

Consolidated Financial Statements

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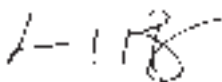
Management's Responsibility for Financial Reporting

The consolidated financial statements of IGM Financial Inc. and related financial information have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

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

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting of directors who are not officers or employees of the Company. This Committee reviews the consolidated financial statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the shareholders' auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

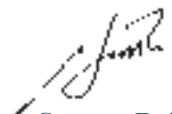
Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting and the adequacy of the systems of internal control.



Murray J. Taylor
Co-President and Chief Executive Officer



Charles R. Sims
Co-President and Chief Executive Officer



Gregory D. Tretiak
Executive Vice-President, Finance

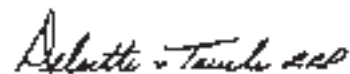
Auditors' Report

To the Shareholders, IGM Financial Inc.

We have audited the consolidated balance sheets of IGM Financial Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Winnipeg, Manitoba
February 14, 2007

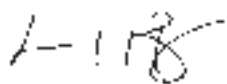
Consolidated Balance Sheets

As at December 31 (in thousands of dollars)

| | 2006 | 2005 |
|------------------------------------|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,325,468 | \$ 1,068,061 |
| Securities (Note 2) | 142,322 | 178,011 |
| Loans (Note 3) | 488,795 | 512,989 |
| Investment in affiliate (Note 5) | 549,237 | 509,721 |
| Deferred selling commissions | 974,070 | 927,958 |
| Other assets (Note 6) | 439,804 | 336,473 |
| Intangible assets (Note 7) | 1,040,126 | 900,180 |
| Goodwill (Note 7) | 2,372,714 | 2,373,483 |
| | \$ 7,332,536 | \$ 6,806,876 |
| Liabilities | | |
| Deposits and certificates (Note 8) | \$ 777,505 | \$ 692,770 |
| Other liabilities (Note 9) | 735,297 | 634,256 |
| Future income taxes (Note 11) | 442,061 | 449,717 |
| Long-term debt (Note 12) | 1,200,000 | 1,225,010 |
| Preferred shares (Note 13) | 360,000 | 360,000 |
| | 3,514,863 | 3,361,753 |
| Shareholders' Equity | | |
| Share capital (Note 13) | 1,493,954 | 1,481,519 |
| Contributed surplus | 15,339 | 9,213 |
| Retained earnings | 2,308,380 | 1,954,391 |
| | 3,817,673 | 3,445,123 |
| | \$ 7,332,536 | \$ 6,806,876 |

(See accompanying notes to consolidated financial statements.)

On behalf of the Board



Murray J. Taylor
Director



Donald F. Mazankowski
Director

Consolidated Statements of Income

| For the years ended December 31 <i>(in thousands of dollars, except shares and per share amounts)</i> | 2006 | 2005 |
|---|-------------------|-------------------|
| Fee and net investment income | | |
| Management | \$ 1,857,889 | \$ 1,644,737 |
| Administration | 313,245 | 307,391 |
| Distribution | 221,164 | 212,344 |
| Net investment income and other | 212,300 | 183,108 |
| Total fee and net investment income | 2,604,598 | 2,347,580 |
| Operating expenses | | |
| Commission expense | 832,794 | 726,471 |
| Non-commission expense | 573,399 | 555,326 |
| Interest expense | 88,420 | 90,425 |
| Total operating expenses | 1,494,613 | 1,372,222 |
| Income before income taxes and non-controlling interest | 1,109,985 | 975,358 |
| Income taxes <i>(Note 11)</i> | 331,231 | 291,500 |
| Income before non-controlling interest | 778,754 | 683,858 |
| Non-controlling interest | 2,064 | 1,431 |
| Net income | \$ 776,690 | \$ 682,427 |
| Average number of common shares <i>(in thousands)</i> <i>(Note 17)</i> | | |
| – Basic | 264,724 | 264,573 |
| – Diluted | 267,395 | 266,609 |
| Earnings per share <i>(in dollars)</i> <i>(Note 17)</i> – Basic | \$ 2.93 | \$ 2.58 |
| – Diluted | \$ 2.90 | \$ 2.56 |

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Retained Earnings

| For the years ended December 31 <i>(in thousands of dollars)</i> | 2006 | 2005 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 1,954,391 | \$ 1,668,006 |
| Net income | 776,690 | 682,427 |
| Common dividends | (406,478) | (353,207) |
| Common share cancellation excess <i>(Note 13)</i> | (11,688) | (20,067) |
| Other <i>(Note 5)</i> | (4,535) | (22,768) |
| Balance, end of year | \$ 2,308,380 | \$ 1,954,391 |

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

For the years ended December 31 *(in thousands of dollars)*

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Operating activities | | |
| Net income | \$ 776,690 | \$ 682,427 |
| Adjustments to determine net cash from operating activities | | |
| Future income taxes | (6,993) | 26,869 |
| Commission amortization | 298,631 | 260,209 |
| Amortization of capital and intangible assets | 21,665 | 22,431 |
| Changes in operating assets and liabilities and other | (57,548) | (50,484) |
| | 1,032,445 | 941,452 |
| Commissions paid | (344,743) | (337,376) |
| | 687,702 | 604,076 |
| Financing activities | | |
| Net increase (decrease) in deposits and certificates | 84,735 | (18,180) |
| Repayment of long-term debt | (25,010) | (1,785) |
| Issue of common shares | 13,184 | 9,206 |
| Common dividends paid | (392,460) | (341,321) |
| Common shares purchased for cancellation | (13,216) | (23,335) |
| | (332,767) | (375,415) |
| Investing activities | | |
| Purchase of securities | (67,968) | (102,217) |
| Proceeds from the sale of securities | 157,991 | 95,934 |
| Net increase in loans | (1,270,143) | (258,005) |
| Proceeds from securitizations <i>(Note 4)</i> | 1,301,543 | 250,993 |
| Additions to capital assets | (23,716) | (11,206) |
| Acquisition of intangible assets <i>(Note 21)</i> | (140,100) | - |
| Funds held in escrow <i>(Note 6)</i> | (54,077) | - |
| Other | (1,058) | (1,089) |
| | (97,528) | (25,590) |
| Increase in cash and cash equivalents | 257,407 | 203,071 |
| Cash and cash equivalents, beginning of year | 1,068,061 | 864,990 |
| Cash and cash equivalents, end of year | \$ 1,325,468 | \$ 1,068,061 |
| Cash | \$ 154,050 | \$ 174,338 |
| Cash equivalents | 1,171,418 | 893,723 |
| | \$ 1,325,468 | \$ 1,068,061 |
| Supplemental disclosure of cash flow information | | |
| Amount of interest paid during the year | \$ 126,408 | \$ 131,899 |
| Amount of income taxes paid during the year | \$ 276,444 | \$ 239,407 |

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

DECEMBER 31, 2006 AND 2005 *(In thousands of dollars, except shares and per share amounts)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial Inc. (Company) have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. Key components of the financial statements requiring management to make estimates include goodwill, intangible assets, income taxes, deferred selling commissions and employee future benefits. Actual results may differ from such estimates.

Basis of consolidation

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

The equity method is used to account for the Company's investment in Great-West Lifeco Inc. (Lifeco), an affiliated company. Both companies are controlled by Power Financial Corporation.

There are no variable interest entities requiring consolidation under Accounting Guideline 15 – Consolidation of Variable Interest Entities, except with respect to the Company's share purchase plan compensation trust. The Company is considered the primary beneficiary of the share purchase plan compensation trust. However, the consolidation of this trust does not have a significant impact as both the assets (IGM Financial Inc. shares) and the liabilities (the obligation to deliver IGM Financial Inc. shares to the participants) of the trust offset each other in the Share Capital section of the Consolidated Balance Sheets.

Revenue recognition

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenue derived from mutual fund, insurance, securities and banking transactions are recognized on a trade date basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis.

Securities

Investment securities comprise equity securities held for long-term investment. Common shares are carried at original cost plus declared dividends. Securities are written down to their fair value when an other than temporary decline in value is identified. Gains and losses on disposal of investment securities are recorded in Net investment income and other in the Consolidated Statements of Income.

Loans

Loans are carried at amortized cost plus accrued interest less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any accrued and unpaid interest income is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

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

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

Securizations

The Company periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of the Company's retained interests, quoted market prices are used if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. The Company continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all transfers of loans, the gains or losses and the servicing fee revenue are reported in Net investment income and other in the Consolidated Statements of Income. The retained interests in the securitized loans are recorded in Other assets and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

Deferred selling commissions

Commissions paid on the sale of certain mutual funds are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

Capital assets

Capital assets, which are included in Other assets, are recorded at cost of \$292.2 million (2005 – \$259.3 million), less accumulated amortization of \$210.8 million (2005 – \$183.5 million). The properties and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives.

Goodwill and intangible assets

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment using a fair value test and written down for impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. The Company tests intangible assets with a finite life for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. The Company writes down the assets to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

The Company has completed its annual impairment testing on goodwill, indefinite life intangible assets and finite life intangible assets and has determined that no impairment charge was necessary.

Employee future benefits

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

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2004 and the next required valuation will be completed based on a measurement date of December 31, 2007.

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

Employee future benefits *(continued)*

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. The discount rate used to value liabilities is based on market rates at the measurement date. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return. The defined benefit pension plan is invested in proprietary equity, balanced and fixed income mutual funds.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, the expected return on plan assets and the amortization of actuarial gains or losses over the expected average remaining service life of employees. These periods range from 11 years to 16 years for the various benefit plans.

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

Stock-based compensation and other stock-based payments

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

Income taxes

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

Liabilities and Equity

Preferred shares that can be settled at the Company's option by issuing a variable number of its own equity instruments are classified as liabilities. Preferred dividends are classified as part of operating expenses in the Consolidated Statements of Income.

Earnings per share

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

Derivative financial instruments

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

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

The Company manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Company designates these contracts as hedges of the future sale of specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in Net investment income and other on a basis consistent with the future sale of the related securities.

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

Derivative financial instruments *(continued)*

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking operations and asset liability management. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. These interest rate swaps are carried at fair value on the Consolidated Balance Sheets. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Income.

The Company also enters into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. These swap agreements require the periodic exchange of net contractual payments without the exchange of the notional principal amounts on which the payments are based. These instruments are not designated as hedges and are carried at fair value on the Consolidated Balance Sheets. Changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Income.

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

If a designated hedged item is sold prior to the termination of the related derivative instruments or it is no longer probable that the sale will occur at the date originally anticipated, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Future accounting changes – financial instruments

In January 2005, the CICA issued four new accounting standards: CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3865, Hedges, CICA 1530, Comprehensive Income and CICA 3251, Equity. These standards become effective for fiscal years beginning on or after October 1, 2006 and are applicable to the Company as of January 1, 2007.

These standards require that all financial assets be classified as available for sale, held to maturity, trading or loans and receivables. The standards require that all financial assets be carried at fair value in the Consolidated Balance Sheets, except loans and receivables including mortgages and securities classified as held to maturity, which would be carried at amortized cost using the effective interest method. Financial liabilities must be classified as either trading, which would be carried at fair value, or other, which would be carried at amortized cost using the effective interest method.

Changes in the fair value of trading securities are required to be reported in earnings and unrealized gains and losses on financial assets that are available for sale are required to be recorded in Other comprehensive income until realized or impaired, at which time they are required to be recorded in the Consolidated Statements of Income. All derivatives including embedded derivatives that must be separately accounted for, except those described in the next paragraph, must be recorded at fair value in the Consolidated Balance Sheets and the changes in fair value must be recorded in the Consolidated Statements of Income.

Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness may offset changes in fair values or cash flows of hedged items. A hedge must be designated as a cash flow hedge, fair value hedge, or a hedge of net investments in self-sustaining foreign operations. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Income. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which will be reclassified to Net income when the hedged transaction impacts earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge must be recorded in the Consolidated Statements of Income.

The Consolidated Statements of Comprehensive Income will be included in the Company's financial statements. Unrealized gains and losses on financial assets that will be held as available for sale, the effective portion of changes in the fair value of cash flow hedging instruments and unrealized foreign currency translation gains and losses will be recorded in the Consolidated Statements of Comprehensive Income until recognized in the Consolidated Statements of Income. Accumulated other comprehensive income will form part of shareholders' equity.

Transitional adjustments arising due to remeasuring financial assets classified as available for sale and hedging instruments designated as cash flow hedges will be recognized in the opening balance of Accumulated other comprehensive income. Other transition adjustments are not expected to be significant.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. SECURITIES

| | 2006 | | 2005 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Common shares | \$ 120,084 | \$ 212,804 | \$ 146,146 | \$ 265,431 |
| Investments in proprietary mutual funds | 22,238 | 25,496 | 31,865 | 36,259 |
| | \$ 142,322 | \$ 238,300 | \$ 178,011 | \$ 301,690 |

3. LOANS

| | TERM TO MATURITY | | | 2006 TOTAL | 2005 TOTAL |
|--|-------------------|-------------------|------------------|-------------------|-------------------|
| | 1 YEAR OR LESS | 1-5 YEARS | OVER 5 YEARS | | |
| Residential mortgages | \$ 97,569 | \$ 134,365 | \$ 3,195 | \$ 235,129 | \$ 286,918 |
| Commercial mortgages | 576 | 387 | – | 963 | 9,585 |
| | 98,145 | 134,752 | 3,195 | 236,092 | 296,503 |
| Personal loans | 221,839 | 19,207 | 19,385 | 260,431 | 224,684 |
| | \$ 319,984 | \$ 153,959 | \$ 22,580 | 496,523 | 521,187 |
| Less: General allowance | | | | 7,728 | 8,198 |
| | | | | \$ 488,795 | \$ 512,989 |
| Impaired loans included above | | | | \$ 417 | \$ 983 |
| Less: General allowance | | | | 7,728 | 8,198 |
| | | | | \$ (7,311) | \$ (7,215) |
| The change in the allowance for credit losses is as follows: | | | | | |
| Balance, beginning of year | | | | \$ 8,198 | \$ 17,810 |
| Write-offs | | | | (208) | (208) |
| Recoveries | | | | 199 | 334 |
| Reversal of provision for credit losses | | | | (461) | (9,738) |
| Balance, end of year | | | | \$ 7,728 | \$ 8,198 |

4. SECURITIZATIONS

During the year, the Company transferred \$1,311.1 million (2005 – \$252.3 million) of residential mortgages into commercial paper conduits and recorded \$5.0 million (2005 – \$4.3 million) in gains, net of transaction costs, in Net investment income and other.

The Company's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits (CP conduits) and mortgage-backed securities (MBS) holders (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for commercial paper conduit transactions completed during 2006 and 2005 were as follows:

| | 2006 | 2005 |
|-----------------------------------|--------|--------|
| Weighted-average | | |
| Remaining service life (in years) | 3.9 | 3.7 |
| Interest rate | 5.17% | 4.98% |
| Coupon rate of securities issued | 4.66% | 4.00% |
| Prepayment rate | 15.00% | 15.00% |
| Discount rate | 4.99% | 4.55% |
| Servicing fees | 0.25% | 0.25% |
| Expected credit losses | 0.01% | 0.05% |

At December 31, 2006, the fair value of the total retained interests was \$42.7 million (2005 – \$15.5 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported on the Company's Consolidated Balance Sheets, the securitized loans serviced by the Company, as well as cash flows related to securitization arrangements are as follows:

| | 2006 | 2005 |
|---|--------------|------------|
| Mortgages | \$ 1,761,342 | \$ 826,202 |
| Personal loans | 274,446 | 245,624 |
| | 2,035,788 | 1,071,826 |
| Less: Securitized loans serviced | 1,546,993 | 558,837 |
| Total on-balance sheet loans | \$ 488,795 | \$ 512,989 |
| Proceeds from new securitizations | \$ 1,301,543 | \$ 250,993 |
| Cash flows received on retained interests | \$ 7,025 | \$ 10,772 |

5. INVESTMENT IN AFFILIATE

| | 2006 | 2005 |
|--|--------------|--------------|
| Carrying value, beginning of year | \$ 509,721 | \$ 490,716 |
| Share of earnings | 79,099 | 72,381 |
| Dividends | (35,048) | (30,608) |
| Foreign currency translation and other adjustments | (4,535) | (22,768) |
| Carrying value, end of year | \$ 549,237 | \$ 509,721 |
| Share of equity, end of year | \$ 408,213 | \$ 369,946 |
| Fair value, end of year | \$ 1,277,214 | \$ 1,160,073 |

The Company currently holds 37,787,388 (2005 – 37,787,388) shares of Lifeco, which represents an equity interest of 4.2% (2005 – 4.2%).

6. OTHER ASSETS

| | 2006 | 2005 |
|---------------------------------|------------|------------|
| Accounts and other receivables | \$ 219,177 | \$ 161,201 |
| Capital assets | 81,441 | 75,780 |
| Funds held in escrow (Note 21) | 54,077 | – |
| Accrued benefit asset (Note 10) | 43,257 | 43,339 |
| Deferred and prepaid expenses | 37,509 | 50,501 |
| Other | 4,343 | 5,652 |
| | \$ 439,804 | \$ 336,473 |

7. GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2006, Mackenzie Financial Corporation, a subsidiary of IGM Financial Inc., performed a preliminary evaluation of the fair value of the assets acquired related to the purchase of the assets of Cundill Investment Research Ltd. and related entities (“Cundill Group”). The purchase price has been allocated to indefinite-life and finite-life intangible assets on a preliminary basis and will be completed as soon as Mackenzie Financial Corporation has gathered all the significant information considered necessary in order to finalize this allocation (Note 21).

In the second quarter of 2005, the Company finalized the allocation of goodwill related to the acquisition of Investment Planning Counsel.

7. GOODWILL AND INTANGIBLE ASSETS *(continued)*

The changes in the carrying amount of goodwill are as follows:

| 2006 | | | | |
|----------------------------|--------------------|------------|------------------------|--------------|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Balance, beginning of year | \$ 1,347,781 | \$ 943,550 | \$ 82,152 | \$ 2,373,483 |
| Acquired during the year | – | – | 884 | 884 |
| Goodwill adjustment | – | – | (1,653) | (1,653) |
| Balance, end of year | \$ 1,347,781 | \$ 943,550 | \$ 81,383 | \$ 2,372,714 |

| 2005 | | | | |
|----------------------------|--------------------|------------|------------------------|--------------|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Balance, beginning of year | \$ 1,346,245 | \$ 923,590 | \$ 101,756 | \$ 2,371,591 |
| Acquired during the year | – | – | 972 | 972 |
| Allocation of goodwill | 1,536 | 19,960 | (21,496) | – |
| Goodwill adjustment | – | – | 920 | 920 |
| Balance, end of year | \$ 1,347,781 | \$ 943,550 | \$ 82,152 | \$ 2,373,483 |

The components of other intangible assets are as follows:

| 2006 | | | | | |
|---|---------------------------|--|-----------------|------------|--------------|
| | FINITE-LIFE | | INDEFINITE-LIFE | | |
| | DISTRIBUTION CONTRACTS | MUTUAL FUND MANAGEMENT CONTRACTS | TRADE NAMES | TOTAL | TOTAL |
| Carrying value | \$ 25,385 | \$ 608,853 | \$ 268,368 | \$ 877,221 | \$ 902,606 |
| Acquired during the year | 1,707 | 134 | – | 134 | 1,841 |
| Accumulated amortization | (3,778) | – | – | – | (3,778) |
| Net carrying value | \$ 23,314 | \$ 608,987 | \$ 268,368 | \$ 877,355 | 900,669 |
| Assets acquired, net of accumulated amortization <i>(Note 21)</i> | | | | | 139,457 |
| | | | | | \$ 1,040,126 |

| 2005 | | | | | |
|--------------------------|---------------------------|--|-----------------|------------|------------|
| | FINITE-LIFE | | INDEFINITE-LIFE | | |
| | DISTRIBUTION CONTRACTS | MUTUAL FUND MANAGEMENT CONTRACTS | TRADE NAMES | TOTAL | TOTAL |
| Carrying value | \$ 24,421 | \$ 608,764 | \$ 268,368 | \$ 877,132 | \$ 901,553 |
| Acquired during the year | 964 | 89 | – | 89 | 1,053 |
| Accumulated amortization | (2,426) | – | – | – | (2,426) |
| Net carrying value | \$ 22,959 | \$ 608,853 | \$ 268,368 | \$ 877,221 | \$ 900,180 |

8. DEPOSITS AND CERTIFICATES

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents and loans amounting to \$777.5 million (2005 – \$692.8 million) related to deposits and certificates.

| | TERM TO MATURITY | | | | 2006 TOTAL | 2005 TOTAL |
|--------------|------------------|-------------------|--------------|-----------------|---------------|---------------|
| | DEMAND | 1 YEAR OR LESS | 1-5 YEARS | OVER 5 YEARS | | |
| Deposits | \$ 565,906 | \$ 99,561 | \$ 103,400 | \$ 2,392 | \$ 771,259 | \$ 685,617 |
| Certificates | – | 619 | 1,633 | 3,994 | 6,246 | 7,153 |
| | \$ 565,906 | \$ 100,180 | \$ 105,033 | \$ 6,386 | \$ 777,505 | \$ 692,770 |

9. OTHER LIABILITIES

| | 2006 | 2005 |
|--|------------|------------|
| Accounts payable and accrued liabilities | \$ 360,989 | \$ 324,949 |
| Taxes payable | 188,538 | 143,407 |
| Dividends payable | 105,284 | 91,266 |
| Interest payable | 13,255 | 14,473 |
| Accrued benefit liabilities (Note 10) | 52,987 | 50,199 |
| Deferred revenue | 14,244 | 9,962 |
| | \$ 735,297 | \$ 634,256 |

10. EMPLOYEE FUTURE BENEFITS

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

| | 2006 | | | 2005 | | |
|--|---------------------------------------|-------------|--|----------------------------|-------------|---------------------------------------|
| | DEFINED BENEFIT PENSION PLAN | SERP | DEFINED OTHER POST- RETIREMENT BENEFITS | BENEFIT PENSION PLAN | SERP | OTHER POST- RETIREMENT BENEFITS |
| Fair value of plan assets | | | | | | |
| Balance, beginning of year | \$ 190,258 | \$ - | \$ - | \$ 167,636 | \$ - | \$ - |
| Employee contributions | 2,869 | - | - | 2,678 | - | - |
| Benefits paid | (8,569) | - | - | (6,787) | - | - |
| Actual return on plan assets | 22,673 | - | - | 26,731 | - | - |
| Balance, end of year | 207,231 | - | - | 190,258 | - | - |
| Accrued benefit obligation | | | | | | |
| Balance, beginning of year | 147,655 | 18,478 | 31,364 | 119,788 | 15,236 | 34,462 |
| Benefits paid | (8,569) | (764) | (640) | (6,787) | (735) | (688) |
| Current service cost | 6,101 | 72 | 1,378 | 4,313 | 398 | 1,630 |
| Employee contributions | 2,869 | - | - | 2,678 | - | - |
| Interest cost | 7,836 | 952 | 1,745 | 7,493 | 942 | 2,310 |
| Actuarial losses (gains) | (1,399) | (650) | 8,494 | 20,170 | 2,637 | (6,350) |
| Balance, end of year | 154,493 | 18,088 | 42,341 | 147,655 | 18,478 | 31,364 |
| Funded status – plan surplus (deficit) | 52,738 | (18,088) | (42,341) | 42,603 | (18,478) | (31,364) |
| Unamortized net actuarial losses (gains) | (9,481) | 2,008 | 5,434 | 736 | 3,009 | (3,366) |
| Accrued benefit asset (liability) | \$ 43,257 | \$ (16,080) | \$ (36,907) | \$ 43,339 | \$ (15,469) | \$ (34,730) |

The asset allocation by asset category of the defined benefit pension plan is equity securities 55% (2005 – 61%), fixed income securities 40% (2005 – 34%) and cash equivalents 5% (2005 – 5%).

10. EMPLOYEE FUTURE BENEFITS *(continued)*

| | 2006 | | | 2005 | | |
|---|---------------------------------------|----------|--|----------------------------|----------|---------------------------------------|
| | DEFINED BENEFIT PENSION PLAN | SERP | DEFINED OTHER POST- RETIREMENT BENEFITS | BENEFIT PENSION PLAN | SERP | OTHER POST- RETIREMENT BENEFITS |
| Benefit (income) expense was determined as follows: | | | | | | |
| Current service cost | \$ 6,101 | \$ 72 | \$ 1,378 | \$ 4,313 | \$ 398 | \$ 1,630 |
| Interest cost on accrued benefit obligation | 7,836 | 952 | 1,745 | 7,493 | 942 | 2,310 |
| Expected return on plan assets | (13,118) | – | – | (11,591) | – | – |
| Amortization of net actuarial (gains) losses | (737) | 351 | (306) | (1,230) | 776 | 141 |
| | \$ 82 | \$ 1,375 | \$ 2,817 | \$ (1,015) | \$ 2,116 | \$ 4,081 |
| Significant weighted-average actuarial assumptions: | | | | | | |
| Discount rate | 5.30% | 5.25% | 5.43% | 5.30% | 5.25% | 5.40% |
| Expected long-term rate of return on plan assets | 7.00% | N/A | N/A | 7.00% | N/A | N/A |
| Rate of compensation increase | 4.40% | 2.75% | N/A | 4.40% | 2.75% | N/A |
| Health care cost trend rate ⁽¹⁾ | N/A | N/A | 9.00% | N/A | N/A | 10.00% |

(1) Trending to 5.00% in 2010 and remaining at that rate thereafter.

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-retirement benefit obligation of \$8.7 million as at December 31, 2006 and an increase in the 2006 other post-retirement benefit expense of \$0.8 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of \$6.8 million as at December 31, 2006 and a decrease in the 2006 other post-retirement benefit expense of \$0.6 million.

In addition, the Company maintains a group RSP available only to certain employees. In 2006, the Company's contributions were \$5.3 million (2005 – \$5.2 million). The contributions are expensed as paid.

11. INCOME TAXES

The Company's effective income tax rate is derived as follows:

| | 2006 | 2005 |
|---|------------|------------|
| Income taxes at Canadian federal and provincial statutory rates | 35.44% | 35.93% |
| Effect of: | | |
| Dividend income | (0.15) | (0.30) |
| Net capital gains and losses | (0.75) | (0.75) |
| Share of earnings of affiliate <i>(Note 5)</i> | (2.55) | (2.72) |
| Preferred dividend paid | 0.68 | 0.79 |
| Impact of rate changes on future income taxes related to indefinite life intangible assets | (1.23) | – |
| Other items | (1.60) | (3.06) |
| Effective income tax rate | 29.84% | 29.89% |
| Components of income tax expense are: | | |
| Current income taxes | \$ 338,224 | \$ 264,631 |
| Future income taxes | (6,993) | 26,869 |
| | \$ 331,231 | \$ 291,500 |

Future income taxes consist of the following taxable temporary differences:

| | 2006 | 2005 |
|--------------------------------|------------|------------|
| Future income tax assets | | |
| Accrued benefit liabilities | \$ 17,219 | \$ 18,371 |
| Allowance for credit losses | 2,755 | 2,921 |
| Investment revaluations | 1,388 | 6,144 |
| Non-capital loss carryforwards | 11,290 | 13,164 |
| Restructuring costs | 2,315 | 2,375 |
| Other | 34,226 | 36,628 |
| | 69,193 | 79,603 |
| Future income tax liabilities | | |
| Accrued benefit asset | 13,963 | 15,162 |
| Deferred selling commissions | 333,628 | 333,710 |
| Intangible assets | 150,773 | 164,572 |
| Other | 12,890 | 15,876 |
| | 511,254 | 529,320 |
| Future income taxes | \$ 442,061 | \$ 449,717 |

As at December 31, 2006, the Company has non-capital losses of \$71.1 million (2005 – \$90.4 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2007 – \$0.2 million; 2008 – \$3.0 million; 2009 – \$1.8 million; 2010 – \$23.5 million; 2013 – \$0.9 million and 2014 – \$41.7 million.

12. LONG-TERM DEBT

| | RATE | MATURITY | 2006 | 2005 |
|-----------------------------------|--------|-------------------|---------------------|---------------------|
| Debtures in Series ⁽¹⁾ | | | | |
| 1997 | 6.65% | December 13, 2027 | \$ 125,000 | \$ 125,000 |
| 2001 | 6.75% | May 9, 2011 | 450,000 | 450,000 |
| 2001 | 7.45% | May 9, 2031 | 150,000 | 150,000 |
| 2002 | 7.00% | December 31, 2032 | 175,000 | 175,000 |
| 2003 | 6.58% | March 7, 2018 | 150,000 | 150,000 |
| 2003 | 7.11% | March 7, 2033 | 150,000 | 150,000 |
| Note payable to related party | | | | |
| Power Financial Corporation | 10.60% | January 16, 2006 | - | 25,010 |
| | | | \$ 1,200,000 | \$ 1,225,010 |

(1) The debtures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Interest expense relating to long-term debt was \$83.2 million (2005 – \$85.7 million).

There are no principal payments due in each of the next five years except \$450.0 million due in 2011.

13. 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

| | 2006 | | 2005 | |
|--|-------------|--------------|-------------|--------------|
| | SHARES | STATED VALUE | SHARES | STATED TOTAL |
| First preferred shares, Series A | 14,400,000 | \$ 360,000 | 14,400,000 | \$ 360,000 |
| Common shares | | | | |
| Balance, beginning of year | 264,539,213 | \$ 1,481,519 | 264,598,380 | \$ 1,475,405 |
| Issued under Stock Option Plan (Note 14) | 598,425 | 13,963 | 525,533 | 9,382 |
| Purchased for cancellation | (271,700) | (1,528) | (584,700) | (3,268) |
| Balance, end of year | 264,865,938 | \$ 1,493,954 | 264,539,213 | \$ 1,481,519 |

13. SHARE CAPITAL *(continued)*

Preferred shares

The preferred shares are entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly. Such shares are redeemable by the Company on or after June 30, 2009 in cash, at \$26.00 per share if redeemed prior to June 30, 2010, \$25.67 if redeemed on or after June 30, 2010, but prior to June 30, 2011, \$25.33 if redeemed on or after June 30, 2011, but prior to June 30, 2012 and \$25.00 if redeemed on or after June 30, 2012. On or after June 30, 2009, the Company may convert each preferred share into that number of common shares determined by dividing the then applicable redemption price by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time. On or after June 30, 2013, subject to the right of the Company to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25.00 by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time.

Normal course issuer bid

The Company commenced a normal course issuer bid, effective for one year, on March 22, 2006. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at March 14, 2006. As at December 31, 2006, 271,700 shares were purchased at a cost of \$13.2 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On February 23, 2005, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.2 million or 5% of its common shares outstanding as at February 18, 2005. As at December 31, 2005, 584,700 shares were purchased at a cost of \$23.3 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

14. STOCK-BASED COMPENSATION

Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted-average trading price per Common Share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2006, 17,254,490 (2005 – 17,852,915) common shares were reserved for issuance under the Plan.

During 2006, the Company granted 810,400 options to employees (2005 – 1,920,800). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of time vesting options granted during the year ended December 31, 2006 has been estimated at \$8.68 per option (2005 – \$7.76) using the Black-Scholes option pricing model. The weighted-average fair value of performance based options granted during the year ended December 31, 2006 has been estimated at \$5.35 per option (2005 – \$4.95) using a barrier option pricing model. The assumptions used in these valuation models include: (i) risk-free interest rate of 4.11% (2005 – 4.04%), (ii) expected option life of six years (2005 – six years), (iii) expected volatility of 21.00% (2005 – 25.00%) and (iv) expected dividend yield of 3.17% (2005 – 3.42%).

The Company recorded compensation expense related to its stock option program of \$6.3 million (2005 – \$5.0 million).

14. STOCK-BASED COMPENSATION *(continued)*

| | 2006 | | 2005 | |
|----------------------------|----------------------|--|----------------------|--|
| | NUMBER OF OPTIONS | WEIGHTED- AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED- AVERAGE EXERCISE PRICE |
| Balance, beginning of year | 8,451,760 | \$ 27.57 | 7,243,068 | \$ 24.23 |
| Granted | 810,400 | 46.68 | 1,920,800 | 37.69 |
| Exercised | (598,425) | 22.03 | (525,533) | 17.52 |
| Cancelled | (168,865) | 33.43 | (186,575) | 30.34 |
| Balance, end of year | 8,494,870 | \$ 29.66 | 8,451,760 | \$ 27.57 |
| Exercisable, end of year | 4,653,897 | \$ 23.62 | 3,854,090 | \$ 21.99 |

| Options outstanding at December 31, 2006 | EXPIRY DATE | EXERCISE PRICE (\$) | OPTIONS OUTSTANDING | OPTIONS EXERCISABLE |
|--|----------------|------------------------|------------------------|------------------------|
| | 2007 | 12.98 | 31,480 | 31,480 |
| | 2008 | 20.99 | 48,410 | 48,410 |
| | 2009 | 21.21–24.27 | 273,205 | 273,205 |
| | 2010 | 17.00 | 22,000 | 22,000 |
| | 2011 | 19.83–22.78 | 2,774,293 | 2,774,293 |
| | 2012 | 27.81 | 79,290 | 55,378 |
| | 2013 | 25.66–28.66 | 1,205,825 | 726,784 |
| | 2014 | 33.52–35.77 | 1,435,020 | 460,318 |
| | 2015 | 37.09–37.78 | 1,841,747 | 262,029 |
| | 2016 | 46.68 | 783,600 | – |
| | | | 8,494,870 | 4,653,897 |

Share purchase plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled \$7.6 million (2005 – \$8.2 million).

Deferred share unit plan

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the "value of deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2006, the fair value of the deferred share units outstanding was \$5.9 million (2005 – \$4.7 million). Any differences between the change in fair value of the deferred share unit plan and the change in fair value of the total return swap utilized as an economic hedge for the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The following table summarizes the Company's derivative financial instruments at December 31:

| | NOTIONAL AMOUNT | | | | CREDIT RISK | TOTAL ESTIMATED FAIR VALUE |
|-------------------|-------------------|---------------------|------------------|---------------------|------------------|----------------------------|
| | 1 YEAR OR LESS | 1-5 YEARS | OVER 5 YEARS | TOTAL | | |
| 2006 | | | | | | |
| Swaps | \$ 234,497 | \$ 1,820,037 | \$ 43,818 | \$ 2,098,352 | \$ 10,442 | \$ 4,038 |
| Options purchased | 23,179 | – | – | 23,179 | – | – |
| Options written | 31,106 | – | – | 31,106 | – | (42,555) |
| | \$ 288,782 | \$ 1,820,037 | \$ 43,818 | \$ 2,152,637 | \$ 10,442 | \$ (38,517) |
| 2005 | | | | | | |
| Swaps | \$ 127,745 | \$ 417,685 | \$ 3,868 | \$ 549,298 | \$ 3,686 | \$ 3,130 |
| Options purchased | – | 23,179 | – | 23,179 | 76 | 76 |
| Options written | – | 31,106 | – | 31,106 | – | (29,259) |
| Forward contracts | 6,091 | – | – | 6,091 | 964 | 962 |
| | \$ 133,836 | \$ 471,970 | \$ 3,868 | \$ 609,674 | \$ 4,726 | \$ (25,091) |

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of on and off-balance sheet financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

| | 2006 | | 2005 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,325,468 | \$ 1,325,468 | \$ 1,068,061 | \$ 1,068,061 |
| Securities | 142,322 | 238,300 | 178,011 | 301,690 |
| Loans | 488,795 | 488,843 | 512,989 | 512,582 |
| Accounts and other receivables | 219,177 | 219,177 | 161,201 | 161,201 |
| Total financial assets | \$ 2,175,762 | \$ 2,271,788 | \$ 1,920,262 | \$ 2,043,534 |
| Liabilities | | | | |
| Deposits and certificates | \$ 777,505 | \$ 778,703 | \$ 692,770 | \$ 694,302 |
| Other financial liabilities | 532,515 | 532,515 | 480,887 | 480,887 |
| Long-term debt | 1,200,000 | 1,410,234 | 1,225,010 | 1,450,011 |
| Total financial liabilities | \$ 2,510,020 | \$ 2,721,452 | \$ 2,398,667 | \$ 2,625,200 |
| Off-balance sheet derivatives <i>(Note 15)</i> | \$ - | \$ (42,555) | \$ - | \$ (28,221) |

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, accounts and other receivables, and other financial liabilities.

Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.

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

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

Long-term debt is determined 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 net present value analysis.

17. EARNINGS PER COMMON SHARE

| | 2006 | 2005 |
|--|------------|------------|
| Earnings | | |
| Net income | \$ 776,690 | \$ 682,427 |
| Number of common shares (in thousands) | | |
| Average number of common shares outstanding | 264,724 | 264,573 |
| Add: | | |
| – Potential exercise of outstanding stock options | 2,671 | 2,036 |
| Average number of common shares outstanding – Diluted basis | 267,395 | 266,609 |
| Earnings per common share (in dollars) | | |
| Basic | \$ 2.93 | \$ 2.58 |
| Diluted | \$ 2.90 | \$ 2.56 |

In certain circumstances, the preferred shares referred to in Note 13 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

18. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Three class actions related to alleged market timing trading activity in mutual funds of the companies have been commenced. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

Commitments

The Company is committed to the following annual lease payments under its operating leases: 2007 – \$39.5 million; 2008 – \$34.8 million; 2009 – \$31.8 million; 2010 – \$26.8 million; and 2011 and thereafter – \$116.7 million.

Guarantees

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

19. RELATED PARTY TRANSACTIONS

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

During 2006 and 2005, the Company provided to and received from Great-West, certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received \$29.0 million in distribution fees (2005 – \$37.2 million). The Company paid \$21.0 million (2005 – \$17.2 million) to London Life related to the distribution of certain mutual funds of the Company.

During 2006, the Company sold residential mortgage loans to Great-West and London Life for \$291.4 million (2005 – \$122.8 million).

20. SEGMENTED INFORMATION

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

Corporate and Other includes Investment Planning Counsel, net investment income on unallocated investments, and interest expense on corporate debt.

The results of the reportable segments reflect the Company's internal financial reporting systems.

| | 2006 | | | |
|---|--------------------|--------------|------------------------|--------------|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Fee and net investment income | | | | |
| Management | \$ 1,046,230 | \$ 771,674 | \$ 39,985 | \$ 1,857,889 |
| Administration | 181,373 | 130,624 | 1,248 | 313,245 |
| Distribution | 115,663 | 31,791 | 73,710 | 221,164 |
| Net investment income and other | 146,016 | 27,142 | 39,142 | 212,300 |
| | 1,489,282 | 961,231 | 154,085 | 2,604,598 |
| Operating expenses | | | | |
| Commissions | 392,511 | 370,430 | 69,853 | 832,794 |
| Non-commission | 273,846 | 267,466 | 32,087 | 573,399 |
| | 666,357 | 637,896 | 101,940 | 1,406,193 |
| Earnings before undernoted | \$ 822,925 | \$ 323,335 | \$ 52,145 | 1,198,405 |
| Interest expense | | | | 88,420 |
| Income before income taxes and non-controlling interest | | | | 1,109,985 |
| Income taxes | | | | 331,231 |
| Income before non-controlling interest | | | | 778,754 |
| Non-controlling interest | | | | 2,064 |
| Net income | | | | \$ 776,690 |
| Identifiable assets | \$ 1,440,745 | \$ 2,505,129 | \$ 1,013,948 | \$ 4,959,822 |
| Goodwill | 1,347,781 | 943,550 | 81,383 | 2,372,714 |
| Total assets | \$ 2,788,526 | \$ 3,448,679 | \$ 1,095,331 | \$ 7,332,536 |

20. SEGMENTED INFORMATION *(continued)*

| | 2005 | | | |
|---|--------------------|--------------|------------------------|--------------|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Fee and net investment income | | | | |
| Management | \$ 921,015 | \$ 691,324 | \$ 32,398 | \$ 1,644,737 |
| Administration | 166,673 | 138,004 | 2,714 | 307,391 |
| Distribution | 113,778 | 33,961 | 64,605 | 212,344 |
| Net investment income and other | 126,360 | 19,052 | 37,696 | 183,108 |
| | 1,327,826 | 882,341 | 137,413 | 2,347,580 |
| Operating expenses | | | | |
| Commissions | 326,496 | 339,934 | 60,041 | 726,471 |
| Non-commission | 265,461 | 258,890 | 30,975 | 555,326 |
| | 591,957 | 598,824 | 91,016 | 1,281,797 |
| Earnings before undernoted | \$ 735,869 | \$ 283,517 | \$ 46,397 | 1,065,783 |
| Interest expense | | | | 90,425 |
| Income before income taxes and non-controlling interest | | | | 975,358 |
| Income taxes | | | | 291,500 |
| Income before non-controlling interest | | | | 683,858 |
| Non-controlling interest | | | | 1,431 |
| Net income | | | | \$ 682,427 |
| Identifiable assets | \$ 1,364,130 | \$ 2,197,908 | \$ 871,355 | \$ 4,433,393 |
| Goodwill | 1,347,781 | 943,550 | 82,152 | 2,373,483 |
| Total assets | \$ 2,711,911 | \$ 3,141,458 | \$ 953,507 | \$ 6,806,876 |

21. ACQUISITION OF INTANGIBLE ASSETS

On September 22, 2006, Mackenzie Financial Corporation acquired the assets of Cundill Investment Research Ltd. and related entities (“Cundill Group”) for cash consideration, including transaction and other related costs. There is contingent consideration due if certain future revenue and assets under management targets are achieved and an amount has been placed in escrow. The total contingent consideration is not determinable at the present time. If additional consideration becomes payable, it will be recognized as an additional cost of the purchase.

The acquisition has been accounted for by the purchase method and the results of the Cundill Group’s operations have been included in the Consolidated Financial Statements from the date of acquisition.

The purchase price has been allocated to intangible assets on a preliminary basis and will be completed as soon as Mackenzie Financial Corporation has gathered all the significant information considered necessary in order to finalize this allocation.