

Consolidated Financial Statements

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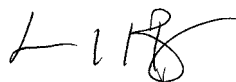
Management's Responsibility for Financial Reporting

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

Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

We have audited the accompanying consolidated financial statements of IGM Financial Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

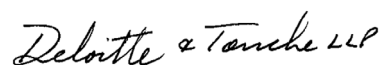
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IGM Financial Inc. and its subsidiaries as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba

February 11, 2011

Consolidated Statements of Earnings

For the years ended December 31 *(in thousands of dollars, except shares and per share amounts)*

2010

2009

Revenues

Management fees	\$ 1,836,742	\$ 1,646,636
Administration fees	356,272	346,020
Distribution fees	297,585	257,427
Net investment income and other	131,929	77,649
	2,622,528	2,327,732

Expenses

Commission	869,066	808,482
Non-commission	635,621	614,222
Interest	111,374	125,306
	1,616,061	1,548,010

Earnings before income taxes	1,006,467	779,722
Income taxes <i>(Note 11)</i>	270,882	220,630

Net earnings	735,585	559,092
Perpetual preferred share dividends <i>(Note 13)</i>	10,105	–

Net earnings available to common shareholders	\$ 725,480	\$ 559,092
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Average number of common shares *(in thousands)* *(Note 19)*

– Basic	261,855	263,217
– Diluted	262,848	264,324

Earnings per share *(in dollars)* *(Note 19)*

– Basic	\$ 2.77	\$ 2.12
– Diluted	\$ 2.76	\$ 2.12

(See accompanying notes to consolidated financial statements.)

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)

2010

2009

Assets

Cash and cash equivalents	\$ 1,573,626	\$ 945,081
Securities (Note 2)	1,007,320	1,246,259
Loans (Note 3)	621,303	671,556
Investment in affiliate (Note 5)	603,998	598,221
Deferred selling commissions	784,151	850,082
Other assets (Note 6)	520,083	592,908
Intangible assets (Note 7)	1,130,034	1,128,280
Goodwill (Note 7)	2,652,048	2,613,532
	\$ 8,892,563	\$ 8,645,919

Liabilities

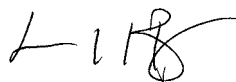
Deposits and certificates (Note 8)	\$ 834,801	\$ 907,343
Repurchase agreements (Note 2)	635,302	629,817
Other liabilities (Note 9)	866,412	780,329
Future income taxes (Note 11)	305,519	328,617
Long-term debt (Note 12)	1,775,000	1,575,000
	4,417,034	4,221,106

Shareholders' Equity

Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,567,725	1,562,925
Contributed surplus	32,903	32,702
Retained earnings	2,793,987	2,737,785
Accumulated other comprehensive loss	(69,086)	(58,599)
	4,475,529	4,424,813
	\$ 8,892,563	\$ 8,645,919

(See accompanying notes to consolidated financial statements.)

On behalf of the Board



Murray J. Taylor
Director



John McCallum
Director

Consolidated Statements of Changes in Shareholders' Equity

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

	2010	2009
Share capital – Perpetual preferred shares (Note 13)		
Balance, beginning of year	\$ 150,000	\$ –
Issue of perpetual preferred shares	–	150,000
Balance, end of year	150,000	150,000
Share capital - Common shares (Note 13)		
Balance, beginning of year	1,562,925	1,511,110
Issued on acquisition of Investment Planning Counsel non-controlling interest	–	41,225
Issued under stock option plan	28,573	21,059
Purchased for cancellation	(23,773)	(10,469)
Balance, end of year	1,567,725	1,562,925
Contributed surplus		
Balance, beginning of year	32,702	29,115
Stock options		
Current period expense	2,848	5,486
Exercised	(2,647)	(1,899)
Balance, end of year	32,903	32,702
Retained earnings		
Balance, beginning of year	2,737,785	2,781,755
Net earnings	735,585	559,092
Perpetual preferred share dividends	(10,105)	–
Common share dividends	(536,053)	(539,671)
Share issue costs (Note 13)	–	(3,406)
Common share cancellation excess and other (Note 13)	(133,225)	(59,985)
Balance, end of year	2,793,987	2,737,785
Accumulated other comprehensive income (loss) on:		
Available for sale securities		
Balance, beginning of year	1,321	(112,031)
Net unrealized gains (losses), net of tax of \$(2,132) and \$(8,833)	8,085	50,104
Reclassification adjustment for (gains) losses included in net earnings, net of tax of \$1,495 and \$(10,074)	(7,049)	63,248
Balance, end of year	2,357	1,321
Investment in affiliate and other		
Balance, beginning of year	(59,920)	(61,028)
Other comprehensive income (loss), net of tax of \$(13) and \$16	(11,523)	1,108
Balance, end of year	(71,443)	(59,920)
Total accumulated other comprehensive income (loss), end of year	(69,086)	(58,599)
Total Shareholders' Equity	\$ 4,475,529	\$ 4,424,813

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Comprehensive Income

For the years ended December 31 <i>(in thousands of dollars)</i>	2010	2009
Net earnings	\$ 735,585	\$ 559,092
Other comprehensive income (loss), net of tax on:		
Available for sale securities	1,036	113,352
Investment in affiliate and other	(11,523)	1,108
Other comprehensive income (loss)	(10,487)	114,460
Comprehensive income	\$ 725,098	\$ 673,552

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

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

2010

2009

Operating activities

Net earnings	\$ 735,585	\$ 559,092
Adjustments to determine net cash from operating activities		
Future income taxes	(18,089)	(60,854)
Commission amortization	305,090	303,684
Amortization of capital and intangible assets	33,302	33,990
Non-cash charge on available for sale securities	-	76,506
Changes in operating assets and liabilities and other	45,317	267
	1,101,205	912,685
Commissions paid	(237,974)	(213,163)
	863,231	699,522

Financing activities

Net decrease in deposits and certificates	(72,542)	(51,656)
Repayment of bankers' acceptances	-	(286,615)
Decrease in short-term borrowings	-	(99,967)
Net increase in obligations related to assets sold under repurchase agreements	5,486	629,817
Issue of debentures	200,000	375,000
Redemption of preferred shares	-	(374,400)
Issue of perpetual preferred shares	-	150,000
Issue of common shares	33,180	33,997
Common shares purchased for cancellation	(156,919)	(70,152)
Perpetual preferred share dividends paid	(7,892)	-
Common share dividends paid	(537,557)	(539,523)
Share issue costs	-	(3,406)
	(536,244)	(236,905)

Investing activities

Purchase of securities	(320,027)	(1,357,345)
Proceeds from the sale of securities	673,040	699,404
Net increase in loans	(1,195,290)	(1,400,603)
Proceeds from securitizations <i>(Note 4)</i>	1,203,250	1,324,544
Net additions to capital assets	(15,196)	(8,791)
Net cash used in acquisitions and additions to intangible assets	(44,219)	(6,916)

	301,558	(749,707)
Increase (decrease) in cash and cash equivalents	628,545	(287,090)
Cash and cash equivalents, beginning of year	945,081	1,232,171

Cash and cash equivalents, end of year **\$ 1,573,626** **\$ 945,081**

Cash	\$ 113,841	\$ 138,447
Cash equivalents	1,459,785	806,634
	\$ 1,573,626	\$ 945,081

Supplemental disclosure of cash flow information

Amount of interest paid during the year	\$ 119,186	\$ 131,617
Amount of income taxes paid during the year	\$ 261,489	\$ 256,523

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

DECEMBER 31, 2010 AND 2009 *(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 certain 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. For the year ended December 31, 2009, the Company 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 earnings 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 Note 18 of the Consolidated Financial Statements.

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.

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 those classified as 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 Earnings.

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 Earnings. 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 Earnings. 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 Earnings.

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 Earnings.

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 Earnings.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. 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 Earnings. 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 Earnings. 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, 2010, 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 \$281.0 million (2009 – \$266.0 million), less accumulated amortization of \$187.8 million (2009 – \$175.8 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 10 years for equipment and furnishings and 50 years for buildings. 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. Finite 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. The most recent actuarial valuation for funding purposes was completed as at December 31, 2009.

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 both the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax loss carryforwards. 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 earnings by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method.

Derivative financial instruments

Derivative financial instruments are utilized by the Company in the management of equity 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 Earnings.

The Company may manage 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 of hedged items and are designated as 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 Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company also enters into total return swaps 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 Earnings.

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, 2010		DECEMBER 31, 2009	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Common shares	\$ 8,687	\$ 7,698	\$ 236,383	\$ 237,085
Proprietary investment funds	33,326	37,794	41,259	41,341
Fixed income securities	243,939	243,748	314,260	315,387
	285,952	289,240	591,902	593,813
Held for trading:				
Canada Mortgage Bonds	647,318	637,850	647,318	624,703
Fixed income securities	31,301	27,601	31,443	27,743
NHA MBS <i>(Note 4)</i>	52,581	52,629	–	–
	731,200	718,080	678,761	652,446
	\$ 1,017,152	\$ 1,007,320	\$ 1,270,663	\$ 1,246,259

Available for sale

Common shares

Net unrealized losses on common shares were \$1.0 million at December 31, 2010 compared with net unrealized gains of \$0.7 million at December 31, 2009. Unrealized losses as at December 31, 2010 on common shares are reported in Accumulated other comprehensive income. An other than temporary impairment charge of \$73.3 million was reclassified from Other comprehensive income to the Consolidated Statements of Earnings at December 31, 2009.

Fixed income securities

The Company held a diversified portfolio of fixed income securities totalling \$243.7 million at December 31, 2010 which was comprised of bankers' acceptances of \$34.8 million, Canadian chartered bank senior deposit notes and floating rate notes of \$82.0 million and \$35.0 million respectively, and corporate bonds and other of \$91.9 million.

2. SECURITIES *(continued)*

Held for trading

Canada Mortgage Bonds

As part of the Company's interest rate risk management activities relating to its mortgage banking operations, Canada Mortgage Bonds were purchased and subsequently sold under repurchase agreements, which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future. These securities had a fair value of \$637.9 million at December 31, 2010. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$635.3 million at December 31, 2010. The interest expense related to these obligations is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

Fixed income securities

Fixed income securities of \$27.6 million at December 31, 2010 were comprised of non-bank-sponsored asset-backed commercial paper (ABCP). During 2010, the Company's investment in ABCP was reduced by \$0.1 million, representing principal and interest payments received from the ABCP conduit trusts.

The Company's valuation of the ABCP was based on its assessment of the prevailing conditions at December 31, 2010. 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, 2010, an increase in the estimated discount rates of 100 basis points would reduce net earnings by \$1.65 million.

3. LOANS

	TERM TO MATURITY			2010 TOTAL	2009 TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Loans and receivables					
Residential mortgages	\$ 37,346	\$ 77,789	\$ 1,750	\$ 116,885	\$ 132,082
Commercial mortgages	–	393	–	393	423
	37,346	78,182	1,750	117,278	132,505
Investment loans	259,621	12,364	11,585	283,570	305,335
	<u>\$ 296,967</u>	<u>\$ 90,546</u>	<u>\$ 13,335</u>	<u>400,848</u>	<u>437,840</u>
Less: General allowance				3,943	6,675
				<u>396,905</u>	<u>431,165</u>
Held for trading				<u>224,398</u>	<u>240,391</u>
				<u>\$ 621,303</u>	<u>\$ 671,556</u>
The change in the allowance for credit losses is as follows:					
Balance, beginning of year				\$ 6,675	\$ 7,972
Write-offs				(121)	(371)
Recoveries				20	231
Provision for credit losses				(2,631)	(1,157)
Balance, end of year				<u>\$ 3,943</u>	<u>\$ 6,675</u>

Total impaired loans as at December 31, 2010 were \$279 (2009 – \$762).

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 Earnings. Securitization activities for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Residential mortgages securitized	\$ 1,211,468	\$ 1,332,065
Net cash proceeds	1,203,250	1,324,544
Fair value of retained interests	44,437	65,098
Pre-tax gain on sales	23,997	49,467

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.

4. SECURITIZATIONS *(continued)*

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 2010 and 2009 were as follows:

	2010	2009
Weighted-average		
Remaining service life <i>(in years)</i>	4.5	4.4
Excess spread	0.80%	1.16%
Prepayment rate	15.00%	15.00%
Discount rate	1.82%	1.66%
Servicing fees	0.15%	0.15%
Expected credit losses	-	-

At December 31, 2010, the fair value of the total retained interests was \$107.0 million (2009 – \$173.5 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:

	2010	2009
Mortgages	\$ 3,819,587	\$ 3,641,331
Investment loans	280,003	301,711
	4,099,590	3,943,042
Less: Securitized loans serviced	3,478,287	3,271,486
Total on-balance sheet loans	\$ 621,303	\$ 671,556
Net cash proceeds	\$ 1,203,250	\$ 1,324,544
Cash flows received on retained interests	\$ 87,953	\$ 90,466

5. INVESTMENT IN AFFILIATE

	2010	2009
Carrying value, beginning of year	\$ 598,221	\$ 574,442
Proportionate share of earnings and other items	71,885	69,423
Proportionate share of affiliate's provision	(8,160)	–
Dividends received	(46,478)	(46,478)
Proportionate share of other comprehensive income (loss) and other adjustments	(11,470)	834
Carrying value, end of year	\$ 603,998	\$ 598,221
Share of equity, end of year	\$ 470,991	\$ 464,525
Fair value, end of year	\$ 996,076	\$ 1,013,458

The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Consolidated Statements of Earnings. At December 31, 2010, the Company held 37,787,388 (2009 – 37,787,388) shares of Lifeco, which represented an equity interest of 4.0% (2009 – 4.0%).

In the third quarter of 2010, Lifeco established an incremental litigation provision and the Company's after-tax proportionate share was \$8.2 million and is reported in Net investment income and other in the Consolidated Statements of Earnings.

6. OTHER ASSETS

	2010	2009
Accounts and other receivables	\$ 256,718	\$ 250,328
Capital assets	93,214	90,167
Derivative instruments <i>(Note 17)</i>	79,143	120,445
Accrued benefit asset <i>(Note 10)</i>	47,212	48,802
Deferred and prepaid expenses	36,449	64,017
Other	7,347	2,466
Funds held in escrow	–	16,683
	\$ 520,083	\$ 592,908

7. GOODWILL AND INTANGIBLE ASSETS

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

	2010			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,347,781	\$ 1,166,842	\$ 98,909	\$ 2,613,532
Acquired during the year	-	-	37,086	37,086
Goodwill adjustment	-	2,198	(768)	1,430
Balance, end of year	\$ 1,347,781	\$ 1,169,040	\$ 135,227	\$ 2,652,048

	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	-	-	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

During the fourth quarter of 2010, Investment Planning Counsel Inc., a subsidiary of IGM Financial Inc., acquired Partners in Planning Financial Group Ltd. and related entities. The purchase price was allocated to indefinite life intangible assets and goodwill.

During the second quarter of 2009, the Company acquired the 27.6% non-controlling interest in Investment Planning Counsel Inc. The Company accounted for the transaction as a step acquisition and the aggregate purchase price, after elimination of non-controlling interest, was allocated to indefinite life intangible assets and goodwill.

7. GOODWILL AND INTANGIBLE ASSETS *(continued)*

The components of other intangible assets are as follows:

	2010		
	COST	ACCUMULATED AMORTIZATION	CARRYING VALUE
Finite life			
Software	\$ 71,467	\$ (50,769)	\$ 20,698
Distribution and other management contracts	112,598	(29,131)	83,467
	184,065	(79,900)	104,165
Indefinite life			
Mutual fund management contracts	740,692	-	740,692
Trade names	285,177	-	285,177
	1,025,869	-	1,025,869
Total	\$ 1,209,934	\$ (79,900)	\$ 1,130,034
			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

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 \$834.8 million (2009 – \$907.3 million) related to deposits and certificates.

	TERM TO MATURITY						2009 TOTAL
	DEMAND	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	2010 TOTAL		
Deposits	\$ 604,271	\$ 90,385	\$ 133,732	\$ 2,010	\$ 830,398	\$ 902,637	
Certificates	–	300	1,200	2,903	4,403	4,706	
	\$ 604,271	\$ 90,685	\$ 134,932	\$ 4,913	\$ 834,801	\$ 907,343	

9. OTHER LIABILITIES

	2010	2009
Accounts payable and accrued liabilities	\$ 395,469	\$ 330,893
Dividends payable	135,317	134,609
Taxes payable	135,430	97,592
Derivative instruments <i>(Note 17)</i>	93,152	112,747
Accrued benefit liabilities <i>(Note 10)</i>	61,493	61,462
Interest payable	30,700	28,252
Deferred revenue	14,851	14,774
	\$ 866,412	\$ 780,329

10. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care, 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 resulted 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 was recognized to reflect the impact of the changes in the plan's eligibility requirements.

	2010			2009		
	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	\$ 206,924	\$ -	\$ -	\$ 152,059	\$ -	\$ -
Employee contributions	3,828	-	-	3,676	-	-
Employer contributions	505	-	-	5,443	-	-
Benefits paid	(8,110)	-	-	(7,597)	-	-
Actual return on plan assets	23,437	-	-	53,343	-	-
Balance, end of year	226,584	-	-	206,924	-	-
Accrued benefit obligation						
Balance, beginning of year	163,542	16,822	26,759	127,523	14,732	38,002
Benefits paid	(8,110)	(948)	(1,002)	(7,597)	(948)	(1,192)
Current service cost	6,049	-	776	3,872	-	551
Employee contributions	3,828	-	-	3,676	-	-
Interest cost	11,099	1,043	1,683	9,562	1,061	1,657
Past service cost	-	17,131	1,674	-	-	(14,710)
Curtailment gain	-	-	-	-	-	(97)
Actuarial losses (gains)	37,354	2,170	2,928	26,506	1,977	2,548
Balance, end of year	213,762	36,218	32,818	163,542	16,822	26,759
Funded status – plan surplus (deficit)						
	12,822	(36,218)	(32,818)	43,382	(16,822)	(26,759)
Unamortized net actuarial losses (gains)						
	34,390	1,703	(1,134)	5,420	(234)	(4,414)
Unamortized past service cost						
	-	17,131	(10,157)	-	-	(13,233)
Accrued benefit asset (liability)						
	\$ 47,212	\$ (17,384)	\$ (44,109)	\$ 48,802	\$ (17,056)	\$ (44,406)

The asset allocation by asset category of the funds invested for the defined benefit pension plan is equity securities 66% (2009 – 66%), fixed income securities 33% (2009 – 31%) and cash equivalents 1% (2009 – 3%).

10. EMPLOYEE FUTURE BENEFITS *(continued)*

	2010			2009		
	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	\$ 6,049	\$ –	\$ 776	\$ 3,872	\$ –	\$ 551
Past service cost	–	–	(1,402)	–	–	(1,477)
Interest cost on accrued benefit obligation	11,099	1,043	1,683	9,562	1,061	1,657
Expected return on plan assets	(14,353)	–	–	(10,697)	–	–
Curtailment gain	–	–	–	–	–	(69)
Amortization of net actuarial (gains) losses	(700)	234	(352)	642	122	(712)
	\$ 2,095	\$ 1,277	\$ 705	\$ 3,379	\$ 1,183	\$ (50)
Significant weighted-average actuarial assumptions:						
Discount rate	5.60%	5.40%	5.20%	6.75%	6.38%	6.20%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A	7.00%	N/A	N/A
Rate of compensation increase	4.36%	N/A	N/A	4.76%	N/A	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	6.70%	N/A	N/A	6.80%

(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 \$2.4 million as at December 31, 2010. The increase in the 2010 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 \$2.0 million as at December 31, 2010. The decrease in the 2010 other post-retirement benefit expense would not be significant.

In addition, the Company maintains a group RSP available only to certain employees. In 2010, the Company's contributions were \$6.1 million (2009 – \$6.2 million). The contributions are expensed as paid.

11. INCOME TAXES

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

	2010	2009
Income taxes at Canadian federal and provincial statutory rates	30.07%	31.60%
Effect of:		
Dividend income	(0.06)	(0.42)
Net capital gains and losses	(0.10)	(0.09)
Proportionate share of affiliate's earnings <i>(Note 5)</i>	(2.14)	(2.80)
Dividends paid on preferred shares classified as liabilities	–	0.84
Other items	(1.10)	(0.45)
Proportionate share of affiliate's provision <i>(Note 5)</i>	0.24	–
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
Effective income tax rate	26.91%	28.30%
Components of income tax expense are:		
Current income taxes	\$ 288,971	\$ 281,484
Future income taxes	(18,089)	(60,854)
	\$ 270,882	\$ 220,630

Future income taxes consist of:

	2010	2009
Future income tax assets		
Accrued benefit liabilities	\$ 16,525	\$ 16,488
Loss carryforwards	11,416	7,195
Other	39,988	47,015
	67,929	70,698
Future income tax liabilities		
Deferred selling commissions	211,083	239,685
Intangible assets	140,809	137,682
Accrued benefit asset	12,606	12,991
Other	8,950	8,957
	373,448	399,315
Future income taxes	\$ 305,519	\$ 328,617

As at December 31, 2010, the Company has non-capital losses of \$38.5 million (2009 – \$36.3 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2014 – \$33.4 million, 2023 – \$1.7 million, 2024 – \$1.1 million, 2025 – \$0.9 million, 2026 – \$0.4 million, 2027 – \$0.3 million and 2028 – \$0.7 million.

12. LONG-TERM DEBT

	RATE	MATURITY	2010	2009
Debtures in Series, unsecured				
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	375,000
2010	6.00%	December 10, 2040	200,000	—
			\$ 1,775,000	\$ 1,575,000

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.

Interest expense relating to long-term debt was \$111.4 million (2009 – \$103.4 million). There is one principal payment due in the next five years related to the \$450.0 million debtures due in 2011.

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

On April 7, 2009, the Company issued \$375.0 million of 7.35% debtures maturing April 8, 2019.

13. SHARE CAPITAL

Authorized

Unlimited number of:

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

Issued and outstanding

	2010		2009	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of year	262,633,255	\$ 1,562,925	262,364,622	\$ 1,511,110
Issued on acquisition of non-controlling interest of Investment Planning Counsel Inc.	–	–	1,108,901	41,225
Issued under Stock Option Plan (Note 15)	1,040,952	28,573	922,532	21,059
Purchased for cancellation	(3,956,700)	(23,773)	(1,762,800)	(10,469)
Balance, end of year	259,717,507	\$ 1,567,725	262,633,255	\$ 1,562,925

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.

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. Dividends paid on preferred shares classified as liabilities were recorded in Interest expense in the Consolidated Statements of Earnings.

Normal course issuer bid

In 2010, 3,956,700 shares (2009 – 1,762,800) were purchased at a cost of \$156.9 million (2009 – \$70.2 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid, effective for one year, on April 12, 2010. Pursuant to this bid, the Company may purchase up to 13.1 million or 5% of its common shares outstanding as at March 31, 2010. On March 23, 2009, the Company had commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.1 million or 5% of its common shares outstanding as at March 13, 2009.

14. 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. In addition, during the third quarter of 2010, certain subsidiaries of the Company applied to be registered as Investment Fund Managers with the applicable securities commissions as required under National Instrument 31-103 (NI 31-103). These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. These subsidiaries have complied with all regulatory capital requirements.

Long-term debt of \$1,775 million included \$200.0 million of 6.0% debentures maturing December 10, 2040 which were issued on December 9, 2010. The total outstanding long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Perpetual preferred shares of \$150 million remain unchanged.

The Company purchased 3,956,700 common shares during the year ended December 31, 2010 at a cost of \$156.9 million under the normal course issuer bid (Note 13). The Company commenced a normal course issuer bid on April 12, 2010 to purchase up to 5% of its common shares in order to provide flexibility to purchase common shares as conditions warrant. Other capital management activities in 2010 included the declaration of perpetual preferred share dividends of \$10.1 million and common share dividends of \$536.1 million. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

15. 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, 2010, 13,576,922 (2009 – 14,617,874) common shares were reserved for issuance under the Plan.

During 2010, the Company granted 1,182,125 options to employees (2009 – 1,789,372). 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, 2010 has been estimated at \$5.53 per option (2009 – \$2.42) using the Black-Scholes option pricing model. The assumptions used to determine the fair value of the options on the grant date include: (i) risk-free interest rate of 3.11% (2009 – 2.33%), (ii) expected option life of 6.0 years (2009 – 5.7 years), (iii) expected volatility of 22.00% (2009 – 20.74%) and (iv) expected dividend yield of 4.87% (2009 – 6.96%).

Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met.

The Company recorded compensation expense related to its stock option program of \$2.8 million (2009 – \$5.2 million).

	2010		2009	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	9,415,005	\$ 35.76	8,929,679	\$ 35.59
Granted	1,182,125	42.15	1,789,372	30.63
Exercised	(1,040,952)	24.91	(922,532)	21.94
Forfeited	(597,684)	39.87	(381,514)	41.13
Balance, end of year	8,958,494	\$ 37.59	9,415,005	\$ 35.76
Exercisable, end of year	4,234,649	\$ 34.86	4,541,430	\$ 31.76

Options outstanding at December 31, 2010	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2011	19.83 – 22.78	440,353	440,353
	2012	27.81	49,750	45,250
	2013	25.66 – 28.66	727,769	727,769
	2014	33.52 – 35.77	984,719	731,652
	2015	37.09 – 37.78	1,476,866	1,104,732
	2016	46.68	604,645	338,677
	2017	50.60 – 50.92	1,147,803	341,134
	2018	42.09 – 44.60	988,640	251,748
	2019	26.67 – 44.00	1,437,099	253,334
	2020	40.45 – 42.82	1,100,850	–
			8,958,494	4,234,649

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 \$10.3 million (2009 – \$10.9 million).

15. 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, 2010, the fair value of the deferred share units outstanding was \$11.3 million (2009 – \$9.3 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.

16. RISK MANAGEMENT

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

Liquidity risk related to financial instruments

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

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

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

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

- Investors Mortgage and Short Term Income Fund;
- Third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts; or
- Institutional investors through private placements.

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, 2010, the trust subsidiaries' liquidity was in compliance with these policies.

16. RISK MANAGEMENT *(continued)*

Liquidity risk related to financial instruments *(continued)*

The Company's contractual maturities were as follows:

As at December 31, 2010 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 604.3	\$ 90.7	\$ 134.9	\$ 4.9	\$ 834.8
Other liabilities	–	50.2	43.0	–	93.2
Long-term debt	–	450.0	–	1,325.0	1,775.0
Operating leases ⁽¹⁾	–	45.0	129.0	93.5	267.5
Total contractual obligations	\$ 604.3	\$ 635.9	\$ 306.9	\$ 1,423.4	\$ 2,970.5

(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. During the third quarter of 2010 the Company decreased its operating lines of credit with various Schedule I Canadian chartered banks to \$325 million from \$675 million as at December 31, 2009. The operating lines of credit as at December 31, 2010 consist of committed lines of \$150 million (2009 – \$500 million) and uncommitted lines of \$175 million (2009 – \$175 million). As at December 31, 2010 and 2009, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

In the fourth quarter of 2010 the Company accessed the domestic debt markets to raise capital through the issue of \$200.0 million in 30 year 6.0% debentures. 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, 2009.

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, 2010, cash and cash equivalents of \$1,573.6 million consisted of cash balances of \$113.8 million on deposit with Canadian chartered banks and cash equivalents of \$1,459.8 million. Cash equivalents are comprised primarily of Government of Canada treasury bills totalling \$655.6 million, provincial government and government guaranteed commercial paper of \$354.5 million and bankers' acceptances issued by Canadian chartered banks of \$426.5 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Available for sale fixed income securities at December 31, 2010 are comprised of bankers' acceptances of \$34.8 million, Canadian chartered bank senior deposit notes and floating rate notes of \$82.0 million and \$35.0 million, respectively, and corporate bonds and other of \$91.9 million. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company manages credit risk related to cash and cash equivalents and available for sale fixed income securities by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Held for trading securities include Canada Mortgage Bonds with a fair value of \$637.9 million, NHA MBS with a fair value of \$52.6 million, as well as fixed income securities which are comprised of non-bank-sponsored ABCP with a fair value of \$27.6 million. These fair values represent the maximum exposure to credit risk at December 31, 2010 (Note 2).

16. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

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, 2010, mortgages and investment loans totalled \$341.6 million and \$283.6 million, respectively, compared with \$372.9 million and \$305.4 million as at December 31, 2009. The allowance for credit losses was \$3.9 million at December 31, 2010 compared to \$6.7 million in 2009, a decrease of \$2.8 million. The decrease reflects changes in the size and composition of the mortgage loan portfolio and continued low default and loss trends. As at December 31, 2010, the mortgage portfolios were geographically diverse, 100% residential (2009 – 100%) and 60% insured (2009 – 74%). The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. As at December 31, 2010, impaired mortgages and investment loans were \$0.3 million compared to \$0.8 million in 2009. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were \$0.2 million at December 31, 2010, unchanged from December 31, 2009. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2010.

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, 2009.

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 fair value of the retained interests in securitized loans was \$107.0 million at December 31, 2010 compared to \$173.5 million at December 31, 2009. Retained interests include:

- *Cash reserve accounts and rights to future excess spread (securitization receivables)* – which totalled \$109.3 million at December 31, 2010.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$22.7 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, 2010, 92.4% of the \$1.4 billion in outstanding mortgages securitized under these programs were insured.

Rights to future excess spread under the NHA MBS and CMB Program totalled \$86.6 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 \$2.1 billion.

Since 2008, the Company has purchased portfolio insurance from CMHC on newly funded qualifying conventional mortgage loans. At December 31, 2010, 94.2% of the total mortgage portfolio serviced by the Company related to its mortgage banking operations was insured. Uninsured non-performing loans over 90 days in the securitized portfolio were \$0.1 million at December 31, 2010, compared to nil at December 31, 2009. 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, 2010.

- *Fair value of interest rate swaps* – which the Company enters into as a requirement of the securitization programs that it participates in, had a negative fair value of \$2.3 million at December 31, 2010. The outstanding notional amount of these interest rate swaps was \$3.9 billion at December 31, 2010 compared to \$3.4 billion at December 31, 2009.

The exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled \$40.2 million at December 31, 2010 compared to \$75.5 million at December 31, 2009.

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 \$27.6 million at December 31, 2010. The outstanding notional amount was \$2.5 billion at December 31, 2010 compared to \$2.8 billion at December 31, 2009. The exposure to credit risk, which is limited to the fair value of the interest rates swaps which are in a gain position, totalled \$23.0 million at December 31, 2010 compared to \$5.2 million at December 31, 2009.

The Company also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The fair value of these interest rate swaps totalled \$15.1 million at December 31, 2010. The outstanding notional amount was \$0.5 billion at December 31, 2010 unchanged from December 31, 2009. The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, totalled \$15.1 million at December 31, 2010 compared to \$37.0 million at December 31, 2009.

16. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

The Company enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by the Company. The fair value of these interest rate swaps totalled \$0.8 million at December 31, 2010. The outstanding notional amount of these derivative contracts was \$118.1 million at December 31, 2010 compared to \$75.3 million at December 31, 2009. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$0.8 million at December 31, 2010, compared to \$2.7 million at December 31, 2009.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$79.1 million does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was \$40.4 million at December 31, 2010. 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, 2010. Management of credit risk has not changed materially since December 31, 2009.

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, 2010, 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, 2010, the impact to net earnings of a 100 basis point change in interest rates would have been approximately \$2.5 million. The Company's exposure to and management of interest rate risk has not changed materially since December 31, 2009.

16. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments *(continued)*

Equity Price Risk

The Company is exposed to equity price risk on its investments in common shares and proprietary investment funds which are classified as available for sale securities as shown in 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 Earnings.

As at December 31, 2010, the impact of a 10% decrease in equity prices would have been a \$3.3 million unrealized loss recorded in Other comprehensive income. The Company's management of equity price risk has not changed materially since December 31, 2009. However, the Company's exposure to equity price risk has declined materially since December 31, 2009 as a result of the reduction in its common share holdings during 2010.

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 2010 Annual Report to Shareholders.

17. 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:

2010	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
Swaps	\$1,235,870	\$5,103,320	\$ 652,237	\$6,991,427	\$ 79,143	\$ 79,143	\$ 93,142
Forward contracts	1,268	-	-	1,268	-	-	10
	\$1,237,138	\$5,103,320	\$ 652,237	\$6,992,695	\$ 79,143	\$ 79,143	\$ 93,152
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

18. 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.

	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 1,573,626	\$ 1,573,626	\$ 945,081	\$ 945,081
Securities	1,007,320	1,007,320	1,246,259	1,246,259
Loans	621,303	623,456	671,556	674,820
Other financial assets	256,718	256,718	267,011	267,011
Derivative assets	79,143	79,143	120,445	120,445
Total financial assets	\$ 3,538,110	\$ 3,540,263	\$ 3,250,352	\$ 3,253,616
Liabilities				
Deposits and certificates	\$ 834,801	\$ 840,068	\$ 907,343	\$ 916,057
Repurchase agreements	635,302	635,302	629,817	629,817
Other financial liabilities	691,916	691,916	591,346	591,346
Derivative liabilities	93,152	93,152	112,747	112,747
Long-term debt	1,775,000	1,966,486	1,575,000	1,714,307
Total financial liabilities	\$ 4,030,171	\$ 4,226,924	\$ 3,816,253	\$ 3,964,274

Fair value is determined using the following methods and assumptions:

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

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

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

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

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

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

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

Financial instruments that are measured at fair value are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation. Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

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

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

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

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

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

Level 2 assets and liabilities include fixed income securities, investment funds with less frequent than daily transaction activity, mortgages classified as 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, is determined using quoted market prices or independent dealer price quotes, which are evaluated for reasonableness. The fair value of investment funds is 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, is 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.

18. 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.

	2010			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets				
Securities				
– Available for sale	\$ 45,492	\$ 243,748	\$ –	\$ 289,240
– Held for trading	637,850	–	80,230	718,080
Loans				
– Held for trading	–	224,398	–	224,398
Other assets				
– Derivatives	–	38,965	40,178	79,143
– Securitization receivables	–	–	109,251	109,251
	\$ 683,342	\$ 507,111	\$ 229,659	\$ 1,420,112
Liabilities				
Other liabilities				
– Derivatives	\$ –	\$ 50,690	\$ 42,462	\$ 93,152
	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

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

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

	2010				
	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	PURCHASES	SETTLEMENTS	BALANCE DECEMBER 31
Assets					
Securities					
– Held for trading	\$ 27,743	\$ 48	\$ 64,551	\$ 12,112	\$ 80,230
Other assets					
– Derivatives, net	67,969	(32,900)	(6,094)	31,259	(2,284)
– Securitization receivables	105,460	(7,560)	52,203	40,852	109,251
	\$ 201,172	\$ (40,412)	\$ 110,660	\$ 84,223	\$ 187,197
2009					
	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	PURCHASES	SETTLEMENTS	BALANCE DECEMBER 31
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 Earnings.

(2) There were no transfers in/out of Level 3 in 2010 and 2009.

19. EARNINGS PER COMMON SHARE

	2010	2009
Earnings		
Net earnings available to common shareholders	\$ 725,480	\$ 559,092
Number of common shares <i>(in thousands)</i>		
Average number of common shares outstanding	261,855	263,217
Add: Potential exercise of outstanding stock options	993	1,107
Average number of common shares outstanding		
– Diluted basis	262,848	264,324
Earnings per common share <i>(in dollars)</i>		
– Basic	\$ 2.77	\$ 2.12
– Diluted	\$ 2.76	\$ 2.12

20. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Commitments

The Company is committed to the following annual lease payments under its operating leases: 2011 – \$45.0 million; 2012 – \$40.6 million; 2013 – \$35.0 million; 2014 – \$29.0 million; and 2015 and thereafter – \$117.9 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.

21. 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 2010 and 2009, 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 \$55.6 million in distribution fees (2009 – \$44.3 million). The Company received \$14.5 million (2009 – \$11.6 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid \$44.7 million (2009 – \$34.7 million) to London Life related to the distribution of certain mutual funds of the Company.

During 2010, the Company sold residential mortgage loans to Great-West and London Life for \$225.9 million (2009 – \$147.1 million).

22. SEGMENTED INFORMATION

IGM Financial's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other.

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

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

22. SEGMENTED INFORMATION *(continued)*

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco (Note 5) and net investment income on unallocated investments.

Effective January 1, 2010, the items noted below were reclassified to reflect changes in the Company's internal financial reporting:

- The Company's proportionate share of earnings of Great-West Lifeco Inc. (Lifeco) and realized gains and losses on the sale of equity securities were reclassified to the Corporate and Other segment and are recorded in Net investment income and other. Previously these amounts were recorded in Net investment income and other in the Investors Group segment.
 - Interest expense on the \$225.0 million of long-term debt incurred to finance the Company's investment in Lifeco is no longer allocated to a specific segment and is reflected in interest expense. As a result, interest expense not allocated to segments includes interest on all of the Company's outstanding long-term debt. Previously the amount was recorded in Net investment income and other in the Investors Group segment.
- Prior periods have been restated to reflect this reclassification.

	2010			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 1,112,039	\$ 687,073	\$ 37,630	\$ 1,836,742
Administration fees	218,383	132,014	5,875	356,272
Distribution fees	177,258	24,776	95,551	297,585
Net investment income and other	27,289	13,977	98,823	140,089
	1,534,969	857,840	237,879	2,630,688
Expenses				
Commission	478,428	298,234	92,404	869,066
Non-commission	326,756	270,872	37,993	635,621
	805,184	569,106	130,397	1,504,687
Earnings before undernoted	\$ 729,785	\$ 288,734	\$ 107,482	1,126,001
Interest expense				(111,374)
Proportionate share of affiliate's provision <i>(Note 5)</i>				(8,160)
Earnings before income taxes				1,006,467
Income taxes				270,882
Net earnings				735,585
Perpetual preferred share dividends				10,105
Net earnings available to common shareholders				\$ 725,480
Identifiable assets				
Identifiable assets	\$ 1,783,792	\$ 2,341,236	\$ 2,115,487	\$ 6,240,515
Goodwill	1,347,781	1,169,040	135,227	2,652,048
Total assets	\$ 3,131,573	\$ 3,510,276	\$ 2,250,714	\$ 8,892,563

22. SEGMENTED INFORMATION *(continued)*

	2009			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fee	\$ 981,262	\$ 631,385	\$ 33,989	\$ 1,646,636
Administration fee	206,637	137,374	2,009	346,020
Distribution fee	149,921	25,809	81,697	257,427
Net investment income and other	64,637	14,629	89,289	168,555
	1,402,457	809,197	206,984	2,418,638
Expenses				
Commission	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	\$ 645,385	\$ 255,243	\$ 95,306	995,934
Interest expense				(125,306)
Non-cash charge on available for sale securities				(76,506)
Premium paid on redemption of preferred shares				(14,400)
Earnings before income taxes				779,722
Income taxes				220,630
Net earnings available to common shareholders				\$ 559,092
Identifiable assets				
Identifiable assets	\$ 1,858,704	\$ 2,505,150	\$ 1,668,533	\$ 6,032,387
Goodwill	1,347,781	1,166,842	98,909	2,613,532
Total assets	\$ 3,206,485	\$ 3,671,992	\$ 1,767,442	\$ 8,645,919