

# Interim Condensed Consolidated Financial Statements

## Consolidated Statements of Earnings

| <i>(unaudited)</i>   | THREE MONTHS ENDED JUNE 30 |                   | SIX MONTHS ENDED JUNE 30 |                   |
|--|----------------------------|-------------------|--------------------------|-------------------|
| <i>(in thousands of Canadian dollars, except shares and per share amounts)</i> | 2012                       | 2011              | 2012                     | 2011              |
| <b>Revenues</b>  |                            |                   |                          |                   |
| Management fees  | \$ 443,537                 | \$ 491,787        | \$ 900,155               | \$ 983,902        |
| Administration fees  | 83,973                     | 87,924            | 169,237                  | 175,424           |
| Distribution fees  | 80,534                     | 83,556            | 165,713                  | 172,917           |
| Net investment income and other  | 12,837                     | 16,293            | 39,168                   | 41,726            |
| Proportionate share of affiliate's earnings                                    | 16,726                     | 18,111            | 36,423                   | 35,091            |
|  | <b>637,607</b>             | <b>697,671</b>    | <b>1,310,696</b>         | <b>1,409,060</b>  |
| <b>Expenses</b>  |                            |                   |                          |                   |
| Commission   | 213,719                    | 228,679           | 435,103                  | 462,329           |
| Non-commission   | 170,109                    | 164,133           | 340,200                  | 326,097           |
| Interest   | 22,912                     | 26,139            | 45,823                   | 56,410            |
|  | <b>406,740</b>             | <b>418,951</b>    | <b>821,126</b>           | <b>844,836</b>    |
| Earnings before income taxes and discontinued operations                       | 230,867                    | 278,720           | 489,570                  | 564,224           |
| Income taxes   | 56,027                     | 63,693            | 112,866                  | 135,820           |
| Net earnings from continuing operations  | 174,840                    | 215,027           | 376,704                  | 428,404           |
| Net earnings from discontinued operations <i>(Note 3)</i>                      | –                          | 1,055             | –                        | 2,023             |
| <b>Net earnings</b>  | <b>174,840</b>             | <b>216,082</b>    | <b>376,704</b>           | <b>430,427</b>    |
| Perpetual preferred share dividends  | 2,212                      | 2,212             | 4,425                    | 4,425             |
| <b>Net earnings available to common shareholders</b>                           | <b>\$ 172,628</b>          | <b>\$ 213,870</b> | <b>\$ 372,279</b>        | <b>\$ 426,002</b> |
| Average number of common shares <i>(in thousands) (Note 12)</i>                |                            |                   |                          |                   |
| – Basic  | 255,835                    | 258,296           | 256,202                  | 258,792           |
| – Diluted  | 256,454                    | 259,559           | 256,900                  | 259,892           |
| Earnings per share <i>(in dollars) (Note 12)</i>                               |                            |                   |                          |                   |
| Net earnings from continuing operations  |                            |                   |                          |                   |
| – Basic  | \$ 0.67                    | \$ 0.83           | \$ 1.45                  | \$ 1.64           |
| – Diluted  | \$ 0.67                    | \$ 0.82           | \$ 1.45                  | \$ 1.63           |
| Net earnings available to common shareholders                                  |                            |                   |                          |                   |
| – Basic  | \$ 0.67                    | \$ 0.83           | \$ 1.45                  | \$ 1.65           |
| – Diluted  | \$ 0.67                    | \$ 0.82           | \$ 1.45                  | \$ 1.64           |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Comprehensive Income

| <i>(unaudited)</i><br><i>(in thousands of Canadian dollars)</i>   | THREE MONTHS ENDED JUNE 30 |                   | SIX MONTHS ENDED JUNE 30 |                   |
|---|----------------------------|-------------------|--------------------------|-------------------|
|   | 2012                       | 2011              | 2012                     | 2011              |
| <b>Net earnings</b>   | <b>\$ 174,840</b>          | <b>\$ 216,082</b> | <b>\$ 376,704</b>        | <b>\$ 430,427</b> |
| <b>Other comprehensive income (loss), net of tax</b>  |                            |                   |                          |                   |
| <b>Employee benefits</b>  |                            |                   |                          |                   |
| Net actuarial gains (losses), <i>net of tax</i><br><i>of \$1,815, \$3,252, \$4,024 and \$1,471</i>                    | (4,889)                    | (8,792)           | (10,870)                 | (3,978)           |
| <b>Available for sale securities</b>  |                            |                   |                          |                   |
| Net unrealized gains (losses), <i>net of tax</i><br><i>of \$528, \$(280), \$107 and \$(260)</i>                       | (1,473)                    | 1,281             | (73)                     | 790               |
| Reclassification of realized (gains) losses to net<br><i>earnings, net of tax of \$(133), \$162, \$(56) and \$490</i> | 372                        | (366)             | (71)                     | (1,256)           |
|   | (1,101)                    | 915               | (144)                    | (466)             |
| <b>Investment in affiliate and other</b>  |                            |                   |                          |                   |
| Other comprehensive income (loss), <i>net of tax</i><br><i>of \$447, \$(83), \$284 and \$(183)</i>                    | (4,567)                    | (3,550)           | (11,638)                 | (19,253)          |
|   | (10,557)                   | (11,427)          | (22,652)                 | (23,697)          |
| <b>Comprehensive income</b>   | <b>\$ 164,283</b>          | <b>\$ 204,655</b> | <b>\$ 354,052</b>        | <b>\$ 406,730</b> |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Balance Sheets

| <i>(unaudited)</i><br><i>(in thousands of Canadian dollars)</i> | JUNE 30<br>2012      | DECEMBER 31<br>2011  |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Cash and cash equivalents                                       | \$ 937,588           | \$ 1,052,423         |
| Securities <i>(Note 4)</i>                                      | 294,311              | 292,432              |
| Accounts and other receivables                                  | 316,885              | 281,982              |
| Income taxes recoverable  | 45,155               | 27,796               |
| Loans <i>(Note 5)</i>   | 4,647,250            | 4,085,929            |
| Derivative instruments  | 75,738               | 88,092               |
| Other assets  | 41,291               | 40,228               |
| Investment in affiliate   | 613,450              | 612,480              |
| Capital assets  | 113,659              | 109,953              |
| Deferred selling commissions                                    | 732,485              | 750,763              |
| Deferred income taxes   | 66,390               | 59,612               |
| Intangible assets   | 1,114,635            | 1,117,858            |
| Goodwill  | 2,640,523            | 2,640,523            |
|   | <b>\$ 11,639,360</b> | <b>\$ 11,160,071</b> |
| <b>Liabilities</b>  |                      |                      |
| Accounts payable and accrued liabilities                        | \$ 275,305           | \$ 300,094           |
| Income taxes payable  | 40,080               | 62,816               |
| Repurchase agreements <i>(Note 4)</i>                           | 227,700              | 227,280              |
| Derivative instruments  | 97,827               | 111,424              |
| Deposits and certificates                                       | 153,599              | 150,716              |
| Other liabilities   | 365,425              | 357,959              |
| Obligations to securitization entities <i>(Note 6)</i>          | 4,345,396            | 3,827,339            |
| Deferred income taxes   | 316,451              | 308,968              |
| Long-term debt  | 1,325,000            | 1,325,000            |
|   | <b>7,146,783</b>     | <b>6,671,596</b>     |
| <b>Shareholders' Equity</b>                                     |                      |                      |
| Share capital   |                      |                      |
| Perpetual preferred shares                                      | 150,000              | 150,000              |
| Common shares   | 1,577,576            | 1,578,270            |
| Contributed surplus   | 36,746               | 35,842               |
| Retained earnings   | 2,741,959            | 2,726,285            |
| Accumulated other comprehensive income (loss)                   | (13,704)             | (1,922)              |
|   | <b>4,492,577</b>     | <b>4,488,475</b>     |
|   | <b>\$ 11,639,360</b> | <b>\$ 11,160,071</b> |

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 2, 2012.

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Changes in Shareholders' Equity

SIX MONTHS ENDED JUNE 30

| <i>(unaudited)</i><br><i>(in thousands of Canadian dollars)</i> | SHARE CAPITAL                                 |                                  |                     | RETAINED EARNINGS   | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)<br><i>(Note 10)</i> | TOTAL SHAREHOLDERS' EQUITY |
|---|---|----------------------------------|---------------------|---------------------|---|----------------------------|
|   | PERPETUAL PREFERRED SHARES<br><i>(Note 7)</i> | COMMON SHARES<br><i>(Note 7)</i> | CONTRIBUTED SURPLUS |                     |   |                            |
| <b>2012</b>   |   |                                  |                     |                     |   |                            |
| <b>Balance, beginning of period</b>                             | <b>\$ 150,000</b>                             | <b>\$1,578,270</b>               | <b>\$ 35,842</b>    | <b>\$2,726,285</b>  | <b>\$ (1,922)</b>   | <b>\$4,488,475</b>         |
| Net earnings  | -   | -                                | -                   | 376,704             | -   | 376,704                    |
| Net actuarial losses on employee benefit plans, net of tax      | -   | -                                | -                   | (10,870)            | -   | (10,870)                   |
| Other comprehensive income (loss), net of tax                   | -   | -                                | -                   | -                   | (11,782)  | (11,782)                   |
| <b>Total comprehensive income (loss)</b>                        | <b>-</b>                                      | <b>-</b>                         | <b>-</b>            | <b>365,834</b>      | <b>(11,782)</b>   | <b>354,052</b>             |
| Common shares   |   |                                  |                     |                     |   |                            |
| Issued under stock option plan                                  | -   | 11,113                           | -                   | -                   | -   | 11,113                     |
| Purchased for cancellation                                      | -   | (11,807)                         | -                   | -                   | -   | (11,807)                   |
| Stock options   |   |                                  |                     |                     |   |                            |
| Current period expense  | -   | -                                | 2,456               | -                   | -   | 2,456                      |
| Exercised   | -   | -                                | (1,552)             | -                   | -   | (1,552)                    |
| Perpetual preferred share dividends                             | -   | -                                | -                   | (4,425)             | -   | (4,425)                    |
| Common share dividends  | -   | -                                | -                   | (274,789)           | -   | (274,789)                  |
| Common share cancellation excess and other <i>(Note 7)</i>      | -   | -                                | -                   | (70,946)            | -   | (70,946)                   |
| <b>Balance, end of period</b>                                   | <b>\$ 150,000</b>                             | <b>\$1,577,576</b>               | <b>\$ 36,746</b>    | <b>\$2,741,959</b>  | <b>\$ (13,704)</b>  | <b>\$4,492,577</b>         |
| <b>2011</b>   |   |                                  |                     |                     |   |                            |
| <b>Balance, beginning of period</b>                             | <b>\$ 150,000</b>                             | <b>\$ 1,567,725</b>              | <b>\$ 37,785</b>    | <b>\$ 2,559,238</b> | <b>\$ 2,538</b>   | <b>\$ 4,317,286</b>        |
| Net earnings  | -   | -                                | -                   | 430,427             | -   | 430,427                    |
| Net actuarial losses on employee benefit plans, net of tax      | -   | -                                | -                   | (3,978)             | -   | (3,978)                    |
| Other comprehensive income (loss), net of tax                   | -   | -                                | -                   | -                   | (19,719)  | (19,719)                   |
| <b>Total comprehensive income (loss)</b>                        | <b>-</b>                                      | <b>-</b>                         | <b>-</b>            | <b>426,449</b>      | <b>(19,719)</b>   | <b>406,730</b>             |
| Common shares   |   |                                  |                     |                     |   |                            |
| Issued under stock option plan                                  | -   | 29,749                           | -                   | -                   | -   | 29,749                     |
| Purchased for cancellation                                      | -   | (16,497)                         | -                   | -                   | -   | (16,497)                   |
| Stock options   |   |                                  |                     |                     |   |                            |
| Current period expense  | -   | -                                | 2,589               | -                   | -   | 2,589                      |
| Exercised   | -   | -                                | (3,419)             | -                   | -   | (3,419)                    |
| Perpetual preferred share dividends                             | -   | -                                | -                   | (4,425)             | -   | (4,425)                    |
| Common share dividends  | -   | -                                | -                   | (264,645)           | -   | (264,645)                  |
| Common share cancellation excess and other <i>(Note 7)</i>      | -   | -                                | -                   | (105,381)           | -   | (105,381)                  |
| <b>Balance, end of period</b>                                   | <b>\$ 150,000</b>                             | <b>\$ 1,580,977</b>              | <b>\$ 36,955</b>    | <b>\$ 2,611,236</b> | <b>\$ (17,181)</b>  | <b>\$ 4,361,987</b>        |

*(See accompanying notes to interim condensed consolidated financial statements.)*

# Consolidated Statements of Cash Flows

(unaudited)  
(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30  
2012 2011

## Operating activities – continuing operations

|   |            |            |
|---|------------|------------|
| Earnings before income taxes and discontinued operations    | \$ 489,570 | \$ 564,224 |
| Income taxes paid   | (147,872)  | (182,418)  |
| Adjustments to determine net cash from operating activities |            |            |
| Commission amortization                                     | 136,706    | 143,137    |
| Amortization of capital and intangible assets               | 17,160     | 16,321     |
| Changes in operating assets and liabilities and other       | (91,011)   | (77,407)   |
|   | 404,553    | 463,857    |
| Commissions paid  | (118,428)  | (143,796)  |
|   | 286,125    | 320,061    |

## Financing activities – continuing operations

|   |           |             |
|---|-----------|-------------|
| Net increase (decrease) in deposits and certificates                                      | 2,883     | (5,052)     |
| Net increase (decrease) in obligations related to assets sold under repurchase agreements | 420       | (421,002)   |
| Net increase (decrease) in obligations to securitization entities                         | 517,266   | (110)       |
| Repayment of long-term debt   | –         | (450,000)   |
| Issue of common shares  | 10,384    | 27,532      |
| Common shares purchased for cancellation  | (81,400)  | (121,479)   |
| Perpetual preferred share dividends paid  | (4,425)   | (4,425)     |
| Common share dividends paid   | (275,619) | (265,531)   |
|   | 169,509   | (1,240,067) |

## Investing activities – continuing operations

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Purchase of securities               | (8,506)   | (5,545)   |
| Proceeds from the sale of securities | 10,173    | 439,424   |
| Net increase in loans                | (556,852) | (160,066) |
| Net additions to capital assets      | (10,737)  | (7,744)   |
| Net additions to intangible assets   | (4,547)   | (3,624)   |
|                                      | (570,469) | 262,445   |

|  |                   |                   |
|--|-------------------|-------------------|
| Decrease in cash and cash equivalents from continuing operations                           | (114,835)         | (657,561)         |
| Decrease in cash and cash equivalents from discontinued operations (Note 3)                | –                 | (19,248)          |
| Cash and cash equivalents from continuing and discontinued operations, beginning of period | 1,052,423         | 1,573,626         |
| Cash and cash equivalents, end of period   | 937,588           | 896,817           |
| Less: Cash and cash equivalents from discontinued operations, end of period                | –                 | (268,587)         |
| <b>Cash and cash equivalents, end of period – continuing operations</b>                    | <b>\$ 937,588</b> | <b>\$ 628,230</b> |

|                  |            |            |
|------------------|------------|------------|
| Cash             | \$ 78,354  | \$ 69,370  |
| Cash equivalents | 859,234    | 558,860    |
|                  | \$ 937,588 | \$ 628,230 |

## Supplemental disclosure of cash flow information related to operating activities

|   |            |            |
|---|------------|------------|
| Amount of interest and dividends received | \$ 100,357 | \$ 102,310 |
| Amount of interest paid during the period | \$ 90,967  | \$ 101,716 |

(See accompanying notes to interim condensed consolidated financial statements.)

# Notes to the Interim Condensed Consolidated Financial Statements

JUNE 30, 2012 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

## 1. CORPORATE INFORMATION

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the same accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2011. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2011 IGM Financial Inc. Annual Report.

### Changes in accounting policies

#### *IFRS 7 Financial Instruments Disclosures*

On January 1, 2012, the Company adopted *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7). The amendments require additional disclosures related to the Company's securitization transactions (Note 6).

#### *Future accounting changes*

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

#### *IAS 19 Employee Benefits*

The IASB issued IAS 19 that amends the measurement, presentation and disclosure requirements for defined benefit plans. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013. The Company intends to adopt the standard effective January 1, 2013. 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 to be recognized immediately in Other comprehensive income (OCI). Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods. This amendment will have no impact on the Company as actuarial gains and losses are currently recognized in OCI.
- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized in net earnings 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 adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

## 3. DISCONTINUED OPERATIONS

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

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

### 3. DISCONTINUED OPERATIONS *(continued)*

#### Net earnings from discontinued operations

|   | 2011                          |                             |
|---|-------------------------------|-----------------------------|
|   | THREE MONTHS<br>ENDED JUNE 30 | SIX MONTHS<br>ENDED JUNE 30 |
| Revenues                                  | \$ 9,117                      | \$ 18,236                   |
| Expenses                                  | 7,639                         | 14,637                      |
| Earnings before income taxes              | 1,478                         | 3,599                       |
| Income taxes                              | 423                           | 1,576                       |
| Net earnings from discontinued operations | \$ 1,055                      | \$ 2,023                    |

#### Cash flows from discontinued operations

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

|   | SIX MONTHS ENDED<br>JUNE 30, 2011 |
|---|-----------------------------------|
| Net cash flows                            |                                   |
| Operating activities                      | \$ 7,386                          |
| Financing activities                      | (52,248)                          |
| Investing activities                      | 25,614                            |
| Net decrease in cash and cash equivalents | \$ (19,248)                       |

### 4. SECURITIES

|                                    | JUNE 30, 2012 |            | DECEMBER 31, 2011 |            |
|------------------------------------|---------------|------------|-------------------|------------|
|                                    | COST          | FAIR VALUE | COST              | FAIR VALUE |
| Available for sale:                |               |            |                   |            |
| Common shares                      | \$ –          | \$ –       | \$ 4,876          | \$ 4,876   |
| Proprietary investment funds       | 30,208        | 30,465     | 30,725            | 31,173     |
|                                    | 30,208        | 30,465     | 35,601            | 36,049     |
| Fair value through profit or loss: |               |            |                   |            |
| Common shares                      | 5,297         | 4,670      | –                 | –          |
| Canada Mortgage Bonds              | 220,432       | 227,140    | 220,432           | 227,206    |
| Fixed income securities            | 30,576        | 32,036     | 30,817            | 29,177     |
|                                    | 256,305       | 263,846    | 251,249           | 256,383    |
|                                    | \$ 286,513    | \$ 294,311 | \$ 286,850        | \$ 292,432 |

#### Fair value through profit or loss

##### *Canada Mortgage Bonds*

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

These securities had a fair value of \$227.1 million at June 30, 2012. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$227.7 million. The interest expense related to these obligations is recorded in Net investment income and other in the Consolidated Statements of Earnings.

#### 4. SECURITIES *(continued)*

##### *Fixed income securities*

Fixed income securities of \$32.0 million at June 30, 2012 (December 31, 2011 – \$29.2 million) were comprised of the restructured notes of the master asset vehicle (MAV) conduits. The Company's valuation of the restructured notes of the MAV conduits was based on its assessment of the prevailing conditions at June 30, 2012.

#### 5. LOANS

|                              | CONTRACTUAL MATURITY |                |                 | JUNE 30             | DECEMBER 31   |
|------------------------------|----------------------|----------------|-----------------|---------------------|---------------|
|                              | I YEAR<br>OR LESS    | I – 5<br>YEARS | OVER<br>5 YEARS | 2012<br>TOTAL       | 2011<br>TOTAL |
| <b>Loans and receivables</b> |                      |                |                 |                     |               |
| Residential mortgages        | \$ 556,798           | \$ 3,719,082   | \$ 6,159        | \$ 4,282,039        | \$ 3,794,613  |
| Less: Collective allowance   |                      |                |                 | 648                 | 793           |
|                              |                      |                |                 | <b>4,281,391</b>    | 3,793,820     |
| <b>Held for trading</b>      |                      |                |                 | <b>365,859</b>      | 292,109       |
|                              |                      |                |                 | <b>\$ 4,647,250</b> | \$ 4,085,929  |

Total impaired loans as at June 30, 2012 were \$1,959 (December 31, 2011 – \$1,078).

Total interest income on loans classified as loans and receivables was \$72.8 million (2011 – \$73.6 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$45.9 million (2011 – \$41.0 million). These amounts were included in Net investment income and other. Net investment income and other also includes mortgage banking related gains on sales and fair value adjustments, and other items.

#### 6. SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded an offsetting liability for the net proceeds received as Obligations to securitization entities which is carried at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$70.1 million at June 30, 2012.

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.



## 6. SECURITIZATIONS *(continued)*

JUNE 30, 2012

|                         | SECURITIZED<br>MORTGAGES | OBLIGATIONS TO<br>SECURITIZATION<br>ENTITIES | NET          |
|-------------------------|--------------------------|--|--------------|
| Carrying value          |                          |  |              |
| NHA MBS and CMB Program | \$ 2,888,625             | \$ 2,929,580                                 | \$ (40,955)  |
| Bank sponsored ABCP     | 1,368,379                | 1,415,816                                    | (47,437)     |
| Total                   | \$ 4,257,004             | \$ 4,345,396                                 | \$ (88,392)  |
| Fair value              | \$ 4,308,842             | \$ 4,446,264                                 | \$ (137,422) |

The carrying value of Obligations to securitization entities, which are recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

## 7. SHARE CAPITAL

### Authorized

Unlimited number of:

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

### Issued and outstanding

|   | JUNE 30, 2012 |                 | JUNE 30, 2011 |                 |
|---|---------------|-----------------|---------------|-----------------|
|   | SHARES        | STATED<br>VALUE | SHARES        | STATED<br>VALUE |
| Perpetual preferred shares:             |               |                 |               |                 |
| First preferred shares, 5.90%, Series B | 6,000,000     | \$ 150,000      | 6,000,000     | \$ 150,000      |
| Common shares:                          |               |                 |               |                 |
| Balance, beginning of period            | 256,658,488   | \$ 1,578,270    | 259,717,507   | \$ 1,567,725    |
| Issued under Stock Option Plan          | 317,480       | 11,113          | 924,622       | 29,749          |
| Purchased for cancellation              | (1,912,300)   | (11,807)        | (2,711,300)   | (16,497)        |
| Balance, end of period                  | 255,063,668   | \$ 1,577,576    | 257,930,829   | \$ 1,580,977    |

### Normal course issuer bid

In the second quarter of 2012, 1,067,300 (2011 – 711,300) shares were purchased at a cost of \$42.4 million (2011 – \$35.2 million). In the six months ended June 30, 2012, 1,912,300 (2011 – 2,711,300) shares were purchased at a cost of \$81.4 million (2011 – \$121.5 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid, effective for one year, on April 12, 2012. Pursuant to this bid, the Company may purchase up to 12.8 million or 5% of its common shares outstanding as at March 31, 2012. On April 12, 2011, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 12.9 million or 5% of its common shares outstanding as at March 31, 2011.

## 8. CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis (MD&A) contained in the Second Quarter 2012 Report to Shareholders and have not changed significantly since December 31, 2011.

## 9. SHARE-BASED PAYMENTS

### Stock option plan

|                      | JUNE 30<br>2012 | DECEMBER 31<br>2011 |
|----------------------|-----------------|---------------------|
| Common share options |                 |                     |
| – Outstanding        | 8,767,612       | 8,414,392           |
| – Exercisable        | 4,072,530       | 3,737,122           |

In the second quarter of 2012, the Company did not grant options to employees (2011 – nil). In the six months ended June 30, 2012, the Company granted 1,120,855 options to employees (2011 – 872,085). The weighted-average fair value of options granted during the six months ended June 30, 2012 has been estimated at \$5.23 per option (2011 – \$6.59) using the Black-Scholes option pricing model. The weighted-average share price at the grant dates was \$45.20. The assumptions used in the valuation model include:

|                         | 2012     | 2011     |
|-------------------------|----------|----------|
| Exercise price          | \$ 45.63 | \$ 46.72 |
| Risk-free interest rate | 1.80%    | 3.02%    |
| Expected option life    | 6 years  | 6 years  |
| Expected volatility     | 22.00%   | 22.00%   |
| Expected dividend yield | 4.71%    | 4.39%    |

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised if certain performance targets are met.

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| Six months ended June 30          | AVAILABLE<br>FOR SALE<br>SECURITIES | INVESTMENT<br>IN AFFILIATE<br>AND OTHER | TOTAL       |
|-----------------------------------|-------------------------------------|---|-------------|
| <b>2012</b>                       |                                     |   |             |
| Balance, beginning of period      | \$ 323                              | \$ (2,245)                              | \$ (1,922)  |
| Other comprehensive income (loss) | (144)                               | (11,638)                                | (11,782)    |
| Balance, end of period            | \$ 179                              | \$ (13,883)                             | \$ (13,704) |
| <b>2011</b>                       |                                     |   |             |
| Balance, beginning of period      | \$ 5,600                            | \$ (3,062)                              | \$ 2,538    |
| Other comprehensive income (loss) | (466)                               | (19,253)                                | (19,719)    |
| Balance, end of period            | \$ 5,134                            | \$ (22,315)                             | \$ (17,181) |

## 11. RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments section of the Company's MD&A contained in the Second Quarter 2012 Report to Shareholders and have not changed significantly since December 31, 2011.

## 12. EARNINGS PER COMMON SHARE

|   | THREE MONTHS ENDED JUNE 30 |            | SIX MONTHS ENDED JUNE 30 |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2012                       | 2011       | 2012                     | 2011       |
| <b>Earnings</b>   |                            |            |                          |            |
| Net earnings from continuing operations                     | \$ 174,840                 | \$ 215,027 | \$ 376,704               | \$ 428,404 |
| Net earnings from discontinued operations                   | –                          | 1,055      | –                        | 2,023      |
| Net earnings  | 174,840                    | 216,082    | 376,704                  | 430,427    |
| Perpetual preferred share dividends                         | 2,212                      | 2,212      | 4,425                    | 4,425      |
| Net earnings available to common shareholders               | \$ 172,628                 | \$ 213,870 | \$ 372,279               | \$ 426,002 |
| <b>Number of common shares (in thousands)</b>               |                            |            |                          |            |
| Average number of common shares outstanding                 | 255,835                    | 258,296    | 256,202                  | 258,792    |
| Add:  |                            |            |                          |            |
| – Potential exercise of outstanding stock options           | 619                        | 1,263      | 698                      | 1,100      |
| Average number of common shares outstanding – diluted basis | 256,454                    | 259,559    | 256,900                  | 259,892    |
| <b>Earnings per common share (in dollars)</b>               |                            |            |                          |            |
| Basic   |                            |            |                          |            |
| From continuing operations                                  | \$ 0.67                    | \$ 0.83    | \$ 1.45                  | \$ 1.64    |
| From discontinued operations                                | –                          | –          | –                        | 0.01       |
| Net earnings available to common shareholders               | \$ 0.67                    | \$ 0.83    | \$ 1.45                  | \$ 1.65    |
| Diluted   |                            |            |                          |            |
| From continuing operations                                  | \$ 0.67                    | \$ 0.82    | \$ 1.45                  | \$ 1.63    |
| From discontinued operations                                | –                          | –          | –                        | 0.01       |
| Net earnings available to common shareholders               | \$ 0.67                    | \$ 0.82    | \$ 1.45                  | \$ 1.64    |

## 13. RELATED PARTY TRANSACTIONS

### Transactions and balances with related entities

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- On February 23, 2011, the Company acquired \$1.0 billion of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.0 billion of 6.00% secured demand debentures to Power Financial Corporation.
- On January 10, 2012, the Company acquired \$250 million of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$250 million of 6.00% secured demand debentures to Power Financial Corporation.

The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the preferred shares and debentures and related dividend income and interest expense are offset in the Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

#### 14. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

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

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

The operating results of Mackenzie for 2011 exclude discontinued operations (Note 3).

Corporate and Other includes Investment Planning Counsel, equity income from the Company's investment in Great-West Lifeco Inc., net investment income on unallocated investments, and also includes consolidation elimination entries.

|   | 2012               |                  |                        |                   |
|---|--------------------|------------------|------------------------|-------------------|
| Three months ended June 30                    | INVESTORS<br>GROUP | MACKENZIE        | CORPORATE<br>AND OTHER | TOTAL             |
| <b>Revenues</b>                               |                    |                  |                        |                   |
| Management fees                               | \$ 274,810         | \$ 157,317       | \$ 11,410              | \$ 443,537        |
| Administration fees                           | 54,386             | 26,963           | 2,624                  | 83,973            |
| Distribution fees                             | 48,776             | 4,191            | 27,567                 | 80,534            |
| Net investment income and other               | 10,334             | 142              | 19,087                 | 29,563            |
|   | <b>388,306</b>     | <b>188,613</b>   | <b>60,688</b>          | <b>637,607</b>    |
| <b>Expenses</b>                               |                    |                  |                        |                   |
| Commission                                    | 122,116            | 64,732           | 26,871                 | 213,719           |
| Non-commission                                | 97,089             | 61,525           | 11,495                 | 170,109           |
|   | <b>219,205</b>     | <b>126,257</b>   | <b>38,366</b>          | <b>383,828</b>    |
| Earnings before undernoted                    | <b>\$ 169,101</b>  | <b>\$ 62,356</b> | <b>\$ 22,322</b>       | <b>253,779</b>    |
| Interest expense                              |                    |                  |                        | 22,912            |
| Earnings before income taxes                  |                    |                  |                        | 230,867           |
| Income taxes                                  |                    |                  |                        | 56,027            |
| Net earnings                                  |                    |                  |                        | 174,840           |
| Perpetual preferred share dividends           |                    |                  |                        | 2,212             |
| Net earnings available to common shareholders |                    |                  |                        | <b>\$ 172,628</b> |

#### 14. SEGMENTED INFORMATION *(continued)*

|   | 2011               |            |                        |            |
|---|--------------------|------------|------------------------|------------|
| Three months ended June 30                    | INVESTORS<br>GROUP | MACKENZIE  | CORPORATE<br>AND OTHER | TOTAL      |
| <b>Revenues</b>                               |                    |            |                        |            |
| Management fees                               | \$ 298,660         | \$ 181,678 | \$ 11,449              | \$ 491,787 |
| Administration fees                           | 58,297             | 26,999     | 2,628                  | 87,924     |
| Distribution fees                             | 47,315             | 4,829      | 31,412                 | 83,556     |
| Net investment income and other               | 12,556             | 167        | 21,681                 | 34,404     |
|   | 416,828            | 213,673    | 67,170                 | 697,671    |
| <b>Expenses</b>                               |                    |            |                        |            |
| Commission                                    | 124,496            | 74,052     | 30,131                 | 228,679    |
| Non-commission                                | 92,094             | 60,514     | 11,525                 | 164,133    |
|   | 216,590            | 134,566    | 41,656                 | 392,812    |
| Earnings before undernoted                    | \$ 200,238         | \$ 79,107  | \$ 25,514              | 304,859    |
| Interest expense                              |                    |            |                        | 26,139     |
| Earnings before income taxes                  |                    |            |                        | 278,720    |
| Income taxes                                  |                    |            |                        | 63,693     |
| Net earnings from continuing operations       |                    |            |                        | 215,027    |
| Net earnings from discontinued operations     |                    |            |                        | 1,055      |
| Net earnings                                  |                    |            |                        | 216,082    |
| Perpetual preferred share dividends           |                    |            |                        | 2,212      |
| Net earnings available to common shareholders |                    |            |                        | \$ 213,870 |

#### 14. SEGMENTED INFORMATION *(continued)*

|   | 2012                |                     |                        |                     |
|---|---------------------|---------------------|------------------------|---------------------|
| Six months ended June 30                      | INVESTORS<br>GROUP  | MACKENZIE           | CORPORATE<br>AND OTHER | TOTAL               |
| <b>Revenues</b>                               |                     |                     |                        |                     |
| Management fees                               | \$ 555,794          | \$ 321,360          | \$ 23,001              | \$ 900,155          |
| Administration fees                           | 109,855             | 53,817              | 5,565                  | 169,237             |
| Distribution fees                             | 98,058              | 9,240               | 58,415                 | 165,713             |
| Net investment income and other               | 31,858              | (54)                | 43,787                 | 75,591              |
|   | <b>795,565</b>      | <b>384,363</b>      | <b>130,768</b>         | <b>1,310,696</b>    |
| <b>Expenses</b>                               |                     |                     |                        |                     |
| Commission                                    | 245,724             | 132,950             | 56,429                 | 435,103             |
| Non-commission                                | 189,131             | 127,246             | 23,823                 | 340,200             |
|   | <b>434,855</b>      | <b>260,196</b>      | <b>80,252</b>          | <b>775,303</b>      |
| Earnings before undernoted                    | <b>\$ 360,710</b>   | <b>\$ 124,167</b>   | <b>\$ 50,516</b>       | <b>535,393</b>      |
| Interest expense                              |                     |                     |                        | 45,823              |
| Earnings before income taxes                  |                     |                     |                        | 489,570             |
| Income taxes                                  |                     |                     |                        | 112,866             |
| Net earnings                                  |                     |                     |                        | 376,704             |
| Perpetual preferred share dividends           |                     |                     |                        | 4,425               |
| Net earnings available to common shareholders |                     |                     |                        | <b>\$ 372,279</b>   |
| <b>Identifiable assets</b>                    |                     |                     |                        |                     |
| Identifiable assets                           | \$ 5,969,958        | \$ 1,325,888        | \$ 1,702,991           | \$ 8,998,837        |
| Goodwill                                      | 1,347,781           | 1,170,149           | 122,593                | 2,640,523           |
| Total assets                                  | <b>\$ 7,317,739</b> | <b>\$ 2,496,037</b> | <b>\$ 1,825,584</b>    | <b>\$11,639,360</b> |

#### 14. SEGMENTED INFORMATION *(continued)*

|   | 2011               |              |                        |               |
|---|--------------------|--------------|------------------------|---------------|
| Six months ended June 30                      | INVESTORS<br>GROUP | MACKENZIE    | CORPORATE<br>AND OTHER | TOTAL         |
| <b>Revenues</b>                               |                    |              |                        |               |
| Management fees                               | \$ 596,339         | \$ 364,981   | \$ 22,582              | \$ 983,902    |
| Administration fees                           | 116,187            | 54,003       | 5,234                  | 175,424       |
| Distribution fees                             | 95,000             | 10,729       | 67,188                 | 172,917       |
| Net investment income and other               | 33,847             | 950          | 42,020                 | 76,817        |
|   | 841,373            | 430,663      | 137,024                | 1,409,060     |
| <b>Expenses</b>                               |                    |              |                        |               |
| Commission                                    | 248,557            | 150,051      | 63,721                 | 462,329       |
| Non-commission                                | 177,851            | 124,002      | 24,244                 | 326,097       |
|   | 426,408            | 274,053      | 87,965                 | 788,426       |
| Earnings before undernoted                    | \$ 414,965         | \$ 156,610   | \$ 49,059              | 620,634       |
| Interest expense                              |                    |              |                        | 56,410        |
| Earnings before income taxes                  |                    |              |                        | 564,224       |
| Income taxes                                  |                    |              |                        | 135,820       |
| Net earnings from continuing operations       |                    |              |                        | 428,404       |
| Net earnings from discontinued operations     |                    |              |                        | 2,023         |
| Net earnings                                  |                    |              |                        | 430,427       |
| Perpetual preferred share dividends           |                    |              |                        | 4,425         |
| Net earnings available to common shareholders |                    |              |                        | \$ 426,002    |
| Identifiable assets                           | \$ 4,958,722       | \$ 2,264,509 | \$ 1,359,164           | \$ 8,582,395  |
| Goodwill                                      | 1,347,781          | 1,172,749    | 122,593                | 2,643,123     |
| Total assets                                  | \$ 6,306,503       | \$ 3,437,258 | \$ 1,481,757           | \$ 11,225,518 |