1, 2007 may be required to pay a monthly operating expense adjustment to Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets on August 1, 2007. If it becomes payable, Mackenzie will be entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on August 1, 2007 throughout the month.
- As the applicable mutual fund asset levels as at December 31, 2009 were below 95% of the net asset levels on August 1, 2007, the monthly operating expense adjustment continues until the first month where average asset levels exceed 95% of the net asset levels on August 1, 2007. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on

August 1, 2007, the operating expense adjustment will no longer be payable.

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in the current period. Included in administration fees were operating expense adjustments of \$2.0 million in the three months ended June 30, 2011 and \$3.6 million in the six months ended June 30, 2011, compared to \$3.3 million and \$6.5 million respectively in 2010.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended June 30, 2011 was \$5.3 million, a decrease of \$0.9 million from \$6.2 million last year. Distribution fee income in the six months ended June 30, 2011, was \$11.7 million, a decrease of \$1.0 million from \$12.7 million in 2010.

The primary component of net investment income and other is the net interest margin from M.R.S. Trust Company's lending and deposit-taking operations. Net investment income and other in the three months ended June 30, 2011 was \$4.1 million, an increase of \$1.1 million from \$3.0 million in 2010. Net investment income in the six months ended June 30, 2011 was \$8.6 million, an increase of \$2.2 million from \$6.4 million in the comparative period last year.

Expenses

Mackenzie's expenses were \$143.0 million for the three months ended June 30, 2011, an increase of \$3.3 million or 2.4% from \$139.7 million last year. Expenses for the six months ended June 30, 2011 were \$290.5 million, an increase of \$7.2 million or 2.5% from \$283.3 million in 2010.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commission expense, which represents the amortization of selling commissions, was \$23.6 million in the three months ended June 30, 2011,

as compared to \$27.0 million last year. Commission expense in the six months ended June 30, 2011 was \$49.3 million as compared to \$56.0 million in 2010. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$50.2 million in the three months ended June 30, 2011, an increase of \$4.6 million or 10.1% from \$45.6 million last year. Trailing commissions in the six months ended June 30, 2011 were \$100.3 million, an increase of \$9.3 million or 10.2% from \$91.0 million in the comparative period last year. The change in trailing commissions in both the three and six month periods ended June 30, 2011 is consistent with the period over period increase in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 45.6 basis points in the three months ended June 30, 2011 and 45.8 basis points in the six months ended June 30, 2011 as compared to 45.2 basis points and 45.3 basis points respectively last year.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management, and in its account administration and trust company businesses. Non-commission expenses were \$69.2 million in the three months ended June 30, 2011, an increase of \$2.1 million or 3.1% from \$67.1 million last year. Non-commission expenses in the six months ended June 30, 2011 were \$140.9 million, an increase of \$4.6 million or 3.4% from \$136.3 million in the comparative period last year. Mackenzie actively manages its non-commission expenses to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

Q2 2011 VS. Q1 2011

Revenues

Management fees were \$181.6 million for the current quarter, a decrease of \$1.7 million or 0.9% from \$183.3 million in the first quarter of 2011. Factors contributing to this decrease are as follows:

- Mackenzie's average management fee rate was 104.2 basis points in the current quarter as compared to 106.9 basis points in the first quarter of 2011. Contributing to the decline is the relative change in Mackenzie's institutional accounts and in its non-retail mutual funds relative to the change in its retail mutual funds.
- Monthly average total assets under management were \$69.9 billion in the current quarter compared to \$69.5 billion in the quarter ended March 31, 2011, an increase of 0.6%.
- An increase in calendar days in the current quarter as compared to the first quarter of 2011. This difference resulted in an increase of management fees of approximately \$1.9 million in the current quarter on a comparative basis.

Administration fees were \$32.8 million in the current quarter compared to \$33.1 million in the quarter ended March 31, 2011. Included in administration fees for the current quarter were fund operating expense adjustments of \$2.0 million as compared to \$1.6 million in the first quarter of 2011.

Expenses

Mackenzie's expenses were \$143.0 million for the current quarter, a decrease of \$4.5 million or 3.1% from \$147.5 million in the first quarter of 2011.

Commission expense, which represents the amortization of selling commissions, was \$23.6 million in the quarter ended June 30, 2011, as compared to \$25.7 million in the first quarter of 2011. Trailing commissions were \$50.2 million in the current quarter, an increase of \$0.1 million or 0.2% from \$50.1 million in the first quarter of 2011.

Non-commission expenses were \$69.2 million in the current quarter, a decrease of \$2.5 million or 3.5% from the first quarter of 2011. Mackenzie's non-commission expenses tend to be higher in the first quarter of the year due to the general increase in sales activities and transaction volumes.

Corporate and Other Review of Segment Operating Results

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc., operating results for Investment Planning Counsel Inc., other income, as well as inter-segment eliminations.

Corporate and other earnings before interest and taxes are presented in Table 14.

2011 VS. 2010

Net investment income and other increased by \$1.3 million in the second quarter of 2011 compared with 2010. The increase in net investment income on unallocated investments as well as an increase of \$0.2 million in the Company's proportionate share

of Lifeco's earnings, as reflected in the Consolidated Financial Position section of this MD&A. In addition, the second quarter of 2010 included net gains on the sale of equity securities.

Net investment income and other decreased by \$4.5 million in the six months ended June 30, 2011 compared with 2010. The six months ended June 30, 2010 included net gains on the sale of equity securities. This decrease was offset in part by an increase in net investment income on unallocated investments.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.3 million higher in the second quarter of 2011 compared to the same period in 2010 and \$1.9 million higher for the six months ended June 30, 2010.

TABLE 14: OPERATING RESULTS – CORPORATE AND OTHER

Three months ended (\$ millions)	2011 JUN. 30	2011 MAR. 31	2010 JUN. 30	% CHANGE	
				2011 MAR. 31	2010 JUN. 30
Revenues					
Fee income	\$ 44.7	\$ 48.5	\$ 31.4	(7.8)%	42.4 %
Net investment income and other	24.6	19.9	23.3	23.6	5.6
	69.3	68.4	54.7	1.3	26.7
Expenses					
Commission	30.2	33.6	20.4	(10.1)	48.0
Non-commission	10.7	11.7	8.3	(8.5)	28.9
	40.9	45.3	28.7	(9.7)	42.5
Earnings before interest and taxes	\$ 28.4	\$ 23.1	\$ 26.0	22.9 %	9.2 %
Six months ended (\$ millions)					
			2011 JUN. 30	2010 JUN. 30	% CHANGE
Revenues					
Fee income			\$ 93.2	\$ 66.0	41.2 %
Net investment income and other			44.5	49.0	(9.2)
			137.7	115.0	19.7
Expenses					
Commission			63.8	43.9	45.3
Non-commission			22.4	16.6	34.9
			86.2	60.5	42.5
Earnings before interest and taxes			\$ 51.5	\$ 54.5	(5.5)%

Q2 2011 VS. Q1 2011

Net investment income and other increased by \$4.7 million in the second quarter of 2011 compared with the previous quarter due primarily to an increase of \$1.1 million in the Company's proportionate share of Lifeco's earnings and increases in other income related to the seasonality of certain fees.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.5 million higher in the second quarter of 2011 compared with the previous quarter.

IGM Financial Inc.

Consolidated Financial Position

IGM Financial's total assets were \$11.2 billion at June 30, 2011, compared to \$12.2 billion at December 31, 2010.

SECURITIES

The composition of the Company's securities holdings is detailed in Table 15.

Available for Sale (AFS) Securities

Securities classified as available for sale include equity securities, investments in proprietary investment funds and fixed income securities. Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment, at which time they are recorded in the Consolidated Statements of Earnings.

The Company held a diversified portfolio of fixed income securities totalling \$197.7 million at June 30, 2011 which was comprised primarily of bankers' acceptances, Canadian chartered bank senior deposit notes and corporate bonds.

Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include Canada Mortgage Bonds, which are discussed below, and fixed income securities comprised of the restructured notes of the master asset vehicle (MAV) conduits. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Canada Mortgage Bonds were purchased in 2009 as part of the Company's ongoing interest rate risk management activities related to its participation in the CMB Program. The Canada Mortgage Bonds are financed through 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.

During the second quarter, the Company sold \$425.6 million of the Canada Mortgage Bonds and settled \$427.6 million of the related repurchase agreements as the Company achieved its investment and risk management objectives related to these bonds.

The remaining securities had a fair value of \$213.4 million at June 30, 2011. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$214.3 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.

LOANS

Loans, including mortgages and investment loans, increased by \$187.3 million to \$4.28 billion at June 30, 2011 and represented 38.3% of total assets, compared to 33.7% at December 31, 2010. Loans consisted of:

- Residential mortgage loans and investment loans which relate to the Company's intermediary operations are classified as loans and receivables

TABLE 15: SECURITIES

(\$ thousands)	JUNE 30, 2011		DECEMBER 31, 2010	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Common shares	\$ 8,687	\$ 7,666	\$ 8,687	\$ 7,698
Proprietary investment funds	26,339	28,887	33,326	37,794
Fixed income securities	196,149	197,696	243,939	243,748
	231,175	234,249	285,952	289,240
Fair value through profit or loss				
Canada Mortgage Bonds	220,432	213,362	647,318	637,850
Fixed income securities	31,062	28,922	31,301	27,601
	251,494	242,284	678,619	665,451
	\$ 482,669	\$ 476,533	\$ 964,571	\$ 954,691

and totalled \$105.9 million and \$276.6 million, respectively, compared to \$117.3 million and \$283.6 million at December 31, 2010.

- Residential mortgage loans which relate to the Company's mortgage banking operations are classified as held for trading and totalled \$472.2 million compared to \$224.4 million at December 31, 2010. These loans are held by the Company pending sale or securitization.
- Residential mortgage loans which were sold to securitization programs are classified as loans and receivables and totalled \$3.43 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 \$3.51 billion at June 30, 2011, unchanged from December 31, 2010.

The general allowance for credit losses on the entire portfolio was \$4.3 million at June 30, 2011, unchanged from December 31, 2010.

Residential mortgage loans originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including CMHC or Canadian bank sponsored securitization programs. Investors Group services residential mortgage loans of \$7.9 billion, including \$1.9 billion originated by subsidiaries of Great-West Lifeco Inc.

M.R.S. Trust Company sources mortgage loans and investment loans through financial advisors. These loans are funded through M.R.S. Trust Company's deposit operations.

The Company's exposure to and management of credit risk and interest rate risk related to its loan

portfolios and its mortgage banking operations is discussed in the Financial Instruments section of the MD&A.

INVESTMENT IN AFFILIATE

The Company currently has a 4% equity interest in Great-West Lifeco Inc. (Lifeco), an affiliated company. Both IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence over Lifeco. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three and six month periods ended June 30, 2011 compared with the same periods in 2010 are shown in Table 16.

SECURITIZATION ARRANGEMENTS

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 ABCP programs. These securitizations were classified as off-balance sheet arrangements in accordance with previous Canadian GAAP. In accordance with IFRS, these securitization arrangements are now reflected on the Consolidated Balance Sheets as discussed in the Change in Accounting Policies – Derecognition of Financial Assets section of this MD&A.

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group

TABLE 16: INVESTMENT IN AFFILIATE

(\$ millions)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Carrying value, beginning of period	\$ 569.3	\$ 574.6	\$ 580.5	\$ 574.8
Proportionate share of earnings and other	18.2	17.9	35.1	35.2
Dividends received	(11.6)	(11.6)	(23.2)	(23.2)
Proportionate share of other comprehensive income (loss) and other adjustments	(3.8)	(17.3)	(20.3)	(23.2)
Carrying value, end of period	\$ 572.1	\$ 563.6	\$ 572.1	\$ 563.6
Fair value, end of period	\$ 961.3	\$ 909.2	\$ 961.3	\$ 909.2

mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of credit risk associated with the transferred assets. The Company's credit risk on its securitization activities is limited to its retained interest, however substantially all securitized mortgages are insured. The Company retains prepayment risk associated with the securitized loans. Accordingly, the Company has recorded these loans on its balance sheet following securitization. During the second quarter of 2011, the Company securitized loans through its mortgage operations with cash proceeds of \$235.0 million compared to \$349.0 million in the second quarter of 2010. The fair value of the Company's retained interest was \$75.9 million at June 30, 2011

compared to \$107.0 million at December 31, 2010. The retained interest includes cash reserve accounts of \$8.1 million, which are reflected on the balance sheet, and rights to future excess spread of \$99.5 million, which are not reflected on the balance sheet. The retained interest also includes the component of a swap entered into under the Canada Mortgage Bond Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. This component of the swap is recorded on the balance sheet and had a negative fair value of \$31.7 million at June 30, 2011. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Notes 1 and 4 of the Interim Financial Statements.

Consolidated Liquidity and Capital Resources

LIQUIDITY

Cash and cash equivalents totalled \$896.8 million at June 30, 2011 compared with \$1.57 billion and \$1.11 billion at December 31, 2010 and June 30, 2010, respectively. Cash and cash equivalents related to the Company's deposit operations were \$305.7 million at June 30, 2011 compared with \$326.2 million and

\$337.1 million at December 31, 2010 and June 30, 2010, respectively, as shown in Table 17.

Net working capital totalled \$585.1 million at June 30, 2011 compared with \$617.7 million at December 31, 2010 and \$397.5 million at June 30, 2010. Net working capital excludes the Company's cash and cash equivalents related to its deposit operations as shown in Table 17.

TABLE 17: ASSETS RELATED TO DEPOSIT OPERATIONS

<i>(\$ millions)</i>	2011 JUN. 30	2010 DEC. 31	2010 JUN. 30
Assets			
Cash and cash equivalents	\$ 305.7	\$ 326.2	\$ 337.1
Securities	197.7	243.7	261.6
Loans	444.3	422.5	424.7
Total assets	\$ 947.7	\$ 992.4	\$ 1,023.4
Liabilities and shareholders' equity			
Deposit liabilities	\$ 777.5	\$ 834.8	\$ 862.6
Other liabilities – net	49.2	39.6	43.3
Subordinated debt	20.0	20.0	20.0
Shareholders' equity	101.0	98.0	97.5
Total liabilities and shareholders' equity	\$ 947.7	\$ 992.4	\$ 1,023.4

Net working capital may be utilized to:

- Finance ongoing operations, including the funding of selling commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Meet regular interest and dividend obligations related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share purchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$388.7 million in the second quarter of 2011 compared to \$347.7 million in the second quarter of 2010 and \$398.6 million in the first quarter of 2011. EBITDA totalled \$787.3 million for the six months ended June 30, 2011 compared to \$723.3 million in 2010. EBITDA for each period under review also excludes the impact of amortization of deferred selling commissions which totalled \$70.7 million in the second quarter of 2011 compared to \$73.6 million in the second quarter of 2010 and \$72.5 million in the first quarter of 2011. As well as being an important alternative measure of performance, EBITDA as reported by the Company is one of the primary metrics utilized by investment

analysts and credit rating agencies in reviewing asset management companies.

Refer to the Financial Instruments section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity risk.

Cash Flows

Table 18 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and six months ended June 30, 2011. Cash and cash equivalents decreased by \$584.9 million in the quarter compared with a decrease of \$62.8 million in the second quarter of 2010. For the six month period, cash and cash equivalents decreased by \$676.8 million compared to an increase of \$169.2 million in 2010.

Operating activities, before payment of commissions, generated \$242.1 million and \$471.2 million during the three and six month periods ended June 30, 2011, as compared to \$252.5 million and \$474.5 million in 2010. Cash commissions paid were \$55.6 million and \$143.8 million for the three and six month periods in 2011 compared to \$55.3 million and \$136.3 million, respectively, in 2010. Net cash flows from operating activities, net of commissions paid, were \$186.5 million and \$327.4 million for the three and six month periods in 2011 as compared to \$197.2 million and \$338.2 million for the three and six month periods in 2010.

TABLE 18: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED JUNE 30			SIX MONTHS ENDED JUNE 30		
	2011	2010	CHANGE	2011	2010	CHANGE
Operating activities						
Before payment of commissions	\$ 242.1	\$ 252.5	(4.1)%	\$ 471.2	\$ 474.5	(0.7)%
Commissions paid	(55.6)	(55.3)	(0.5)	(143.8)	(136.3)	(5.5)
Net of commissions paid	186.5	197.2	(5.4)	327.4	338.2	(3.2)
Financing activities	(1,102.4)	(170.6)	N/M	(1,292.3)	(305.1)	N/M
Investing activities	331.0	(89.4)	N/M	288.1	136.1	111.7
(Decrease) increase in cash and cash equivalents	(584.9)	(62.8)	N/M	(676.8)	169.2	N/M
Cash and cash equivalents, beginning of period	1,481.7	1,177.1	25.9	1,573.6	945.1	66.5
Cash and cash equivalents, end of period	\$ 896.8	\$ 1,114.3	(19.5)%	\$ 896.8	\$ 1,114.3	(19.5)%

Financing activities during the second quarter of 2011 compared to the same period in 2010 related primarily to:

- A net decrease of \$40.7 million in deposits and certificates in 2011 compared to a net decrease of \$38.9 million in 2010. The net decrease in 2011 related to decreases in demand deposit levels.
- A net payment of \$427.1 million in 2011 arising from obligations related to assets sold under repurchase agreements compared to a net payment of \$5.6 million in 2010. The net payment in 2011 included the settlement of \$427.6 million in obligations related to the sale of \$425.6 million in Canada Mortgage Bonds which are reported in Investing activities.
- A net decrease of \$21.6 million in 2011 arising from obligations to securitization entities compared to a net increase of \$39.0 million in 2010.
- The repayment on maturity of the \$450.0 million 2001 Series 6.75% debentures.
- Proceeds received on the issuance of common shares of \$6.8 million in 2011 compared with \$2.8 million in 2010.
- The purchase of 711,300 common shares in 2011 under IGM Financial's normal course issuer bid at a cost of \$35.2 million compared with the purchase of 850,000 common shares at a cost of \$29.9 million in 2010.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2011 compared to \$3.5 million in 2010.
- The payment of regular common share dividends which totalled \$132.4 million in 2011 compared to \$134.5 million in 2010.

Financing activities during the six months ended June 30, 2011 compared to the same period in 2010 related primarily to:

- A net decrease of \$57.3 million in deposits and certificates in 2011 compared to a net decrease of \$44.7 million in 2010. The net decrease in 2011 related to decreases in both demand and term deposit levels.
- A net payment of \$421.0 million in 2011 arising from obligations related to assets sold under repurchase agreements compared to a net payment of \$5.6 million in 2010. The net payment in 2011 included the settlement of \$427.6 million in

obligations related to the sale of \$425.6 million in Canada Mortgage Bonds which are reported in Investing activities.

- A net decrease of \$0.1 million in 2011 arising from obligations to securitization entities compared to a net increase of \$53.0 million in 2010.
- The repayment on maturity of the \$450.0 million 2001 Series 6.75% debentures.
- Proceeds received on the issuance of common shares of \$27.5 million in 2011 compared with \$16.6 million in 2010.
- The purchase of 2,711,300 common shares in 2011 under IGM Financial's normal course issuer bid at a cost of \$121.5 million compared with the purchase of 1,390,000 common shares at a cost of \$51.8 million in 2010.
- The payment of perpetual preferred share dividends which totalled \$4.4 million in 2011 compared to \$3.5 million in 2010.
- The payment of regular common share dividends which totalled \$265.5 million in 2011 compared to \$269.1 million in 2010.

Investing activities during the second quarter of 2011 compared to the same period in 2010 related primarily to:

- The purchases of securities totalling \$51.5 million and sales of securities with proceeds of \$497.8 million in 2011 compared to \$66.7 million and \$159.7 million, respectively, in 2010. Proceeds in 2011 included sales of \$425.6 million of Canada Mortgage Bonds.
- A net increase in loans of \$109.7 million compared to a net increase of \$177.6 million in 2010 related primarily to residential mortgages in the Company's mortgage banking operations.

Investing activities during the six months ended June 30, 2011 compared to the same period in 2010 related primarily to:

- The purchases of securities totalling \$125.5 million and sales of securities with proceeds of \$607.4 million in 2011 compared to \$141.8 million and \$464.4 million, respectively, in 2010. Proceeds in 2011 included sales of \$425.6 million of Canada Mortgage Bonds.
- A net increase in loans of \$182.5 million compared to a net increase of \$173.2 million in 2010 related primarily to residential mortgages in the Company's mortgage banking operations.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consisted of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$5.7 billion at June 30, 2011, compared to \$6.1 billion at December 31, 2010. 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 (NI 31-103). These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. These subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$1,325.0 million at June 30, 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 2,711,300 common shares in the six months ended June 30, 2011 at a cost of \$121.5 million under the normal course issuer bid (Note 6 to the Interim Financial Statements). 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 capital management activities in 2011 included the declaration of perpetual preferred share dividends of \$4.4 million and common share dividends of \$264.6 million. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

Standard & Poor's (S&P) current rating on the Company's senior debt and liabilities is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price, nor other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Company's senior unsecured debentures by S&P is the third highest of the ten major rating categories for long-term debt and indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the Company is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than companies in higher rated categories. S&P uses "+" or "-" designations to indicate the relative standing within the major rating categories.

According to S&P, the "Stable" rating outlook means that S&P considers that the rating is unlikely to change over the intermediate term. A stable outlook is not necessarily a precursor to an upgrade.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the third highest of the ten rating categories for long-term debt. Under the DBRS system, debt securities rated A (High) are of satisfactory credit quality and protection of

interest and principal is considered substantial. While this is a favourable rating, entities in the A (High) category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated companies. A reference to “high” or “low” reflects the relative strength within the rating category, while the absence of either a “high” or “low” designation indicates the rating is placed in the middle of the category.

According to DBRS, the “Stable” rating trend helps give investors an understanding of DBRS’s opinion regarding the outlook for the rating.

FINANCIAL INSTRUMENTS

Table 19 presents the carrying value and the fair value of financial instruments.

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 by reference to current market prices for debentures and notes payable with similar terms and risks.
- 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.

TABLE 19: FINANCIAL INSTRUMENTS

(\$ millions)	JUNE 30, 2011		DECEMBER 31, 2010	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 896.8	\$ 896.8	\$ 1,573.6	\$ 1,573.6
Securities	476.5	476.5	954.7	954.7
Loans	4,282.0	4,282.9	4,094.7	4,096.0
Other financial assets	187.8	187.8	203.4	203.4
Derivative assets	44.6	44.6	40.9	40.9
Total financial assets	\$ 5,887.7	\$ 5,888.6	\$ 6,867.3	\$ 6,868.6
Liabilities				
Deposits and certificates	\$ 777.5	\$ 782.4	\$ 834.8	\$ 840.1
Repurchase agreements	214.3	214.3	635.3	635.3
Other financial liabilities	546.4	546.4	665.8	665.8
Derivative liabilities	67.9	67.9	78.7	78.7
Obligations to securitization entities	3,506.9	3,574.5	3,505.5	3,564.4
Long-term debt	1,325.0	1,523.4	1,775.0	1,966.5
Total financial liabilities	\$ 6,438.0	\$ 6,708.9	\$ 7,495.1	\$ 7,750.8

See Note 18 to the Annual Consolidated Financial Statements included in the 2010 IGM Financial Inc. Annual Report (Annual Financial Statements) which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the six months ended June 30, 2011. The Company actively manages risks that arise as a result of holding financial instruments which include liquidity, credit and market risk.

Liquidity Risk

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.
- Oversight over liquidity management by Committees of the Board of Directors.

As part of ongoing liquidity management during 2011 and 2010, the Company:

- Repaid the \$450.0 million 2001 Series 6.75% debenture on maturity.
- Completed a public offering of \$200 million debentures on December 9, 2010 maturing in December 2040.
- Filed a short form base shelf prospectus in December 2010 to give the Company more timely access to the capital markets.
- Continued to assess additional funding sources for the Company's mortgage banking operations.

- Reduced the equity component of the Company's securities portfolio.

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;
- Third parties, including CMHC or Canadian bank sponsored securitization trusts; or
- Institutional investors through private placements.

Investors Group is an approved issuer of NHA MBS and an approved seller into the CMB Program. This issuer and seller status provides Investors Group with additional funding sources for residential mortgages (Note 4 to the Interim Financial Statements). 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 trust subsidiaries which engage in financial intermediary activities are based on policies approved by Committees of their respective Boards of Directors. As at June 30, 2011, the trust subsidiaries' liquidity was in compliance with these policies.

The Company's contractual maturities are reflected in Table 20.

TABLE 20: CONTRACTUAL OBLIGATIONS

As at June 30, 2011 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 562.6	\$ 85.1	\$ 124.9	\$ 4.9	\$ 777.5
Other liabilities	—	34.9	32.6	0.4	67.9
Obligations to securitization entities	—	439.4	3,061.8	5.7	3,506.9
Long-term debt	—	—	—	1,325.0	1,325.0
Operating leases ⁽¹⁾	—	47.1	134.6	88.4	270.1
Total contractual obligations	\$ 562.6	\$ 606.5	\$ 3,353.9	\$ 1,424.4	\$ 5,947.4

(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 IGM Financial's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. The Company's operating lines of credit with various Schedule I Canadian chartered banks totalled \$325 million as at June 30, 2011, unchanged from December 31, 2010. The operating lines of credit as at June 30, 2011 consisted of committed lines of \$150 million and uncommitted lines of \$175 million. As at June 30, 2011 and December 31, 2010, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

Although the Company has recently accessed the capital markets, its ability to access capital markets to raise funds is dependent on market conditions.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the performance of debt and equity markets. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2010.

Credit Risk

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 and investment loan portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At June 30, 2011, cash and cash equivalents of \$896.8 million consisted of cash balances of \$75.2 million on deposit with Canadian chartered banks and cash equivalents of \$821.6 million. Cash equivalents are comprised primarily of Government of Canada treasury bills totalling \$146.6 million, provincial government and government guaranteed commercial paper of \$143.7 million and bankers' acceptances issued by Canadian chartered banks of \$501.5 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.

Available for sale fixed income securities at June 30, 2011 are comprised of bankers' acceptances of \$19.9 million, Canadian chartered bank senior deposit notes of \$83.5 million and corporate bonds and other of \$94.3 million. 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 and available for sale fixed income securities 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 \$213.4 million and fixed income securities which are comprised of the restructured notes of the MAV conduits with a fair value of \$28.9 million. These fair values represent the maximum exposure to credit risk at June 30, 2011. Refer to Note 2 to the Interim Financial Statements for information related to the valuation of the MAV conduits.

The Company regularly reviews the credit quality of the mortgage and investment loan portfolios, related to the Company's intermediary and mortgage banking operations, and the adequacy of the general allowance. As at June 30, 2011, loans totalled \$4.28 billion compared with \$4.09 billion as at December 31, 2010 and consisted of:

- Residential mortgage loans and investment loans which relate to the Company's intermediary operations are classified as loans and receivables and totalled \$105.9 million and \$276.6 million, respectively, compared to \$117.3 million and \$283.6 million at December 31, 2010.
- Residential mortgage loans which relate to the Company's mortgage banking operations are classified as held for trading and totalled \$472.2 million compared to \$224.4 million at December 31, 2010. These loans are held by the Company pending sale or securitization.
- Residential mortgage loans which were sold to securitization programs are classified as loans and receivables and totalled \$3.43 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 \$3.51 billion at June 30, 2011, unchanged from December 31, 2010.

As at June 30, 2011, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (2010 – 100%) and 79.0% insured (2010 – 79.7%). The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. As at June 30, 2011, impaired mortgages and investment loans were nil compared to \$0.1 million at December 31, 2010. There were no non-performing loans over 90 days in the uninsured mortgage and investment loan portfolios as at June 30, 2011 and December 31, 2010. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2011.

Since 2008, the Company has purchased portfolio insurance from CMHC on newly funded qualifying conventional mortgage loans. Under the NHA MBS and CMB programs, 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 June 30, 2011, 94.4% of the securitized portfolio and the residential mortgage loans classified as held for trading were insured compared to 94.1% at December 31, 2010. As at June 30, 2011, impaired loans on these portfolios were \$0.8 million, compared to \$1.0 million at December 31, 2010. Uninsured non-performing loans over 90 days on these portfolios were \$0.5 million at June 30, 2011, compared to \$0.3 million at December 31, 2010.

The allowance for credit losses on the entire portfolio was \$4.3 million at June 30, 2011, unchanged from December 31, 2010, and is considered adequate by management to absorb all credit related losses in the mortgage and investment loan portfolios.

The Company's credit risk on its securitization activities is limited to its retained interest. The fair value of the Company's retained interests in securitized loans was \$75.9 million at June 30, 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 \$8.1 million and \$99.5 million, respectively, at June 30, 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 loans.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$43.4 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 June 30, 2011, 94.4% of the \$1.05 billion in outstanding mortgages securitized under these programs were insured.

Rights to future net interest income under the NHA MBS and CMB Program totalled \$64.2 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 by mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. Outstanding mortgages securitized under these programs are \$2.4 billion.

- *Fair value of principal reinvestment account swaps* – had a negative fair value of \$31.7 million at June 30, 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 \$538.9 million at June 30, 2011.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have 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 program. The negative fair value of these swaps totalled \$25.7 million at June 30, 2011 and the outstanding notional amount was \$3.9 billion. Certain of these swaps relate to securitized loans that have not been derecognized and therefore the mortgage loans and an associated obligation have been recorded on the balance sheet. Accordingly, these swaps, with an outstanding notional amount of \$2.4 billion and having a negative fair value of \$22.7 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 \$1.6 billion and having a negative fair value of \$3.0 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 \$31.6 million at June 30, 2011 compared to \$21.7 million at December 31, 2010.

The Company utilizes interest rate swaps to hedge interest rate risk associated with loans securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$31.6 million on an outstanding notional amount of \$1.23 billion at June 30, 2011. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$1.0 million at June 30, 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 fair value of these interest rate swaps totalled \$9.5 million on an outstanding notional amount of \$0.2 billion at June 30, 2011. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, totalled \$9.5 million at June 30, 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 IGM Financial common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements totalled \$1.8 million on an outstanding notional amount

of \$293.0 million at June 30, 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 \$2.5 million at June 30, 2011, compared to \$0.8 million at December 31, 2010.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$44.6 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 June 30, 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 June 30, 2011. Management of credit risk has not changed materially since December 31, 2010.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 1, 4 and 17 to the Annual Financial Statements.

Market Risk

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices. 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 June 30, 2011, the total gap between one-year deposit assets and liabilities was within the Company's trust subsidiaries' 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:

- As part of the securitization transactions with bank-sponsored securitization trusts the Company has funded fixed rate mortgages with ABCP. 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.
- As part of the securitization transactions under the CMB Program, the Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds. 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 often fixed rate. The Company hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.
- 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 June 30, 2011, the impact to net earnings of a 100 basis point change in interest rates would have been approximately \$5.6 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 investments in common shares and proprietary investment funds which are classified as available for sale securities as shown in Table 15. 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 that is significant or prolonged, at which time they are recorded in the Consolidated Statements of Earnings.

MARKET RISK RELATED TO ASSETS UNDER MANAGEMENT

At June 30, 2011, IGM Financial's total assets under management were \$130.2 billion, an increase of 0.5% relative to December 31, 2010.

The Company is subject to the risk of asset volatility from changes in the Canadian and global financial and equity markets. Changes in these markets have caused in the past, and will cause in the future, changes in the Company's assets under management, revenues and earnings. Global economic conditions, exacerbated by financial crises, changes in the equity marketplace, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors including political and government instability that are difficult to predict affect the mix, market values and levels of assets under management.

The funds managed by the Company may be subject to unanticipated redemptions as a result of such events. Changing market conditions may also cause a shift in asset mix between equity and fixed income assets, potentially resulting in a decline in the Company's revenue and earnings depending upon the nature of the assets under management and the level of management fees earned by the Company.

Interest rates at unprecedented low levels have significantly decreased the yields of the Company's money market and managed yield unit trust and Corporate Class mutual funds. Since 2009, Investors Group and Mackenzie have waived a portion of investment management fees or absorbed some expenses to ensure that these funds maintained positive yields. The Company will review its practices in this regard in response to changing market conditions.

IGM Financial provides Consultants and independent financial advisors with a high level of service and support and a broad range of investment products based on asset classes, countries or regions, and investment management styles which, in turn, should result in maintaining strong client relationships and lower rates of redemptions.

The mutual fund industry and financial advisors continue to take steps to educate Canadian investors on the merits of financial planning, diversification and

long-term investing. In periods of volatility our Consultants and independent financial advisors play a key role in assisting investors to maintain perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 21 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

OTHER RISK FACTORS

Distribution Risk

Investors Group Consultant Network – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants as discussed in the Investors Group Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These independent financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has

made Mackenzie one of Canada's leading companies serving independent financial advisors. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

The Regulatory Environment

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. The principal regulators of the Company and its subsidiaries are the Canadian Securities Administrators, the Mutual Fund Dealers Association of Canada, the Investment Industry Regulatory Organization of Canada and the Office of the Superintendent of Financial Institutions Canada. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. Regulatory standards affecting the Company and the financial services industry are increasing. The Company and its subsidiaries are subject to regular regulatory reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages regulatory risk through its efforts to promote a strong culture of compliance. It monitors regulatory developments and their impact on the Company. It also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

TABLE 21: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at June 30	2011	2010
IGM Financial Inc.		
Investors Group	8.5%	7.7%
Mackenzie	15.9%	15.7%
Counsel	11.5%	12.3%

Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

Contingencies

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

Outlook

THE FINANCIAL SERVICES ENVIRONMENT

At June 30, 2011, mutual fund industry assets in Canada as reported by the Investment Funds Institute of Canada (IFIC) were approximately \$656.4 billion, an increase of 3.3% relative to December 31, 2010 on a comparative basis.

Mutual fund dealers and other financial planning firms represent a significant distribution channel for mutual funds in Canada and accounted for 49.8% of long-term mutual fund sales to March 31, 2011.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. In recent years, bank branches have increased their emphasis on both financial planning and mutual funds. In addition, each of the big six banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the big six bank-

Acquisition Risk

The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

Model Risk

The Company uses a variety of models to assist in: the valuation of financial instruments; operational scenario testing; management of cash flows; capital management; and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models.

owned mutual fund managers and affiliated firms represented 39% of total industry long-term mutual fund assets at March 31, 2011.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing almost 81% of both industry long-term mutual fund assets and total mutual fund assets under management at March 31, 2011. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of products and services in-house. Traditional distinctions between bank

branches, full service brokerages, financial planning firms and insurance agent forces are obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf.

Investment funds, which include mutual funds, remain the most popular financial asset class relied upon by Canadians for their retirement savings, and they represent over one-third of Canadian long-term discretionary financial assets. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

The financial services industry continues to be influenced by:

- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Changes in investor attitudes and strong preferences to deal through an advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Counsel compete directly with other investment managers for assets under management, and their products compete with other asset classes, including stocks, bonds and other passive investment vehicles, for a share of the investment assets of Canadians.

Strong evidence is emerging that Canadians value advice in their financial planning and investment activities. Multiple sources of research show

significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. We believe the provision of comprehensive financial planning is and will continue to be a competitive advantage.

In this context, the importance of a strong relationship with an advisor to keep focused on short-term and long-term financial planning needs is paramount. A primary theme in the Company's business model is to support financial advisors as they work with clients to plan for and achieve their financial goals.

Investors Group continues to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice and its Consultants work with clients to help them understand the impact of financial market volatility on their long-term financial planning.

Mackenzie is maintaining its focus working with the independent advice channels delivering a varied product suite with multiple investment styles to meet evolving investor needs.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders.

Management believes that IGM Financial is well-positioned to meet competitive challenges and capitalize on future opportunities. The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on financial advisors.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Significant economies of scale.
- Being part of the Power Financial group of companies, which includes Great-West Life, London Life and Canada Life.

These strengths are discussed in detail in the Outlook section of the MD&A in the 2010 IGM Financial Inc. Annual Report.

Critical Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 1 of the Interim Financial Statements.

The major critical accounting estimates are summarized below.

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans and receivables, deposits and certificates, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The Company also holds financial instruments, including derivatives related to the Company's securitized loans, where published market prices are not available. In these instances the values are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

The Company's investment securities which are classified as available for sale are comprised of equity securities held for long-term investment, debt securities and investments in proprietary mutual funds. Unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized or until there is objective evidence of impairment that is significant or prolonged, at which time they are recorded in the Consolidated Statements of Earnings. Management regularly reviews the investment securities classified as available for sale to assess whether there is objective evidence of impairment that is significant or prolonged. The Company considers such factors as the nature of the

investment and the length of time and the extent to which the fair value has been below cost. A significant change in this assessment may result in unrealized losses being recognized in net earnings. Refer to the Consolidated Financial Position and Financial Instruments sections of this MD&A, Note 2 to the Interim Financial Statements and Note 18 to the Annual Financial Statements for additional information.

- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 7 of the Annual Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing recoverable amount, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include 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 for comparable transactions.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2011 financial information and determined there was no impairment in the value of those assets. As part of its transition to IFRS, the Company also tested goodwill and indefinite life intangible assets for impairment at January 1, 2010 and determined there was no impairment in the value of those assets.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax

treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 11 to the Annual Financial Statements.

- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-retirement health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions including discount rates, expected rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by

independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company elected to record actuarial gains and losses on all of its defined benefit plans in Other comprehensive income on transition to IFRS.

During 2010, the performance of the defined benefit pension plan assets continued to be positively impacted by improving economic conditions. Pension plan assets grew to \$226.6 million at December 31, 2010 from \$206.9 million at December 31, 2009. The actual total rate of return on pension plan assets accounted for \$23.4 million of this increase compared to an estimated rate of return of \$14.3 million based on the Company's expected long-term rate of return assumption. The resulting actuarial gain of \$9.1 million was recorded in Other comprehensive income in 2010. Bond yields decreased in 2010 thereby impacting the discount rate used to measure the Company's various defined benefit plan obligations. The discount rates utilized to value the defined benefit plan obligations at December 31, 2010 decreased significantly in 2010 compared with 2009 and resulted in actuarial losses of \$42.5 million which were recorded in Other comprehensive income in 2010. The defined benefit pension plan had a funding excess of \$12.8 million at December 31, 2010 compared to an excess of \$43.4 million at the end of 2009. The unfunded SERPs and other post-retirement benefits plans had accrued benefit obligations of \$36.2 million and \$32.8 million, respectively, at December 31, 2010 compared to \$16.8 million and \$26.8 million in 2009.

In the first six months of 2011, the increase in the fair value of the defined benefit pension plan assets due to the total rate of return on assets was \$2.4 million compared to an estimated rate of return of \$7.8 million. The actuarial loss of \$5.4 million in 2011 was recorded in Other comprehensive income. Discount rates used to value the various defined benefit plan obligations were unchanged at June 30, 2011 compared to December 31, 2010.

- *Provisions* – A provision is recognized when 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. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

The Company adopted IFRS effective January 1, 2011 and has prepared its Interim Financial Statements for the three and six months ended June 30, 2011 using IFRS accounting policies. The Company's financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS.

Note 14 of the Interim Financial Statements for the three and six months ended June 30, 2011 provides a description of the Company's initial elections upon adoption of IFRS and contains an explanation of the accounting policy differences and reconciliations from previous Canadian GAAP to IFRS.

The Company developed an IFRS changeover project which addressed key elements of the conversion to IFRS and included a formal project governance structure. The project is substantially complete with the remaining focus being on issuing the third quarter and annual financial statements in accordance with IFRS.

Changes in Accounting Policies

The following outlines the accounting policies that were selected under IFRS that differ from those previously utilized by the Company.

Derecognition of Financial Assets

The IFRS determination of whether a financial asset should be derecognized is based on the transfer of risks and rewards of ownership. As a result, the Company's securitization transactions through the CMB and ABCP programs are accounted for as secured borrowings rather than sales. Gains are no longer recognized on these programs when the transactions occur. The Company records the transactions under these programs as follows: (i) the mortgages and related obligation are carried at amortized cost, and (ii) interest income and interest expense, utilizing the effective interest rate method, are recorded over the term of the mortgages.

Deferred Selling Commissions

Commissions paid on the sale of certain mutual fund units are considered finite life intangible assets and are amortized over their useful life. The IFRS standard for intangible assets specifically addresses the disposal of intangible assets. When a mutual fund client redeems units in certain mutual funds, a redemption fee is paid by the client that is recorded as revenue by the Company. The unamortized deferred selling commission asset associated with the units being redeemed is recorded as a disposal.

Share-Based Payments

Under IFRS, the graded vesting method is used to recognize compensation expense related to awards that vest in installments over the vesting period as opposed to a straight line amortization method which was previously used by the Company. This results in compensation expense being recognized on an accelerated basis; therefore, higher compensation expense is recorded earlier in the amortization period of the share-based payment award.

Employee Benefits

The Company elected to recognize actuarial gains and losses related to its defined benefit plans in other comprehensive income rather than amortize them through net earnings. Vested past service costs or past service credits are recognized immediately in benefits expense.

Deferred Income Taxes

IFRS requires that the cost of assets acquired outside of a business combination is not adjusted for the tax effect of differences between the accounting cost and tax cost at the time of acquisition.

Provisions

IFRS requires a provision to be recognized when 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. 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.

Internal Controls

The Company developed and implemented changes to its financial reporting systems and processes to prepare the Company to effectively transition to IFRS. In addition, the Company's internal controls and accounting procedures were modified, as appropriate, based on the adoption of IFRS accounting policies. The impact of these changes on the Company's internal control over financial reporting was not significant.

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 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, 2013; however, the IASB is now expected to issue an exposure draft proposing a deferral of the standard beyond that effective date.

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 are recognized immediately in OCI and 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.

Other

The IASB is currently undertaking several projects which will result in changes to existing IFRS standards that may affect the Company:

IFRS Standard	Expected date of issuance
Asset and Liability	
Offsetting	Q4 2011 – Final Standard
Consolidations –	
Investment Companies	Q3 2011 – Exposure Draft
Impairment	Q3 2011 – Exposure Draft
Revenue Recognition	Q3 2011 – Exposure Draft
Leases	Q4 2011 – Exposure Draft
Hedge Accounting	Q4 2011 – Final Standard

Source: IASB website at www.iasb.org

Internal Controls Over Financial Reporting

During the second quarter of 2011, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

TRANSACTIONS WITH RELATED PARTIES

There were no changes to the types of related party transactions from those reported at December 31, 2010 except as follows:

- In February 2011, after obtaining advance tax rulings, the Company agreed to a tax loss consolidation transaction with its parent company, Power Financial Corporation.

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 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 Interim Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

The Company also agreed to acquire the shares of a wholly-owned subsidiary of Power Financial Corporation which has tax losses resulting from a transaction similar to that described above. The Company has recognized the benefit of the tax losses realized to June 30, 2011.

For further information on transactions involving related parties, see Note 12 to the Interim Financial Statements and Notes 5 and 21 to the Annual Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at June 30, 2011 totalled 257,930,829. As at August 3, 2011, outstanding common shares totalled 257,941,215.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.