

Consolidated Financial Statements

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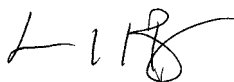
Management's Responsibility for Financial Reporting

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

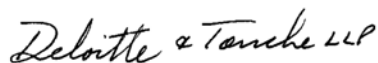
Auditors' Report

To the Shareholders, IGM Financial Inc.

We have audited the consolidated balance sheets of IGM Financial Inc. as at December 31, 2009 and 2008 and the consolidated statements of income, comprehensive income, changes in shareholders' equity 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, 2009 and 2008 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 10, 2010

Consolidated Statements of Income

For the years ended December 31 <i>(in thousands of dollars, except shares and per share amounts)</i>	2009	2008
Fee and net investment income		
Management	\$ 1,646,636	\$ 1,867,223
Administration	346,020	349,249
Distribution	257,427	286,044
Net investment income and other	62,207	165,563
Total fee and net investment income	2,312,290	2,668,079
Operating expenses		
Commission expense	808,482	906,271
Non-commission expense	614,222	647,854
Interest expense	109,864	90,604
Total operating expenses	1,532,568	1,644,729
Income before income taxes	779,722	1,023,350
Income taxes <i>(Note 12)</i>	220,630	292,551
Net income	\$ 559,092	\$ 730,799
Average number of common shares <i>(in thousands)</i> <i>(Note 20)</i>		
– Basic	263,217	263,323
– Diluted	264,324	264,808
Earnings per share <i>(in dollars)</i> <i>(Note 20)</i>		
– Basic	\$ 2.12	\$ 2.78
– Diluted	\$ 2.12	\$ 2.76

(See accompanying notes to consolidated financial statements.)

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)

2009

2008

Assets

Cash and cash equivalents	\$ 945,081	\$ 1,232,171
Securities (Note 2)	1,246,259	537,653
Loans (Note 3)	671,556	589,564
Investment in affiliate (Note 5)	598,221	574,442
Deferred selling commissions	850,082	940,603
Other assets (Note 6)	592,908	660,623
Intangible assets (Note 7)	1,128,280	1,135,715
Goodwill (Note 7)	2,613,532	2,592,317
	\$ 8,645,919	\$ 8,263,088

Liabilities

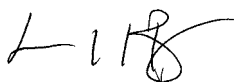
Deposits and certificates (Note 8)	\$ 907,343	\$ 958,999
Bankers' acceptances (Note 9)	-	286,615
Repurchase agreements (Note 2)	629,817	-
Other liabilities (Note 10)	780,329	936,807
Future income taxes (Note 12)	328,617	371,746
Long-term debt (Note 13)	1,575,000	1,200,000
Preferred shares (Note 14)	-	360,000
	4,221,106	4,114,167

Shareholders' Equity

Share capital		
Perpetual preferred shares	150,000	-
Common shares	1,562,925	1,511,110
Contributed surplus	32,702	29,115
Retained earnings	2,737,785	2,781,755
Accumulated other comprehensive loss	(58,599)	(173,059)
	4,424,813	4,148,921
	\$ 8,645,919	\$ 8,263,088

(See accompanying notes to consolidated financial statements.)

On behalf of the Board



Murray J. Taylor
Director



Donald F. Mazankowski
Director

Consolidated Statements of Changes in Shareholders' Equity

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

	2009	2008
Share capital – Perpetual preferred shares (Note 14)		
Balance, beginning of year	\$ –	\$ –
Issue of perpetual preferred shares	150,000	–
Balance, end of year	150,000	–
Share capital – Common shares (Note 14)		
Balance, beginning of year	1,511,110	1,504,290
Issued on acquisition of non-controlling interest (Note 24)	41,225	–
Issued under stock option plan	21,059	22,996
Purchased for cancellation	(10,469)	(16,176)
Balance, end of year	1,562,925	1,511,110
Contributed surplus		
Balance, beginning of year	29,115	22,175
Stock options		
Current period expense	5,486	7,976
Exercised	(1,899)	(1,036)
Balance, end of year	32,702	29,115
Retained earnings		
Balance, beginning of year	2,781,755	2,678,618
Net income	559,092	730,799
Common dividends	(539,671)	(526,139)
Share issue costs (Note 14)	(3,406)	–
Common share cancellation excess and other (Note 14)	(59,985)	(101,523)
Balance, end of year	2,737,785	2,781,755
Accumulated other comprehensive income (loss) on:		
Available for sale securities		
Balance, beginning of year	(112,031)	18,334
Net unrealized gains (losses), net of tax of \$(8,833) and \$22,114	50,104	(120,845)
Reclassification adjustment for (gains) losses included in net income, net of tax of \$(10,074) and \$(1,087)	63,248	(9,520)
Balance, end of year	1,321	(112,031)
Investment in affiliate and other		
Balance, beginning of year	(61,028)	(60,434)
Other comprehensive income (loss), net of tax of \$16 and \$nil	1,108	(594)
Balance, end of year	(59,920)	(61,028)
Total accumulated other comprehensive income (loss), end of year	(58,599)	(173,059)
Total Shareholders' Equity	\$ 4,424,813	\$ 4,148,921

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Comprehensive Income

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

	2009	2008
Net income	\$ 559,092	\$ 730,799
Other comprehensive income (loss), net of tax on:		
Available for sale securities	113,352	(130,365)
Investment in affiliate and other	1,108	(594)
Other comprehensive income (loss)	114,460	(130,959)
Comprehensive income	\$ 673,552	\$ 599,840

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

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

2009

2008

Operating activities

Net income	\$ 559,092	\$ 730,799
Adjustments to determine net cash from operating activities		
Future income taxes	(60,854)	(29,290)
Commission amortization	303,684	319,305
Amortization of capital and intangible assets	33,990	31,603
Non-cash charge on available for sale securities	76,506	–
Proportionate share of affiliate's impairment charge <i>(Note 5)</i>	–	60,346
Proportionate share of affiliate's gain <i>(Note 5)</i>	–	(25,003)
Changes in operating assets and liabilities and other	267	(223,062)
	912,685	864,698
Commissions paid	(213,163)	(270,124)
	699,522	594,574

Financing activities

Net (decrease) increase in deposits and certificates	(51,656)	102,104
(Repayment of) proceeds from bankers' acceptances	(286,615)	286,615
Decrease in short-term borrowings	(99,967)	–
Net increase in obligations related to assets sold under repurchase agreements	629,817	–
Issue of debentures	375,000	–
Redemption of preferred shares	(374,400)	–
Issue of perpetual preferred shares	150,000	–
Issue of common shares	33,997	21,960
Common shares purchased for cancellation	(70,152)	(118,207)
Common dividends paid	(539,523)	(513,205)
Share issue costs	(3,406)	–
	(236,905)	(220,733)

Investing activities

Purchase of securities	(1,357,345)	(302,573)
Proceeds from the sale of securities	699,404	334,744
Net increase in loans	(1,400,603)	(1,491,559)
Proceeds from securitizations <i>(Note 4)</i>	1,324,544	1,441,370
Net additions to capital assets	(8,791)	(28,295)
Net additions to intangible assets	(5,868)	(10,926)
Acquisition of non-controlling interest <i>(Note 24)</i>	(1,048)	–
Acquisition of Saxon Financial Inc. <i>(Note 24)</i>	–	(264,715)
	(749,707)	(321,954)

(Decrease) increase in cash and cash equivalents	(287,090)	51,887
Cash and cash equivalents, beginning of year	1,232,171	1,180,284
Cash and cash equivalents, end of year	\$ 945,081	\$ 1,232,171
Cash	\$ 138,447	\$ 118,641
Cash equivalents	806,634	1,113,530
	\$ 945,081	\$ 1,232,171

Supplemental disclosure of cash flow information

Amount of interest paid during the year	\$ 131,617	\$ 129,581
Amount of income taxes paid during the year	\$ 256,523	\$ 414,612

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

DECEMBER 31, 2009 AND 2008 *(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.

Use of estimates and assumptions

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 and accompanying notes. Key components of the financial statements requiring management to make estimates include the fair value of financial instruments, goodwill, intangible assets, income taxes, deferred selling commissions 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.

Changes in accounting policies

In August 2009, the Canadian Institute of Chartered Accountants (CICA) issued various amendments to CICA 3855, Financial Instruments – Recognition and Measurement including changes in the categories to which debt instruments are required or are permitted to be classified. Loans and receivables that the Company intends to sell immediately or in the near term are classified as held for trading. The Company has recorded \$240.4 million of loans intended to be sold in the near term upon origination as held for trading and recorded an increase of \$0.8 million to net income representing the mark to market adjustments on these loans.

In June 2009, the CICA issued amendments to CICA 3862, Financial Instruments – Disclosures to align with IFRS 7, Financial Instruments – Disclosures. The amendments require all financial instruments measured at fair value to be classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation. In addition, the amendments require enhanced disclosure regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Company has included these disclosures in the Consolidated Financial Statements for the year ending December 31, 2009.

On January 1, 2009, the Company adopted CICA 3064, Goodwill and Intangible Assets. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations.

On January 1, 2008, the Company adopted CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted CICA 3862, Financial Instruments – Disclosures and CICA 3863, Financial Instruments – Presentation, replacing CICA 3861. CICA 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA 3863 carries forward unchanged the presentation requirements of CICA 3861 with respect to financial instruments.

Revenue recognition

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

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

Financial instruments

All financial assets are classified in one of the following categories: available for sale, held to maturity, held for trading or loans and receivables. All financial assets are carried at fair value in the Consolidated Balance Sheets, except loans and receivables which are carried at amortized cost using the effective interest method. Financial liabilities are classified as either trading, which are carried at fair value, or other than held for trading, which are carried at amortized cost using the effective interest method.

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

Cash and cash equivalents

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

Securities

Investment securities, which are recorded on a trade date basis, are classified as either available for sale or held for trading.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary mutual funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on securities designated as part of a fair value hedging relationship are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on available for sale securities not designated as part of a hedging relationship are recorded in Other comprehensive income until they are realized or until management determines that there is objective evidence of impairment in value that is other than temporary, at which time they are recorded in the Consolidated Statements of Income.

Held for trading securities comprise Canada Mortgage Bonds, fixed income securities and National Housing Act Mortgage Backed Securities (NHA MBS). Unrealized and realized gains and losses on held for trading securities as well as interest income are recorded in Net investment income and other in the Consolidated Statements of Income.

Loans

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

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

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, the 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 have occurred but where such losses cannot yet be identified on an individual loan basis.

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

Securitizations

The Company periodically sells residential mortgages through Canada Mortgage and Housing Corporation (CMHC) utilizing the National Housing Act Mortgage Backed Securities program (NHA MBS) or through Canadian bank sponsored securitization trusts that in turn issue securities to investors. NHA MBS are sold to a trust that issues securities to investors through the Canada Mortgage Bond Program (CMB Program), which is sponsored by CMHC. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also sells 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 classified as held for trading and any realized or unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Income. 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 sales 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 over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over a maximum amortization period of five years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2009, there were no indications of impairment to deferred selling commissions.

Capital assets

Capital assets, which are included in Other assets, are recorded at cost of \$266.0 million (2008 – \$257.2 million), less accumulated amortization of \$175.8 million (2008 – \$163.2 million). Buildings and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives, which range from 2 to 7 years for equipment and furnishings and 50 years for the building. Capital assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Goodwill and intangible assets

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. Goodwill impairment testing is a two step process. Goodwill is first allocated to reporting units and impairment is assessed by comparing the value of a reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying value, no further testing is performed. If the fair value of the reporting unit is less than its carrying value, a second test is performed to compare the fair value of goodwill to its carrying value to determine the amount of impairment loss, if any. Indefinite life intangible assets are tested for impairment by comparing their fair value to their carrying amounts. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing fair value, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data for comparable transactions. The Company has completed its annual impairment testing on goodwill and indefinite 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, 2007 and the next required valuation is as at December 31, 2010.

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. The defined benefit pension plan assets are invested in proprietary equity, balanced and fixed income mutual funds and are valued at fair value for purposes of calculating the expected long-term rate of return.

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. Actuarial gains or losses with respect to the defined benefit pension plan and other post-retirement benefits are amortized over the expected average remaining service life of employees. Actuarial gains or losses with respect to the SERP are amortized over the expected remaining life of the members of the plan. These periods range from 9 to 18 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.

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

Income taxes

The Company uses 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.

Earnings per share

Basic earnings per share is determined by dividing Net income 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 risks. 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.

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

The Company manages its exposure to market risk on its securities portfolio 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. Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A 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 is reclassified to the Consolidated Statements of Income when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Income.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. 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. Total return 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. Changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Income.

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

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

Comparative figures

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

Future accounting changes

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

2. SECURITIES

	DECEMBER 31, 2009		DECEMBER 31, 2008	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Common shares	\$ 236,383	\$ 237,085	\$ 404,928	\$ 261,769
Investments in proprietary mutual funds	41,259	41,341	33,360	28,518
Fixed income securities	314,260	315,387	229,969	231,289
	591,902	593,813	668,257	521,576
Held for trading:				
Canada Mortgage Bonds	647,318	624,703	–	–
Fixed income securities	31,443	27,743	–	–
NHA MBS <i>(Note 4)</i>	–	–	15,788	16,077
	678,761	652,446	15,788	16,077
	\$ 1,270,663	\$ 1,246,259	\$ 684,045	\$ 537,653

Common shares (Available for sale)

The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. Improvements in the equity markets during 2009 reduced the unrealized losses that arose primarily in the latter part of 2008. The S&P TSX 60 Index increased by 30.7% during the year ended December 31, 2009 and 55.2% from its March 9, 2009 low. The Company's common share portfolio had a similar increase in fair value to September 30, 2009. At September 30, 2009, unrealized losses on common shares were \$72.2 million compared with \$143.8 million at the end of 2008. Unrealized losses at December 31, 2009 were relatively unchanged from September 30, 2009 levels and totalled \$73.3 million.

Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of impairment in value that is other than temporary. Factors that are considered include the length of time and the extent to which the fair value has been below cost, the financial condition and near term prospects of the issuer, as well as the Company's intent and ability to hold the investments for a period of time sufficient to allow for any anticipated recovery. Common shares which have had an unrealized loss for a prolonged period of time were considered to be other than temporarily impaired. The other than temporary impairment charge of \$73.3 million was reclassified from Other comprehensive income to the Consolidated Statements of Income at December 31, 2009.

As a result, net unrealized gains on common shares were \$0.7 million at December 31, 2009 compared with net unrealized losses of \$143.2 million at December 31, 2008. Unrealized gains as at December 31, 2009 on common shares are reported in Accumulated other comprehensive income.

2. SECURITIES *(continued)*

Fixed income securities (Available for sale)

The Company holds a diversified portfolio of fixed income securities totalling \$315.4 million at December 31, 2009 which is comprised primarily of bankers' acceptances of \$162.3 million, Canadian chartered bank senior deposit notes and floating rate notes of \$89.0 million and \$5.0 million respectively, government guaranteed short-term investments of \$20.0 million and corporate bonds of \$38.6 million.

Canada Mortgage Bonds (Held for trading)

As part of the Company's interest rate risk management activities relating to its mortgage banking operations, the Company purchased Canada Mortgage Bonds during the year ended December 31, 2009. These securities were subsequently sold under repurchase agreements which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future. These securities have a fair value of \$624.7 million. The obligation to repurchase the securities is recorded at amortized cost and has a carrying value of \$629.8 million. The interest expense related to these obligations is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Income.

Fixed income securities (Held for trading)

Fixed income securities of \$27.7 million at December 31, 2009 are comprised of non-bank-sponsored asset-backed commercial paper (ABCP). The Company's original investment in ABCP totalled \$50.2 million and was initially classified as available for sale. In 2008, the Company reduced the fair value of the ABCP by recording charges to income totalling \$14.9 million and recorded a further \$3.7 million charge in the first quarter of 2009. During 2009, the Company's investment in ABCP was reduced by \$3.9 million, representing principal and interest payments received from the ABCP conduit trusts.

The court approved restructuring plan proposed by the Pan-Canadian Investors Committee was implemented on January 21, 2009. This restructuring resulted in conversion of the Company's ABCP holdings into longer-term securities which are classified as held for trading. The Company received four classes of notes with an expected maturity date of January 22, 2017, as well as five classes of tracking notes linked to specific underlying assets. In excess of 75% of the Company's new notes are comprised of Class A-1 and Class A-2 notes which have been assigned a rating of A by the Dominion Bond Rating Service.

The Company's valuation of the ABCP was based on its assessment of the prevailing conditions at December 31, 2009. The estimated fair value reflects the allocation of the floating rate notes the Company received which are expected to mature in January 2017. The Company estimated the fair value of the senior and subordinated notes by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information. The fair value of the Ineligible Asset Tracking long-term floating rate notes was estimated using observable market inputs from independent pricing sources or by discounted expected cash flows reflecting the Company's best available information, including reference to prevailing market yields on debt instruments in the Canadian market. As at December 31, 2009, an increase in the estimated discount rates of 100 basis points would reduce net income by \$2.4 million.

3. LOANS

Loans and receivables	TERM TO MATURITY			2009 TOTAL	2008 TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Residential mortgages	\$ 41,278	\$ 89,056	\$ 1,748	\$ 132,082	\$ 286,302
Commercial mortgages	–	423	–	423	717
	41,278	89,479	1,748	132,505	287,019
Investment loans	276,055	14,350	14,930	305,335	310,517
	\$ 317,333	\$ 103,829	\$ 16,678	437,840	597,536
Less: General allowance				6,675	7,972
				431,165	589,564
Held for trading				240,391	–
				\$ 671,556	\$ 589,564
Impaired loans included above				\$ 762	\$ 498
Less: General allowance				6,675	7,972
				\$ (5,913)	\$ (7,474)
The change in the allowance for credit losses is as follows:					
Balance, beginning of year				\$ 7,972	\$ 7,631
Write-offs				(371)	(218)
Recoveries				231	55
Provision for credit losses				(1,157)	504
Balance, end of year				\$ 6,675	\$ 7,972

4. SECURITIZATIONS

The Company securitizes residential mortgages through CMHC utilizing the NHA MBS program or through Canadian bank sponsored securitization trusts. NHA MBS are sold to a trust that issues securities to investors through the CMHC-sponsored CMB Program. Pre-tax gains (losses) on the sale of mortgages are reported in Net investment income and other in the Consolidated Statements of Income. Securitization activities for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Residential mortgages securitized	\$ 1,332,065	\$ 1,451,201
Net cash proceeds	1,324,544	1,441,370
Fair value of retained interests	65,098	63,779
Pre-tax gain on sales	49,467	35,772

4. SECURITIZATIONS *(continued)*

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 CMHC or Canadian bank sponsored securitization trusts (CP conduits) and NHA 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 present value of future expected cash flows are used to fair value the retained interests. The key economic assumptions at the date of securitization issuances for CMHC or Canadian bank sponsored securitization trusts transactions completed during 2009 and 2008 were as follows:

	2009	2008
Weighted-average		
Remaining service life <i>(in years)</i>	4.4	4.5
Excess spread	1.16%	1.09%
Prepayment rate	15.00%	15.00%
Discount rate	1.66%	4.14%
Servicing fees	0.15%	0.25%
Expected credit losses	-	0.01%

At December 31, 2009, the fair value of the total retained interests was \$173.5 million (2008 – \$201.4 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was not considered material.

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:

	2009	2008
Mortgages	\$ 3,641,331	\$ 3,225,928
Investment loans	301,711	306,811
	3,943,042	3,532,739
Less: Securitized loans serviced	3,271,486	2,943,175
Total on-balance sheet loans	\$ 671,556	\$ 589,564
Net cash proceeds	\$ 1,324,544	\$ 1,441,370
Cash flows received on retained interests	\$ 90,466	\$ 32,518

5. INVESTMENT IN AFFILIATE

	2009	2008
Carrying value, beginning of year	\$ 574,442	\$ 560,683
Proportionate share of earnings and other	69,423	90,423
Dilution gain	–	4,241
Proportionate share of affiliate's impairment charge	–	(60,346)
Proportionate share of affiliate's gain	–	25,003
Dividends received	(46,478)	(45,345)
Proportionate share of accumulated other comprehensive income (loss) and other adjustments	834	(217)
Carrying value, end of year	\$ 598,221	\$ 574,442
Share of equity, end of year	\$ 464,525	\$ 440,820
Fair value, end of year	\$ 1,013,458	\$ 781,821

The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Consolidated Statements of Income. At December 31, 2009, the Company held 37,787,388 (2008 – 37,787,388) shares of Lifeco, which represented an equity interest of 4.0% (2008 – 4.0%).

On December 30, 2008, Lifeco issued common shares by way of private placement with proceeds of \$1.0 billion, in which the Company did not participate. As a result of the common shares issued by Lifeco, a dilution gain of \$4.2 million (net of \$7.2 million of goodwill disposed) was recognized in the fourth quarter of 2008 and was recorded in Net investment income and other in the Consolidated Statements of Income.

In the fourth quarter of 2008, Putnam LLC, a subsidiary of Lifeco in the United States division, recorded a non-cash impairment charge on indefinite life intangibles and goodwill. In addition, Lifeco wrote-off a future tax asset related to the intangible and goodwill impairment charge and recorded restructuring costs associated with Putnam LLC. The Company's proportionate share of the after-tax impairment charge and related expenses was \$60.3 million.

In the second quarter of 2008, Lifeco recorded an after-tax gain on the sale of its healthcare business, Great-West Healthcare. Lifeco reported the gain in Net income from discontinued operations in the Summary of Consolidated Operations included in Lifeco's interim Consolidated Financial Statements. The Company's proportionate share of the after-tax gain on the sale was \$25.0 million.

6. OTHER ASSETS

	2009	2008
Accounts and other receivables	\$ 250,328	\$ 252,546
Derivative instruments (Note 18)	120,445	193,248
Capital assets	90,167	94,025
Deferred and prepaid expenses	64,017	38,735
Accrued benefit asset (Note 11)	48,802	46,738
Funds held in escrow	16,683	32,842
Other	2,466	2,489
	\$ 592,908	\$ 660,623

7. GOODWILL AND INTANGIBLE ASSETS

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

	2009			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,347,781	\$ 1,166,842	\$ 77,694	\$ 2,592,317
Acquired during the year <i>(Note 24)</i>	-	-	32,594	32,594
Goodwill adjustment	-	-	(11,379)	(11,379)
Balance, end of year	\$ 1,347,781	\$ 1,166,842	\$ 98,909	\$ 2,613,532

	2008			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,347,781	\$ 957,339	\$ 78,678	\$ 2,383,798
Acquired during the year <i>(Note 24)</i>	-	201,651	-	201,651
Goodwill adjustment	-	7,852	(984)	6,868
Balance, end of year	\$ 1,347,781	\$ 1,166,842	\$ 77,694	\$ 2,592,317

The components of other intangible assets are as follows:

	2009		
	COST	ACCUMULATED AMORTIZATION	CARRYING VALUE
Finite-life			
Software	\$ 66,076	\$ (43,187)	\$ 22,889
Distribution and other management contracts	104,622	(21,730)	82,892
	170,698	(64,917)	105,781
Indefinite-life			
Mutual fund management contracts	737,322	-	737,322
Trade names	285,177	-	285,177
	1,022,499	-	1,022,499
Total	\$ 1,193,197	\$ (64,917)	\$ 1,128,280

	2008		
	COST	ACCUMULATED AMORTIZATION	CARRYING VALUE
Finite-life			
Software	\$ 59,924	\$ (34,579)	\$ 25,345
Distribution and other management contracts	104,906	(14,672)	90,234
	164,830	(49,251)	115,579
Indefinite-life			
Mutual fund management contracts	734,959	-	734,959
Trade names	285,177	-	285,177
	1,020,136	-	1,020,136
Total	\$ 1,184,966	\$ (49,251)	\$ 1,135,715

8. DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other than held for trading and are carried at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, securities and loans amounting to \$907.3 million (2008 – \$959.0 million) related to deposits and certificates.

	TERM TO MATURITY					2009 TOTAL	2008 TOTAL
	DEMAND	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS			
Deposits	\$ 695,367	\$ 70,822	\$ 134,344	\$ 2,104	\$ 902,637	\$ 954,109	
Certificates	–	472	1,467	2,767	4,706	4,890	
	\$ 695,367	\$ 71,294	\$ 135,811	\$ 4,871	\$ 907,343	\$ 958,999	

9. BANKERS' ACCEPTANCES

In 2008, a Schedule I Canadian chartered bank provided the Company with a non-revolving bridge credit facility related to the acquisition of Saxon Financial Inc. The credit facility was repaid during April 2009.

10. OTHER LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	\$ 330,893	\$ 361,175
Derivative instruments (Note 18)	112,747	172,327
Dividends payable	134,609	134,462
Short-term borrowings	–	99,967
Taxes payable	97,592	71,676
Interest payable	28,252	20,840
Accrued benefit liabilities (Note 11)	61,462	62,469
Deferred revenue	14,774	13,891
	\$ 780,329	\$ 936,807

11. 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, dental and life insurance plan for eligible retirees.

In 2009, the terms of the post-retirement health care, dental and life insurance plan were amended. The amendment reduced the level of post-retirement benefits to be provided to certain active employees to be paid during retirement, and revised the eligibility requirements for receiving benefits for certain other active employees. The reduction in benefits results in the establishment of a negative past service cost that is being amortized over the average remaining service lives until full eligibility for the benefits of these certain active employees. A curtailment gain has been recognized to reflect the impact of the changes in the plan's eligibility requirements.

	2009			2008		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	\$ 152,059	\$ —	\$ —	\$ 207,702	\$ —	\$ —
Employee contributions	3,676	—	—	3,522	—	—
Employer contributions	5,443	—	—	—	—	—
Benefits paid	(7,597)	—	—	(7,927)	—	—
Actual return on plan assets	53,343	—	—	(51,238)	—	—
Balance, end of year	206,924	—	—	152,059	—	—
Accrued benefit obligation						
Balance, beginning of year	127,523	14,732	38,002	157,111	17,803	47,503
Benefits paid	(7,597)	(948)	(1,192)	(7,927)	(947)	(826)
Current service cost	3,872	—	551	6,722	—	2,345
Employee contributions	3,676	—	—	3,522	—	—
Interest cost	9,562	1,061	1,657	8,816	974	2,728
Past service cost	—	—	(14,710)	—	—	—
Curtailment gain	—	—	(97)	—	—	—
Actuarial losses (gains)	26,506	1,977	2,548	(40,721)	(3,098)	(13,748)
Balance, end of year	163,542	16,822	26,759	127,523	14,732	38,002
Funded status – plan surplus (deficit)						
	43,382	(16,822)	(26,759)	24,536	(14,732)	(38,002)
Unamortized net actuarial losses (gains)						
	5,420	(234)	(4,414)	22,202	(2,089)	(7,646)
Unamortized past service cost						
	—	—	(13,233)	—	—	—
Accrued benefit asset (liability)						
	\$ 48,802	\$ (17,056)	\$ (44,406)	\$ 46,738	\$ (16,821)	\$ (45,648)

The asset allocation by asset category of the funds invested for the defined benefit pension plan is equity securities 66% (2008 – 76%), fixed income securities 31% (2008 – 22%) and cash equivalents 3% (2008 – 2%).

11. EMPLOYEE FUTURE BENEFITS *(continued)*

	2009			2008		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Benefit (income) expense was determined as follows:						
Current service cost	\$ 3,872	\$ –	\$ 551	\$ 6,722	\$ –	\$ 2,345
Past service cost	–	–	(1,477)	–	–	–
Interest cost on accrued benefit obligation	9,562	1,061	1,657	8,816	974	2,728
Expected return on plan assets	(10,697)	–	–	(14,385)	–	–
Curtailment gain	–	–	(69)	–	–	–
Amortization of net actuarial (gains) losses	642	122	(712)	(2,366)	291	403
	\$ 3,379	\$ 1,183	\$ (50)	\$ (1,213)	\$ 1,265	\$ 5,476
Significant weighted-average actuarial assumptions:						
Discount rate	6.75%	6.38%	6.20%	7.50%	7.44%	7.51%
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	4.76%	N/A	N/A	3.96%	N/A	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	6.80%	N/A	N/A	5.50%

(1) Trending to 4.50% in 2029 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 \$1.9 million as at December 31, 2009. The increase in the 2009 other post-retirement benefit expense would not be significant. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of \$1.6 million as at December 31, 2009. The decrease in the 2009 other post-retirement benefit expense would not be significant.

In addition, the Company maintains a group RSP available only to certain employees. In 2009, the Company's contributions were \$6.2 million (2008 – \$5.7 million). The contributions are expensed as paid.

12. INCOME TAXES

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

	2009	2008
Income taxes at Canadian federal and provincial statutory rates	31.60%	32.37%
Effect of:		
Dividend income	(0.42)	(0.49)
Net capital gains and losses	(0.09)	(0.35)
Proportionate share of affiliate's earnings <i>(Note 5)</i>	(2.80)	(3.01)
Preferred dividends paid	0.84	0.67
Other items	(0.45)	(1.72)
Effect of rate changes on future income taxes related to indefinite life intangible assets	(2.28)	–
Non-cash charge on available for sale securities	1.32	–
Premium paid on redemption of preferred shares	0.58	–
Proportionate share of affiliate's impairment charge <i>(Note 5)</i>	–	1.92
Proportionate share of affiliate's gain <i>(Note 5)</i>	–	(0.80)
Effective income tax rate	28.30%	28.59%
Components of income tax expense are:		
Current income taxes	\$ 281,484	\$ 321,841
Future income taxes	(60,854)	(29,290)
	\$ 220,630	\$ 292,551

Future income taxes consist of the following taxable temporary differences:

	2009	2008
Future income tax assets		
Accrued benefit liabilities	\$ 16,488	\$ 16,949
Non-capital loss carry forwards	7,195	11,253
Other	47,015	63,437
	70,698	91,639
Future income tax liabilities		
Deferred selling commissions	239,685	283,434
Intangible assets	137,682	156,568
Accrued benefit asset	12,991	12,738
Other	8,957	10,645
	399,315	463,385
Future income taxes	\$ 328,617	\$ 371,746

As at December 31, 2009, the Company has non-capital losses of \$36.3 million (2008 – \$42.2 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire in 2014.

13. LONG-TERM DEBT

	RATE	MATURITY	2009	2008
Debtures in Series				
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
2009	7.35%	April 8, 2019	375,000	–
			\$ 1,575,000	\$ 1,200,000

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.

Long-term debt is classified as other than held for trading and is carried at amortized cost.

On April 7, 2009, the Company issued \$375.0 million of 7.35% debtures maturing April 8, 2019. During April 2009, the Company utilized \$287.0 million of the debture proceeds to repay the bankers' acceptances due October 27, 2009 which were related to the acquisition of Saxon Financial Inc.

Interest expense relating to long-term debt was \$103.4 million (2008 – \$83.1 million).

There is one principal payment due in the next five years related to the \$450.0 million debtures due in 2011.

14. 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

	2009		2008	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Preferred shares – classified as liabilities:				
First preferred shares, Series A	–	\$ –	14,400,000	\$ 360,000
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	–	\$ –
Common shares:				
Balance, beginning of year	262,364,622	\$ 1,511,110	264,192,998	\$ 1,504,290
Issued on acquisition of non-controlling interest (Note 24)	1,108,901	41,225	–	–
Issued under Stock Option Plan (Note 16)	922,532	21,059	996,424	22,996
Purchased for cancellation	(1,762,800)	(10,469)	(2,824,800)	(16,176)
Balance, end of year	262,633,255	\$ 1,562,925	262,364,622	\$ 1,511,110

14. SHARE CAPITAL *(continued)*

Preferred shares – classified as liabilities

On December 31, 2009, the Company redeemed the 14,400,000 Series A, 5.75% first preferred shares at \$26.00 per share.

These preferred shares were entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly and were redeemable by the Company on or after June 30, 2009 in cash, at \$26.00 per share if redeemed prior to June 30, 2010. Dividends paid on preferred shares classified as liabilities are recorded in Interest expense in the Consolidated Statements of Income.

Perpetual preferred shares – classified as equity

On December 8, 2009, the Company issued 6,000,000 Series B, 5.90% non-cumulative first preferred shares at \$25.00 per share. The shares are redeemable at the option of the Company on and after December 31, 2014, for \$25.00 per share plus a premium if redeemed prior to December 31, 2018, in each case including all declared and unpaid dividends prior to the redemption date. Share issue costs incurred in connection with the Series B issue of \$4.9 million (\$3.4 million after tax) were charged to Retained earnings.

Normal course issuer bid

The Company commenced a normal course issuer bid, effective for one year, on March 23, 2009. Pursuant to this bid, the Company may purchase up to 13.1 million or 5% of its common shares as at March 13, 2009. As at December 31, 2009, 1,762,800 shares were purchased at a cost of \$70.2 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On March 22, 2008, 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 March 14, 2008. As at December 31, 2008, 2,824,800 shares were purchased at a cost of \$118.2 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

15. CAPITAL MANAGEMENT

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

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include trust companies, securities advisors, securities dealers and mutual fund dealers. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

Capital management activities for the year ended December 31, 2009 included: the repurchase of 1,762,800 common shares at a cost of \$70.2 million under the normal course issuer bid (Note 14); and the declaration of preferred share dividends of \$20.7 million and common share dividends of \$539.7 million. Changes in common share capital and perpetual preferred shares are reflected in the Consolidated Statements of Changes in Shareholders' Equity and included the issuance of common shares on the acquisition of the non-controlling interest in Investment Planning Counsel and the issuance of \$150.0 million in perpetual preferred shares. Preferred shares classified as liabilities of \$360.0 million were redeemed on December 31, 2009. Long-term debt of \$1.6 billion included the issuance of \$375.0 million of 10 year debentures in the second quarter of 2009 (Note 13).

16. 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, 2009, 14,617,874 (2008 – 15,540,406) common shares were reserved for issuance under the Plan.

During 2009, the Company granted 1,789,372 options to employees (2008 – 1,164,866). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of options granted during the year ended December 31, 2009 has been estimated at \$2.42 per option (2008 – \$5.30) using the Black-Scholes option pricing model. The assumptions used in these valuation models include: (i) risk-free interest rate of 2.33% (2008 – 3.27%), (ii) expected option life of 5.7 years (2008 – 5.8 years), (iii) expected volatility of 20.74% (2008 – 20.00%) and (iv) expected dividend yield of 6.96% (2008 – 4.53%).

The Company recorded compensation expense related to its stock option program of \$5.2 million (2008 – \$7.3 million).

	2009		2008	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	8,929,679	\$ 35.59	9,085,730	\$ 33.47
Granted	1,789,372	30.63	1,164,866	43.18
Exercised	(922,532)	21.94	(996,424)	22.04
Forfeited	(381,514)	41.13	(324,493)	45.23
Balance, end of year	9,415,005	\$ 35.76	8,929,679	\$ 35.59
Exercisable, end of year	4,541,430	\$ 31.76	4,657,554	\$ 28.30

Options outstanding at December 31, 2009	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2010	17.00	11,000	11,000
	2011	19.83 – 22.78	1,067,148	1,067,148
	2012	27.81	57,000	52,500
	2013	25.66 – 28.66	852,080	852,080
	2014	33.52 – 35.77	1,208,117	926,285
	2015	37.09 – 37.78	1,601,594	944,655
	2016	46.68	639,328	269,416
	2017	50.60 – 50.92	1,231,708	209,614
	2018	42.09 – 44.60	1,070,128	132,456
	2019	26.67 – 44.00	1,676,902	76,276
			9,415,005	4,541,430

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 \$10.9 million (2008 – \$11.0 million).

16. STOCK-BASED COMPENSATION *(continued)*

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, 2009, the fair value of the deferred share units outstanding was \$9.3 million (2008 – \$6.3 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 which is an economic hedge for the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

17. RISK MANAGEMENT

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

Liquidity risk related to financial instruments

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

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

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. The payment of commissions continues to be fully funded through ongoing cash flow from operations.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are funded through placement with Investors Group’s intermediary operations or through sales to Investors Mortgage and Short Term Income Fund and to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts, or through private placements to institutional investors. Investors Group is an approved issuer of National Housing Act Mortgage Backed Securities (NHA MBS) and an approved seller into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides the Company with additional funding sources for residential mortgages (Note 4). The Company’s continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by committees of their respective Boards of Directors. As at December 31, 2009, the trust subsidiaries’ liquidity was in compliance with these policies.

17. RISK MANAGEMENT *(continued)*

Liquidity risk related to financial instruments *(continued)*

The Company's contractual maturities were as follows:

As at December 31, 2009 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 695.4	\$ 71.3	\$ 135.8	\$ 4.8	\$ 907.3
Other liabilities	-	12.5	91.1	9.1	112.7
Long-term debt	-	-	450.0	1,125.0	1,575.0
Operating leases ⁽¹⁾	-	44.7	115.3	102.9	262.9
Total contractual obligations	\$ 695.4	\$ 128.5	\$ 792.2	\$ 1,241.8	\$ 2,857.9

(1) Includes office space and equipment used in the normal course of business.

Lease payments are charged to earnings in the period of use.

In addition to the Company's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. The Company increased its operating lines of credit with various Schedule I Canadian chartered banks to \$675 million as at December 31, 2009 from \$475 million as at December 31, 2008. The operating lines of credit as at December 31, 2009 consist of committed lines of \$500 million (2008 – \$300 million) and uncommitted lines of \$175 million (2008 – \$175 million). As at December 31, 2009, the Company was not utilizing its committed lines of credit (2008 – nil) or its uncommitted operating lines of credit (2008 – \$100 million). In October 2009 the Company repaid the \$100 million uncommitted operating lines of credit.

In connection with the acquisition of Saxon Financial Inc. (Note 24) on September 25, 2008, the Company maintained a non-revolving bridge credit facility with a Schedule I chartered bank totalling \$287 million. During April 2009, the Company repaid the balance of the credit facility with proceeds from the issue of the debentures.

During 2009, the Company accessed the domestic equity and debt markets to raise capital through the issue of \$375.0 million in debentures in the second quarter and \$150.0 million in perpetual preferred shares in the fourth quarter of 2009. The Company's ability to access capital markets to raise funds is dependent on market conditions.

The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2008.

Credit risk related to financial instruments

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

At December 31, 2009, cash and cash equivalents of \$945.1 million consisted of cash balances of \$138.5 million on deposit with Canadian chartered banks and cash equivalents of \$806.6 million. Cash equivalents are comprised primarily of Government of Canada treasury bills totalling \$258.4 million, provincial government and government guaranteed commercial paper of \$207.8 million and bankers' acceptances issued by Canadian chartered banks of \$330.9 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Available for sale fixed income securities at December 31, 2009 are comprised primarily of bankers' acceptances of \$162.3 million, Canadian chartered bank senior deposit notes and floating rate notes of \$89.0 million and \$5.0 million, respectively, government guaranteed short-term investments of \$20.0 million, and corporate bonds of \$38.6 million. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

17. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

Held for trading fixed income securities are comprised of non-bank-sponsored ABCP with a fair value of \$27.7 million which represents the maximum exposure to credit risk at December 31, 2009 (Note 2).

The Company regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2009, mortgages and investment loans totalled \$372.9 million and \$305.4 million, respectively. The allowance for credit losses of \$6.7 million at December 31, 2009 exceeded impaired mortgages and investment loans by \$5.9 million. As at December 31, 2009, the mortgage portfolios were geographically diverse, 100% residential (2008 – 100%) and 74% insured (2008 – 64%). The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were \$0.2 million at December 31, 2009, compared with \$0.5 million at December 31, 2008. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2009.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2008.

The Company regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank sponsored (Schedule I chartered banks) securitization trusts. The maximum exposure to credit risk attributable to securitized mortgage loans is equal to the fair value of the retained interests in the securitized loans, which was \$173.5 million at December 31, 2009 compared to \$201.4 million in 2008. Retained interests include:

- Cash reserve accounts and rights to future excess spread (securitization receivables) which totalled \$105.5 million at December 31, 2009. The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$31.2 million is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as discussed below, and the Company's credit risk on insured loans is to the insurer. At December 31, 2009, 95% of the \$1.79 billion in outstanding mortgages securitized under these programs were insured.

Rights to future excess spread under the NHA MBS and CMB Program totalled \$74.3 million. Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received by mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program, and the Company's credit exposure is to the insurer. Outstanding mortgages securitized under these programs are \$1.48 billion.

Since 2008, the Company has purchased portfolio insurance from CMHC on newly funded qualifying conventional mortgage loans. During the third quarter of 2009, the Company expanded its insurance coverage on the \$5.4 billion mortgage portfolio which it services, including the \$3.27 billion securitized portfolio. This coverage provides the same level of credit risk mitigation as insurance on high ratio loans (non-conventional) at the time of application. At December 31, 2009, over 95% of the mortgage portfolio serviced by the Company was insured. There were no uninsured non-performing loans over 90 days in these portfolios at December 31, 2009, unchanged from December 31, 2008. The Company's expected exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2009.

- Fair value of interest rate swaps which the Company enters into related to its securitization activities totalled \$68.0 million at December 31, 2009. The outstanding notional amount of these interest rate swaps was \$3.4 billion at December 31, 2009 compared to \$2.9 billion at December 31, 2008. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled \$75.5 million at December 31, 2009 compared to \$132.2 million at December 31, 2008.

The Company utilizes interest rate swaps to hedge interest rate risk related to securitization activities discussed above. The negative fair value of these interest rate swaps totalled \$62.9 million at December 31, 2009. The outstanding notional amount was \$3.3 billion at December 31, 2009 compared to \$3.0 billion at December 31, 2008. The exposure to credit risk, which is limited to the fair value of the interest rates swaps which are in a gain position, totalled \$42.2 million at December 31, 2009 compared to \$28.0 million at December 31, 2008.

17. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

In addition, the Company enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held, or committed to, by the Company. The outstanding notional amount of these derivative contracts was \$75.3 million at December 31, 2009 compared to \$151.7 million at December 31, 2008. The exposure to credit risk, which is limited to the fair value of those instruments which were in a gain position, decreased to \$2.7 million at December 31, 2009 from \$33.0 million at December 31, 2008 primarily due to the maturity or settlement of derivative contracts that were in a gain position at year-end.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$120.4 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, giving effect to netting agreements and collateral arrangements, was \$72.3 million at December 31, 2009. Counterparties are all bank-sponsored securitization trusts and Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2009. Management of credit risk has not changed materially since December 31, 2008.

Market risk related to financial instruments

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

Interest Rate Risk

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

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2009, the total gap between one-year deposit assets and liabilities was within the Company's trust subsidiaries' stated guidelines.

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

- As part of the securitization transactions with bank-sponsored securitization trusts the Company enters into interest rate swaps with the trusts which transfers the interest rate risk to the Company. The Company enters into offsetting interest rate swaps with Schedule I chartered banks to hedge this risk. Under these securitization transactions with bank-sponsored securitization trusts the Company is exposed to ABCP rates and, after effecting its interest rate hedging activities, remains exposed to the basis risk that ABCP rates are greater than bankers' acceptances rates.
- As part of the securitization transactions under the CMB Program, the Company enters into interest rate swaps with Schedule I chartered bank counterparties that transfer the interest rate risk associated with the program, including reinvestment risk, to the Company. To manage these interest rate and reinvestment risks, the Company enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates.
- The Company is exposed to the impact that changes in interest rates may have on the value of its investments in Canada Mortgage Bonds. The Company enters into interest rate swaps with Schedule I chartered bank counterparties to hedge interest rate risk on these bonds.
- The Company is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by the Company. The Company may enter into interest rate swaps to hedge this risk.

As at December 31, 2009, the impact to net income of a 100-basis point change in interest rates would have been approximately \$4.4 million. The Company's exposure to and management of interest rate risk has not changed materially since December 31, 2008.

17. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments *(continued)*

Equity Price Risk

The Company is exposed to equity price risk on its securities holdings. The Company's common shares and investments in proprietary mutual funds are classified as available for sale securities as shown in Note 2. Unrealized gains and losses on these securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value that is other than temporary, at which time they are recorded in the Consolidated Statements of Income.

The Company adheres to an Investment Policy that outlines the objectives, constraints and parameters relating to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Company. The Company may manage its exposure to equity price risk on a portion of its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. Management regularly reviews the Company's investments to ensure all activities are in adherence to the Investment Policy. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. Improvements in the equity markets during 2009 reduced the unrealized losses that arose primarily in the latter part of 2008. The S&P TSX 60 Index increased by 30.7% during the year ended December 31, 2009 and 55.2% from its March 9, 2009 low. The Company's common share portfolio had a similar increase in fair value to September 30, 2009. Unrealized losses on common shares were \$72.2 million at September 30, 2009 compared with \$143.8 million at the end of 2008. Unrealized losses at December 31, 2009 were relatively unchanged from September 30, 2009 levels and totalled \$73.3 million.

Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of impairment in value that is other than temporary. Factors that are considered include the length of time and the extent to which the fair value has been below cost, the financial condition and near term prospects of the issuer, as well as the Company's intent and ability to hold the investments for a period of time sufficient to allow for any anticipated recovery. Common shares which have had an unrealized loss for a prolonged period of time were considered to be other than temporarily impaired. The other than temporary impairment charge of \$73.3 million was reclassified from Other comprehensive income to the Consolidated Statements of Income at December 31, 2009.

As at December 31, 2009, the impact of a 10% decrease in equity prices would have been a \$23.3 million unrealized loss recorded in the Consolidated Statements of Income. The Company's exposure to and management of equity price risk has not changed materially since December 31, 2008.

Market risk related to assets under management

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

Changes in assets under management directly impact earnings as discussed more fully in the Investors Group and Mackenzie Segment Operating Results in the Company's Management Discussion and Analysis contained in the 2009 Annual Report to Shareholders.

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
2009							
Swaps	\$ 885,073	\$ 5,219,463	\$ 635,138	\$ 6,739,674	\$ 120,445	\$ 120,445	\$ 112,694
Forward contracts	1,399	–	–	1,399	–	–	53
	\$ 886,472	\$ 5,219,463	\$ 635,138	\$ 6,741,073	\$ 120,445	\$ 120,445	\$ 112,747
2008							
Swaps	\$ 953,211	\$ 4,559,460	\$ 404,277	\$ 5,916,948	\$ 160,262	\$ 160,262	\$ 171,737
Options purchased	42,632	–	–	42,632	20,456	20,456	–
Options written	29,988	–	–	29,988	–	–	590
Forward contracts	17,382	8,612	–	25,994	12,530	12,530	–
	\$ 1,043,213	\$ 4,568,072	\$ 404,277	\$ 6,015,562	\$ 193,248	\$ 193,248	\$ 172,327

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of 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 are matters of significant judgment.

	2009		2008	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 945,081	\$ 945,081	\$ 1,232,171	\$ 1,232,171
Securities	1,246,259	1,246,259	537,653	537,653
Loans	671,556	674,820	589,564	591,708
Other financial assets	267,011	267,011	285,388	285,388
Derivative assets	120,445	120,445	193,248	193,248
Total financial assets	\$ 3,250,352	\$ 3,253,616	\$ 2,838,024	\$ 2,840,168
Liabilities				
Deposits and certificates	\$ 907,343	\$ 916,057	\$ 958,999	\$ 964,200
Bankers' acceptances	–	–	286,615	286,615
Repurchase agreements	629,817	629,817	–	–
Other financial liabilities	591,346	591,346	688,120	688,120
Derivative liabilities	112,747	112,747	172,327	172,327
Preferred share liabilities	–	–	360,000	366,480
Long-term debt	1,575,000	1,714,307	1,200,000	1,206,193
Total financial liabilities	\$ 3,816,253	\$ 3,964,274	\$ 3,666,061	\$ 3,683,935

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, certain other financial assets and other financial liabilities.

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

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

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

Preferred share liabilities are valued using quoted prices from active markets.

Long-term debt is valued by reference to current market prices for debentures and notes payable with similar terms and risks.

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

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

The Company adopted amendments to CICA 3862, Financial Instruments – Disclosures for the year ended December 31, 2009, which require all financial instruments measured at fair value to be classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

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

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

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

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

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

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

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

Level 3 assets and liabilities include non-bank sponsored asset-backed commercial paper, securitization receivables and derivative instruments. See Notes 2 and 4 for further discussion on valuation techniques and assumptions.

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

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

	DECEMBER 31, 2009			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets				
Securities				
– Available for sale	\$ 278,426	\$ 315,387	\$ –	\$ 593,813
– Held for trading	624,703	–	27,743	652,446
Loans				
– Held for trading	–	240,391	–	240,391
Other assets				
– Funds held in escrow	10,161	6,522	–	16,683
– Derivatives	–	44,875	75,570	120,445
– Securitization receivables	–	–	105,460	105,460
	\$ 913,290	\$ 607,175	\$ 208,773	\$ 1,729,238
Liabilities				
Other liabilities				
– Derivatives	\$ –	\$ 105,146	\$ 7,601	\$ 112,747

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

	BALANCE JANUARY 1 2009	GAINS/(LOSSES) INCLUDED IN NET INCOME ⁽¹⁾	PURCHASES	SETTLEMENTS	BALANCE DECEMBER 31 2009
Assets					
Securities					
– Held for trading	\$ 35,290	\$ (3,700)	\$ –	\$ 3,847	\$ 27,743
Other assets					
– Derivatives, net	121,457	(1,963)	2,495	54,020	67,969
– Securitization receivables	79,946	589	62,625	37,700	105,460
	\$ 236,693	\$ (5,074)	\$ 65,120	\$ 95,567	\$ 201,172

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

(2) There were no transfers in/out of Level 3 in 2009.

20. EARNINGS PER COMMON SHARE

	2009	2008
Earnings		
Net income	\$ 559,092	\$ 730,799
Number of common shares (in thousands)		
Average number of common shares outstanding	263,217	263,323
Add: Potential exercise of outstanding stock options	1,107	1,485
Average number of common shares outstanding – Diluted basis	264,324	264,808
Earnings per common share (in dollars)		
– Basic	\$ 2.12	\$ 2.78
– Diluted	\$ 2.12	\$ 2.76

21. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Two proposed class actions related to alleged market timing trading activity in mutual funds of the companies have been initiated in Ontario and Quebec. Neither has been certified as a class action and, in January 2010, the Ontario court denied certification to the proposed Ontario action. At the date hereof, it is not known if the proposed class representative will appeal this denial of certification. A decision on certification of the Quebec action is pending. 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: 2010 – \$44.7 million; 2011 – \$36.7 million; 2012 – \$31.8 million; 2013 – \$26.3 million; and 2014 and thereafter – \$123.4 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.

22. 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 2009 and 2008, 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 \$44.3 million in distribution fees (2008 – \$39.7 million). The Company received \$11.6 million (2008 – \$13.0 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid \$34.7 million (2008 – \$34.1 million) to London Life related to the distribution of certain mutual funds of the Company.

During 2009, the Company sold residential mortgage loans to Great-West and London Life for \$147.1 million (2008 – \$143.4 million).

23. 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 (Note 5).

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.

	2009			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 981,262	\$ 631,385	\$ 33,989	\$ 1,646,636
Administration	206,637	137,374	2,009	346,020
Distribution	149,921	25,809	81,697	257,427
Net investment income and other	122,840	14,629	15,644	153,113
	1,460,660	809,197	133,339	2,403,196
Operating expenses				
Commissions	445,845	284,710	77,927	808,482
Non-commission	311,227	269,244	33,751	614,222
	757,072	553,954	111,678	1,422,704
Earnings before undernoted	\$ 703,588	\$ 255,243	\$ 21,661	980,492
Interest expense				(109,864)
Non-cash charge on available for sale securities				(76,506)
Premium paid on redemption of preferred shares				(14,400)
Income before income taxes				779,722
Income taxes				220,630
Net income				\$ 559,092
Identifiable assets	\$ 1,820,019	\$ 2,495,852	\$ 1,716,516	\$ 6,032,387
Goodwill	1,347,781	1,166,842	98,909	2,613,532
Total assets	\$ 3,167,800	\$ 3,662,694	\$ 1,815,425	\$ 8,645,919

23. SEGMENTED INFORMATION *(continued)*

2008

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 1,077,738	\$ 749,992	\$ 39,493	\$ 1,867,223
Administration	210,693	136,144	2,412	349,249
Distribution	149,517	34,255	102,272	286,044
Net investment income and other	151,144	22,758	27,004	200,906
	1,589,092	943,149	171,181	2,703,422
Operating expenses				
Commissions	473,424	338,793	94,054	906,271
Non-commission	317,473	289,616	40,765	647,854
	790,897	628,409	134,819	1,554,125
Earnings before undernoted	\$ 798,195	\$ 314,740	\$ 36,362	1,149,297
Interest expense				(90,604)
Proportionate share of affiliate's impairment charge				(60,346)
Proportionate share of affiliate's gain				25,003
Income before income taxes				1,023,350
Income taxes				292,551
Net income				\$ 730,799
Identifiable assets	\$ 1,789,202	\$ 2,603,579	\$ 1,277,990	\$ 5,670,771
Goodwill	1,347,781	1,166,842	77,694	2,592,317
Total assets	\$ 3,136,983	\$ 3,770,421	\$ 1,355,684	\$ 8,263,088

24. ACQUISITIONS

Non-controlling interest

On June 5, 2009, the Company acquired the 27.6% non-controlling interest in Investment Planning Counsel Inc. The aggregate purchase price was \$42.9 million, consisting of \$1.7 million in cash including transaction costs and common shares of IGM Financial valued at \$41.2 million. The value of the 1,108,901 common shares issued was determined based on the weighted-average market price of the Company's shares over the two-day period before and after the terms of the acquisition were agreed to and announced. The Company accounted for the transaction as a step acquisition and the aggregate purchase price, after elimination of the non-controlling interest, was allocated to net assets acquired based on their estimated fair value on the date of acquisition.

Saxon Financial Inc.

On September 25, 2008, Mackenzie acquired 95.3% of the issued and outstanding shares of Saxon Financial Inc. (Saxon), a Canadian investment management company. The acquisition was by way of a take over bid. Mackenzie acquired the remaining Saxon common shares during the fourth quarter of 2008 under the compulsory acquisition provisions of the Business Corporations Act (Ontario). The acquisition was accounted for by the purchase method. Total cash consideration was \$289.7 million including transaction and other related costs and was allocated as follows:

Management contracts, indefinite life	\$ 39,200
Institutional contracts, definite life	47,700
Other assets, net	1,132
	88,032
Goodwill	201,651
Total purchase consideration	\$ 289,683