

## Financial Section

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# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2010 and 2009. Commentary in the MD&A as at and for the year ended December 31, 2010 is as of February 11, 2011.

## Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars (Note 1 of the Consolidated Financial Statements).

## Principal Holders of Voting Shares

As at December 31, 2010, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 57.0% and 3.5%, respectively, of the outstanding common shares of IGM Financial.

## FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions

and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

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

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

ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.

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

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

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

# IGM Financial Inc.

## Summary of Consolidated Operating Results

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

Total assets under management were \$129.5 billion as at December 31, 2010 compared with \$120.5 billion as at December 31, 2009, an increase of 7.4%.

Operating earnings available to common shareholders for the year ended December 31, 2010 were \$733.7 million or \$2.79 per share compared to operating earnings available to common shareholders of \$621.9 million or \$2.35 per share in 2009. This represents an increase of 18.7% on a per share basis.

Other items for the year ended December 31, 2010 consisted of an after-tax charge of \$8.2 million representing the Company's proportionate share of Great-West Lifeco Inc.'s (Lifeco) incremental litigation provision recorded in the third quarter.

Other items for the year ended December 31, 2009 were recorded in the fourth quarter and consisted of:

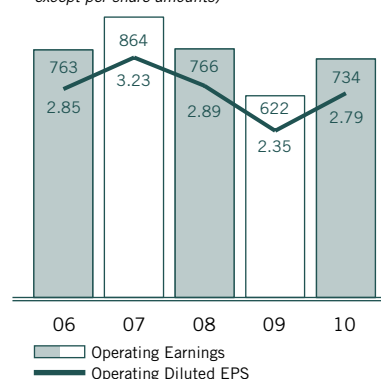
- A non-cash charge of \$76.5 million (\$66.2 million after tax) on available for sale (AFS) equity securities related to the market environment which was recorded in Net investment income and other in the Consolidated Statements of Earnings.
- A non-cash income tax benefit of \$17.8 million resulting from decreases in Ontario corporate income tax rates and their effect on the future income tax liability related to indefinite life intangible assets arising from the acquisition of Mackenzie Financial Corporation in 2001. There is no expectation that the future tax liability will become payable as the Company has no intention of disposing of these assets.
- A premium of \$14.4 million paid on the redemption of the Series A preferred shares on December 31, 2009 which was recorded in Net investment income and other in the Consolidated Statements of Earnings.

Net earnings available to common shareholders, including other items, for the year ended December 31, 2010 were \$725.5 million or \$2.76 per share compared to Net earnings available to common shareholders, including other items, of \$559.1 million or \$2.12 per share in 2009.

Shareholders' equity was \$4.5 billion as at December 31, 2010 compared to \$4.4 billion as at December 31, 2009. Return on average common equity based on operating earnings for the year ended December 31, 2010 was 17.0% compared with 14.8% in 2009. The quarterly dividend per common share was 51.25 cents in 2010 unchanged from 2009.

### Operating Earnings and Operating Earnings per Share

For the financial year (\$ millions, except per share amounts)



2006 and 2007 excluded a non-cash income tax benefit.  
2008 excluded the proportionate share of affiliate's impairment charge and affiliate's gain.  
2009 excluded a non-cash charge on AFS equity securities, a non-cash income tax benefit and a premium paid on the redemption of preferred shares.  
2010 excluded the proportionate share of affiliate's incremental litigation provision.

### NON-GAAP FINANCIAL MEASURES

Net earnings available to common shareholders, which is a financial measure in accordance with Canadian generally accepted accounting principles (GAAP), may be subdivided into two components consisting of:

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

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

Prior to the second quarter of 2010, the non-GAAP financial measures above were described as “adjusted net income available to common shareholders”, “adjusted diluted earnings per share” and “adjusted return on common equity”.

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

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

Refer to the appropriate reconciliations of these non-GAAP financial measures to reported results in accordance with GAAP in Tables 1 and 2.

TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(\$ millions)	2010		2009		2008	
	NET EARNINGS	EPS	NET EARNINGS	EPS	NET EARNINGS	EPS
<b>Operating earnings available to common shareholders – Non-GAAP measure</b>	\$ 733.7	\$ 2.79	\$ 621.9	\$ 2.35	\$ 766.1	\$ 2.89
Proportionate share of affiliate’s provision	(8.2)	(0.03)	–	–	–	–
Non-cash charge on available for sale (AFS) equity securities, net of tax	–	–	(66.2)	(0.25)	–	–
Non-cash income tax benefit	–	–	17.8	0.07	–	–
Premium paid on redemption of preferred shares	–	–	(14.4)	(0.05)	–	–
Proportionate share of affiliate’s impairment charge	–	–	–	–	(60.3)	(0.23)
Proportionate share of affiliate’s gain	–	–	–	–	25.0	0.10
<b>Net earnings available to common shareholders – GAAP</b>	\$ 725.5	\$ 2.76	\$ 559.1	\$ 2.12	\$ 730.8	\$ 2.76
<b>EBITDA – Non-GAAP measure</b>	\$ 1,465.2		\$ 1,334.2		\$ 1,518.1	
Commission amortization	(305.1)		(303.7)		(319.3)	
Amortization of capital and intangible assets and other	(33.8)		(33.9)		(32.9)	
Interest expense on long-term debt	(111.7)		(105.3)		(86.5)	
Dividends on preferred shares classified as liabilities	–		(20.7)		(20.7)	
Proportionate share of affiliate’s provision	(8.2)		–		–	
Non-cash charge on AFS equity securities	–		(76.5)		–	
Premium paid on redemption of preferred shares	–		(14.4)		–	
Proportionate share of affiliate’s impairment charge	–		–		(60.3)	
Proportionate share of affiliate’s gain	–		–		25.0	
<b>Earnings before income taxes</b>	1,006.4		779.7		1,023.4	
Income taxes	(270.8)		(220.6)		(292.6)	
Perpetual preferred share dividends	(10.1)		–		–	
<b>Net earnings available to common shareholders – GAAP</b>	\$ 725.5		\$ 559.1		\$ 730.8	

## REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie
- Corporate and Other.

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

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – Represents interest expense on long-term debt and for the comparative period in 2009 interest expense also included dividends paid on preferred shares classified as liabilities totalling \$20.7 million. These preferred shares were redeemed by the Company on December 31, 2009. In addition, interest expense in 2009 included interest expense on the interim bridge credit facility of \$287.0 million related to the Saxon Financial Inc. (Saxon) acquisition which was repaid during the second quarter of 2009.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT<sup>(1)</sup>

(\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2010	2009	2010	2009	2010	2009	2010	2009
<b>Revenues</b>								
Fee income	\$ 1,507.7	\$ 1,337.8	\$ 843.8	\$ 794.6	\$ 139.1	\$ 117.7	\$ 2,490.6	\$ 2,250.1
Net investment income and other	27.3	64.6	14.0	14.6	98.8	89.3	140.1	168.5
	1,535.0	1,402.4	857.8	809.2	237.9	207.0	2,630.7	2,418.6
<b>Expenses</b>								
Commission	478.4	445.9	298.2	284.7	92.4	77.9	869.0	808.5
Non-commission	326.8	311.2	270.9	269.2	38.0	33.8	635.7	614.2
	805.2	757.1	569.1	553.9	130.4	111.7	1,504.7	1,422.7
<b>Earnings before interest and taxes</b>	\$ 729.8	\$ 645.3	\$ 288.7	\$ 255.3	\$ 107.5	\$ 95.3	1,126.0	995.9
Interest expense							(111.4)	(125.3)
Proportionate share of affiliate's provision							(8.2)	–
Non-cash charge on AFS equity securities							–	(76.5)
Premium paid on redemption of preferred shares							–	(14.4)
Earnings before income taxes							1,006.4	779.7
Income taxes							270.8	220.6
<b>Net earnings</b>							735.6	559.1
Perpetual preferred share dividends							10.1	–
<b>Net earnings available to common shareholders</b>							\$ 725.5	\$ 559.1
<b>Operating earnings available to common shareholders<sup>(2)</sup></b>							\$ 733.7	\$ 621.9

(1) Effective January 1, 2010, the items noted below were reclassified to reflect changes in the Company's internal financial reporting and prior periods have been restated to reflect this reclassification:

- The Company's proportionate share of earnings of 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. Previously, the amount was recorded in Net investment income and other in the Investors Group segment. As a result, interest expense not allocated to segments includes interest on all of the Company's outstanding long-term debt.

(2) Refer to Non-GAAP Financial Measures disclosure in the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

- Interest expense totalled \$111.4 million in 2010 compared to \$104.6 million in 2009, excluding dividends on preferred shares classified as liabilities.
- *2010 Proportionate share of affiliate's provision* – In the third quarter of 2010, Lifeco established an incremental litigation provision and the Company's after-tax proportionate share was \$8.2 million.
  - *2009 Non-cash charge on AFS equity securities* – represents the non-cash other than temporary impairment (OTTI) charge of \$76.5 million (\$66.2 million after-tax) recorded in the fourth quarter of 2009 related to the market environment.
  - *2009 Premium paid on redemption of preferred shares* – represents the premium of \$14.4 million paid on the \$360 million Series A preferred shares which were redeemed on December 31, 2009.
  - *Income taxes* – Changes in the effective tax rate on both operating earnings and net earnings for the year ended December 31, 2010 compared with 2009 are shown in Table 3.

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

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares issued on December 8, 2009. The dividends declared in 2010 totalled \$10.1 million and included the initial dividend of \$0.57788 per share or \$3.5 million declared in the first quarter of 2010 related to the period from December 8, 2009 to April 30, 2010.

## SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 4.

*Net Earnings and Earnings per Share* – Table 1 of the MD&A shows the reconciliation of non-GAAP financial results to GAAP results. Except as noted in the reconciliation in Table 1, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. During 2008, there were significant declines in global financial markets resulting in lower asset values particularly in the fourth quarter of 2008. Global financial markets continued to decline throughout much of the first quarter of 2009 resulting in further decreases in average mutual fund assets under management.

TABLE 3: EFFECTIVE INCOME TAX RATE

	2010	2009
<b>Income taxes at Canadian federal and provincial statutory rates</b>	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	(2.14)	(2.80)
Dividends paid on preferred shares classified as liabilities	–	0.84
Other items	(1.10)	(0.45)
<b>Effective income tax rate – Operating earnings</b>	26.67	28.68
Proportionate share of affiliate's provision	0.24	–
Effect of rate changes on future income taxes related to indefinite life intangible assets	–	(2.28)
Non-cash charge on AFS equity securities	–	1.32
Premium paid on redemption of preferred shares	–	0.58
<b>Effective income tax rate – Net earnings</b>	26.91 %	28.30 %

TABLE 4: SELECTED ANNUAL INFORMATION

	2010	2009	2008
<b>Consolidated Statements of Earnings</b> (\$ millions)			
Revenues			
Fee income	\$ 2,490.6	\$ 2,250.1	\$ 2,502.5
Net investment income and other	140.1	168.5	216.3
	2,630.7	2,418.6	2,718.8
Expenses			
	1,014.6	870.6	1,058.7
Proportionate share of affiliate's provision	(8.2)	–	–
Non-cash charge on AFS equity securities	–	(76.5)	–
Premium paid on redemption of preferred shares	–	(14.4)	–
Proportionate share of affiliate's impairment charge	–	–	(60.3)
Proportionate share of affiliate's gain	–	–	25.0
Earnings before income taxes	1,006.4	779.7	1,023.4
Income taxes	270.8	220.6	292.6
Net earnings	735.6	559.1	730.8
Perpetual preferred share dividends	10.1	–	–
Net earnings available to common shareholders – GAAP	\$ 725.5	\$ 559.1	\$ 730.8
Operating earnings available to common shareholders – non-GAAP measure <sup>(1)</sup>	\$ 733.7	\$ 621.9	\$ 766.1
<b>Earnings per share</b> (\$)			
Net earnings available to common shareholders			
– Basic	\$ 2.77	\$ 2.12	\$ 2.78
– Diluted	2.76	2.12	2.76
Operating earnings available to common shareholders <sup>(1)</sup>			
– Basic	2.80	2.36	2.91
– Diluted	2.79	2.35	2.89
<b>Dividends per share</b> (\$)			
Common	\$ 2.05	\$ 2.05	\$ 2.00
Preferred, Series A	–	1.44	1.44
Preferred, Series B	1.68	–	–
Average daily mutual fund assets (\$ millions)	\$ 101,350	\$ 90,652	\$ 99,903
Total mutual fund assets under management (\$ millions)	\$ 107,925	\$ 100,419	\$ 85,025
Total assets under management (\$ millions)	\$ 129,484	\$ 120,545	\$ 101,742
Total corporate assets (\$ millions)	\$ 8,893	\$ 8,646	\$ 8,263
Total long-term debt (\$ millions)	\$ 1,775	\$ 1,575	\$ 1,200
Outstanding common shares (thousands)	259,718	262,633	262,365

(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

Although improving market conditions over the last three quarters of 2009 resulted in significant increases in mutual fund assets under management, average asset levels in 2009 remained below those reported in 2008 as shown in Table 4. Mutual fund assets under management increased in 2010 as global market conditions improved overall despite increased volatility primarily during the second and third quarters. As a result, average daily mutual fund assets under management increased in 2010 compared with 2009 as shown in Table 4. Changes in the Company's total mutual fund assets under management during 2010 and 2009 were consistent with changes in mutual fund assets experienced by the Canadian mutual fund industry. The impact on earnings and revenues of changes in average daily mutual fund assets under management are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2010 were \$129.5 billion and included mutual fund assets under management totalling \$107.9 billion. Net earnings in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

*Dividends per Common Share* – Annual dividends per common share were \$2.05 in 2010, unchanged from 2009. Annual dividends per common share increased 2.5% in 2009 and 12.7% in 2008.

## SUMMARY OF QUARTERLY RESULTS

Financial information for the eight most recently completed quarters is shown in Table 5 and includes the reconciliation of non-GAAP financial measures to net earnings in accordance with GAAP as described in Table 1 in the Summary of Consolidated Operating Results.

Quarterly operating earnings available to common shareholders are primarily dependent on the level of mutual fund assets under management. The level of average daily mutual fund assets under management in the first quarter of 2009 reflected the continued decline in global financial markets. Improving market conditions beginning in the second quarter of 2009 resulted in increasing levels of average daily mutual fund assets under management in each quarter during 2009. Average daily mutual fund assets under management remained relatively constant in each of the first three quarters of 2010 and increased in the fourth quarter consistent with improving market conditions in that period as shown in Table 5.

TABLE 5: SUMMARY OF QUARTERLY RESULTS

	2010				2009			
	4	3	2	1	4	3	2	1
<b>Consolidated statements of earnings</b> (\$ millions)								
Revenues								
Management fees	479.0	452.5	455.5	449.7	449.7	432.1	399.4	365.4
Administration fees	90.8	87.8	89.2	88.5	88.3	88.6	86.9	82.3
Distribution fees	83.7	69.1	71.9	72.9	70.7	62.0	62.3	62.4
Net investment income and other	39.1	36.0	26.7	38.3	28.9	43.8	43.0	52.8
	692.6	645.4	643.3	649.4	637.6	626.5	591.6	562.9
Expenses								
Commission	227.2	212.0	215.3	214.5	213.5	205.3	197.3	192.4
Non-commission	158.6	155.0	161.3	160.8	148.7	148.7	158.3	158.5
Interest	28.7	27.8	27.6	27.3	33.2	33.0	32.4	26.7
	414.5	394.8	404.2	402.6	395.4	387.0	388.0	377.6
Proportionate share of affiliate's provision	–	(8.2)	–	–	–	–	–	–
Non-cash charge on AFS equity securities	–	–	–	–	(76.5)	–	–	–
Premium paid on redemption of preferred shares	–	–	–	–	(14.4)	–	–	–
Earnings before income taxes	278.1	242.4	239.1	246.8	151.3	239.5	203.6	185.3
Income taxes	77.9	70.5	57.8	64.6	37.6	72.1	59.1	51.8
Net earnings	200.2	171.9	181.3	182.2	113.7	167.4	144.5	133.5
Perpetual preferred share dividends	2.2	2.2	2.2	3.5	–	–	–	–
Net earnings available to common shareholders – GAAP	198.0	169.7	179.1	178.7	113.7	167.4	144.5	133.5
<b>Reconciliation of Non-GAAP financial measures<sup>(1)</sup></b> (\$ millions)								
Operating earnings available to common shareholders – non-GAAP measure								
Proportionate share of affiliate's provision	–	(8.2)	–	–	–	–	–	–
Non-cash charge on AFS equity securities, net of tax	–	–	–	–	(66.2)	–	–	–
Non-cash income tax benefit	–	–	–	–	17.8	–	–	–
Premium paid on redemption of preferred shares	–	–	–	–	(14.4)	–	–	–
Net earnings available to common shareholders – GAAP	198.0	169.7	179.1	178.7	113.7	167.4	144.5	133.5
<b>Earnings per share</b> (¢)								
Net earnings available to common shareholders								
– Basic	76	65	68	68	43	63	55	51
– Diluted	76	65	68	68	43	63	55	51
Operating earnings available to common shareholders <sup>(1)</sup>								
– Basic	76	68	68	68	67	63	55	51
– Diluted	76	68	68	68	67	63	55	51
<b>Average daily mutual fund assets</b> (\$ billions)	105.0	99.4	100.5	100.4	98.6	94.4	88.2	81.1
<b>Total mutual fund assets under management</b> (\$ billions)	107.9	102.3	96.5	102.8	100.4	98.4	91.6	81.9
<b>Total assets under management</b> (\$ billions)	129.5	122.7	115.7	123.4	120.5	117.9	109.6	98.7

(1) Refer to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of the Company's non-GAAP financial measures.

# Investors Group

## Review of the Business

Investors Group provides a broad range of financial and investment planning services to Canadians through its exclusive network of Consultants across the country.

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

Fee income is also earned from the distribution of insurance, securities and other financial services.

Additional revenue is derived from net investment income and other income, as discussed in the Review of Segment Operating Results.

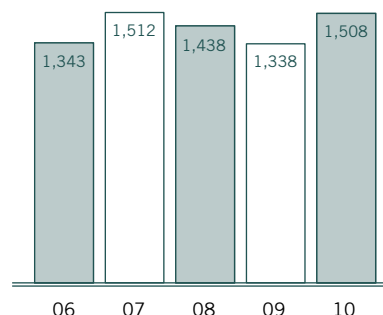
Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive approach to financial planning, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in increasing mutual fund sales in a period of market volatility. Mutual fund gross sales through our Consultant network were \$5.7 billion in 2010, up 14.0% over 2009. The redemption rate on long-term funds was 8.3% for the twelve months ending December 31, 2010, well below the industry redemption rate excluding Investors Group of 16.0% but higher than Investors Group's redemption rate of 7.4% in 2009. Net sales were \$253 million, down from \$404 million in 2009.

### INVESTORS GROUP STRATEGY

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

1. Growing our distribution network by attracting new Consultants to our industry and the retention and continued support of existing Consultants.
2. Emphasizing the delivery of financial planning advice, products and services through our exclusive network of Consultants, particularly during periods of market volatility.
3. Communicating actively with our Consultants and primarily through them to our clients during all economic cycles.
4. Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
5. Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to clients and Consultants, controlling expenditures, and becoming more efficient.

**Fee Income –  
Investors Group**  
For the financial year (\$ millions)



### CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants based in region offices across Canada. Six new region offices in Vancouver, Lethbridge, Saskatoon, Thunder Bay, Toronto and Belleville were announced in 2010 creating a total of 101 region offices across the country as Investors Group continues to build its Consultant network.

At the end of 2010, Investors Group had 4,686 Consultants, compared with 4,633 at the end of 2009. The number of Consultants with more than four years experience was 2,641 compared to 2,591 at the end of 2009. Our Consultant network has grown in each of the last twenty-six consecutive quarters, increasing by 1,479 Consultants or 46% since June 30, 2004.

### Consultant Development

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. This core training is supplemented by annual training conferences where education is tailored to both new and experienced Consultants.

In 2010 we continued to deliver additional phases of a multi-year initiative to enhance our Consultant technology platform, bringing together Consultants' contact management and portfolio information for greater efficiency and productivity.

#### Field Management Development

As part of Investors Group's commitment to growth, we continued to focus on developing a strong and experienced leadership team across the country. In addition to increasing the number of individuals in field management roles, we also provided additional opportunities for Consultants considering a management role, management training and peer-to-peer coaching.

#### COMMUNICATING WITH CONSULTANTS AND CLIENTS

As a result of the significant market volatility experienced in the latter part of 2008 and throughout 2009 and 2010, communications to Consultants and clients increased substantially. Consultants, in turn, maintain a high degree of contact with our clients,

continuing to reinforce the importance of long-term planning and a diversified investment portfolio. Ongoing surveys of our clients indicate a strong appreciation of the value of advice provided by our Consultants through varying economic cycles.

#### ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 6.

#### 2010 vs. 2009

Investors Group's mutual fund assets under management were \$61.8 billion at December 31, 2010, an increase of 7.2% from \$57.7 billion at December 31, 2009. Average daily mutual fund assets were \$58.3 billion in 2010, up 12.5% from \$51.8 billion in 2009.

For the fourth quarter ended December 31, 2010, sales of Investors Group mutual funds through its Consultant network were \$1.4 billion, an increase of 0.8% from 2009.

TABLE 6: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED (\$ millions)	2010 DEC. 31	2010 SEP. 30	2009 DEC. 31	% CHANGE	
				2010 SEP. 30	2009 DEC. 31
Sales	\$ 1,386.6	\$ 1,164.7	\$ 1,376.0	19.1 %	0.8 %
Redemptions	1,424.5	1,330.9	1,222.1	7.0	16.6
<b>Net sales (redemptions)</b>	(37.9)	(166.2)	153.9	77.2	N/M
Market and income	2,985.5	3,535.5	941.2	(15.6)	217.2
Net change in assets	2,947.6	3,369.3	1,095.1	(12.5)	169.2
Beginning assets	58,837.7	55,468.4	56,559.9	6.1	4.0
<b>Ending assets</b>	\$ 61,785.3	\$ 58,837.7	\$ 57,655.0	5.0 %	7.2 %
<b>Average daily assets</b>	\$ 60,236.0	\$ 57,165.7	\$ 56,549.8	5.4 %	6.5 %

TWELVE MONTHS ENDED (\$ millions)	2010 DEC. 31	2009 DEC. 31	% CHANGE
Redemptions	5,494.2	4,637.7	18.5
<b>Net sales</b>	253.4	404.2	(37.3)
Market and income	3,876.9	9,759.7	(60.3)
Net change in assets	4,130.3	10,163.9	(59.4)
Beginning assets	57,655.0	47,491.1	21.4
<b>Ending assets</b>	\$ 61,785.3	\$ 57,655.0	7.2 %
<b>Average daily assets</b>	\$ 58,255.7	\$ 51,766.1	12.5 %

Mutual fund redemptions totalled \$1.4 billion compared to \$1.2 billion in 2009. Investors Group's twelve month trailing redemption rate for long-term funds was 8.3% at December 31, 2010 compared to 7.4% at December 31, 2009, and remains well below the corresponding average redemption rate of approximately 16.0% for all other members of the Investment Funds Institute of Canada (IFIC) at December 31, 2010. Net redemptions of Investors Group mutual funds for the fourth quarter of 2010 were \$38 million compared with net sales of \$154 million in 2009. Sales of long-term funds were \$1.2 billion for the fourth quarter of 2010, unchanged from 2009. Net redemptions of long-term funds for the fourth quarter of 2010 were \$22 million compared to net sales of \$151 million in 2009. During the fourth quarter, market and income resulted in an increase of \$3.0 billion in mutual fund assets compared to \$941 million in 2009.

For the year ended December 31, 2010, sales of Investors Group mutual funds through its Consultant network were \$5.7 billion, an increase of 14.0% from 2009. Mutual fund redemptions totalled \$5.5 billion up from \$4.6 billion in 2009. Net sales of Investors Group mutual funds were \$253 million in 2010 compared with net sales of \$404 million in 2009. Sales of long-term funds were \$5.1 billion in 2010, compared with \$4.1 billion in 2009. Net sales of long-term funds were \$356 million in 2010 compared to net sales of \$394 million in 2009. During 2010, market and income resulted in an increase of \$3.9 billion in mutual fund assets compared to \$9.8 billion in 2009.

#### **Q4 2010 vs. Q3 2010**

Investors Group's mutual fund assets under management were \$61.8 billion at December 31, 2010, an increase of 5.0% from \$58.8 billion at September 30, 2010. Average daily mutual fund assets were \$60.2 billion in the fourth quarter of 2010 compared to \$57.2 billion in the third quarter.

For the fourth quarter ended December 31, 2010, sales of Investors Group mutual funds through its Consultant network were \$1.4 billion, an increase of 19.1% from the third quarter of 2010. Mutual fund redemptions, which totalled \$1.4 billion for the same period, increased 7.0% from the previous quarter. Net redemptions of Investors Group mutual funds for the current quarter were \$38 million compared with net redemptions of \$166 million in the previous quarter. Sales of long-term funds were \$1.2 billion for the current quarter, compared with \$1.0 billion in the previous quarter, an increase of 21.4%.

Net redemptions of long-term funds for the current quarter were \$22 million compared to net redemptions of \$131 million in the previous quarter.

## **PRODUCTS AND SERVICES**

Investors Group is regarded as a leader in personal financial planning in Canada. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients access to insurance, mortgages and other financial services.

### **PFP – Personal Financial Planner**

Investors Group's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

In the fourth quarter of 2010, a new financial assessment tool was introduced which allows for the rapid on-line development of basic financial plans in an enhanced format. This financial assessment tool was introduced to selected Consultants with a more extensive roll out scheduled in the first half of 2011. The new financial assessment tool is the first phase of a multi phase upgrading to our PFP toolset.

### **Symphony Strategic Investment Planning™ Program**

Symphony is Investors Group's approach to strategic investment planning. The Symphony program is designed to provide a scientifically constructed investment portfolio, consistent with the client's investment objectives and suited to their risk profile.

### **Charitable Giving Program**

The Investors Group Charitable Giving Program is a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

### **Mutual Funds**

Investors Group had \$61.8 billion in mutual fund assets under management at December 31, 2010 in 158 mutual funds covering a broad range of investment mandates. This compared with \$57.7 billion in 2009, an increase of 7.2%. The median return for all Investors Group clients in 2010 was 6.7%.

Through our own international team of investment professionals and relationships with external investment advisors, we provide clients with access to a wide range of investment advisory services. Clients can diversify their holdings across fund managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

Investors Group funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global connections, depth of research and use of information technology provide us with the investment management capabilities to offer our clients investment management expertise suitable for the widest range of investment objectives. Investors Group also offers a range of partner funds through advisory relationships with other investment management firms and oversees these external investment advisors to ensure that their activities are consistent with Investors Group's investment philosophy and with the investment objectives and strategies of the funds that they advise. These advisory relationships include investment managers such as Mackenzie Financial Corporation, Putnam Investments Inc., AGF Funds Inc., Beutel, Goodman & Company, Ltd., Bissett Investment Management, Camlin Asset Management Ltd., Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., LaSalle Investment Management (Securities), L.P., and RCM Capital Management LLC.

At December 31, 2010, 70% of Investors Group mutual funds (Investors, partner and portfolio funds) had a rating of three stars or better from the Morningstar<sup>†</sup> fund ranking service and 24% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 66% for three stars or better and 28% for four and five star funds at December 31, 2010. Morningstar<sup>†</sup> Ratings are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Investors Group continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds that are well-suited to the long-term diverse needs of Canadian investors.

- On July 12, 2010, Investors Group launched a new U.S. equity mandate, IG FI U.S. Large Cap Equity Fund and Class and a new international equity mandate, IG FI International Equity Fund and Class, both of which are sub-advised by Fidelity Investments.
- On December 20, 2010, Investors Group announced the launch of the Investors Fixed Income Flex

Portfolio. This mandate is to provide current income by investing in a diversified set of underlying funds that invest primarily in fixed income securities. This mandate also has the flexibility to adapt to a changing environment by adjusting the underlying type of investments as the interest rate and credit environment evolves. Investors Fixed Income Flex Portfolio is expected to be available for sale early in 2011.

#### **Managed Asset and Multi-Manager Investment Programs**

Investors Group Corporate Class Inc.<sup>™</sup> is a broad tax advantaged fund structure which features the ability to switch on a fee-free basis among 57 funds within the group of funds with no immediate tax consequences. The funds include 32 funds advised by I.G. Investment Management, 20 funds sub-advised by external investment advisors and five Corporate Class portfolios. At the end of 2010, the Corporate Class funds totalled \$3.9 billion in assets compared with \$3.1 billion in 2009.

Investors Group provides clients with access to a growing selection of asset allocation opportunities which include:

- **Allegro Portfolios<sup>™</sup>**: The seven Allegro Portfolios provide a single step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. Fund assets were \$3.3 billion as of December 31, 2010 compared with \$3.0 billion in the previous year.
- **Allegro Corporate Class Portfolios<sup>™</sup>**: The five portfolio classes offer clients a single-step, tax efficient approach for their investments. The series T option further benefits investors with monthly tax-deferred distributions in the form of return of capital. These diversified portfolios have something to offer for each category of the risk/return spectrum. Fund assets were \$274 million as of December 31, 2010 compared with \$99 million in the previous year.
- **Alto Portfolios<sup>™</sup>**: The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The eleven portfolios include Investors Group funds and funds sub-advised by Mackenzie. Assets in the portfolios were \$2.8 billion as of December 31, 2010 compared with \$2.3 billion in the previous year.
- **Investors Group Portfolios**: These funds have assets of \$8.8 billion as at December 31, 2010, compared with \$8.0 billion in the previous year. The program is comprised of eleven funds which invest in 21 underlying Investors Group funds to provide a high level of diversification.

- **iProfile™:** This is a unique portfolio management program introduced in 2001 that is available for clients with assets over \$250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of 10 global money management firms such as I.G. Investment Management, Ltd., AMI Partners, JPMorgan Asset Management (Canada) Ltd., Jarislowsky, Fraser Limited, Philadelphia International Investment Advisors, and Waddell & Reed. This program had \$448 million in assets as at December 31, 2010.

### Segregated Funds

In November 2009, Investors Group expanded its offering of Great-West Life segregated funds by launching a new line of segregated fund policies known as Guaranteed Investment Funds (GIFs). The GIF offering includes 14 segregated fund-of-fund portfolios and 6 segregated funds. These funds offer an enhanced selection of death benefit and maturity guarantees and also include a new Lifetime Income Benefit (LIB) protection feature on select GIFs. The investment components of these segregated funds are managed by Investors Group.

At December 31, 2010, total segregated fund assets were \$880 million.

### Insurance

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Canada Life Assurance Company
- The Great-West Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company

Sales of insurance products as measured by new annualized premiums were \$57 million, an increase of 16.8% over \$49 million in 2009. The average number of policies sold by each insurance licensed Consultant was 9.4 in 2010 compared with 8.6 in 2009. Distribution of insurance products is enhanced through Investors Group's insurance specialists throughout Canada who assist Consultants with the selection of insurance solutions.

### Securities Operations

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. Investors Group Consultants can refer clients to one of our securities specialists available through Investors Group Securities Inc.

In 2010, we continued to evolve the service we developed to accommodate individual stocks and bonds owned by our clients within their financial plan. This involved further investment in our systems and the addition of a number of securities specialists who work alongside our Consultants and are licensed to advise on individual securities. In addition, a few of our Consultants transitioned their registration to the Investment Industry Regulatory Organization of Canada (IIROC) but remain within our region offices and continue to operate in our established business model which has a managed asset focus delivered within a financial planning context.

At December 31, 2010, total assets under administration were \$6.1 billion. The assets gathered during 2010 were \$1.3 billion, compared to \$1.1 billion in 2009.

### Mortgage Operations

Clients who are seeking residential mortgages are referred to Investors Group mortgage planning specialists who originate mortgages in key residential markets. Mortgage originations were \$1.2 billion, unchanged from 2009. At December 31, 2010, mortgages serviced by Investors Group totalled \$5.7 billion compared to \$5.4 billion at December 31, 2009.

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

**Solutions Banking<sup>†</sup>**

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

**Additional Products and Services**

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

# Review of Segment Operating Results

Investors Group's earnings before interest and taxes are presented in Table 7.

## 2010 VS. 2009

### Fee Income

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and Solutions Banking<sup>†</sup> products and the provision of securities services provide additional fee income.

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$290.1 million in the fourth quarter of 2010, an increase of \$19.1 million or 7.0% from \$271.0 million in 2009. During the year ended December 31, 2010, management fees were \$1,112.0 million, an increase of \$130.7 million or 13.3% from \$981.3 million in 2009. The increase in management fees in both periods was primarily due to the increase of 6.5% and 12.5%, respectively, in average daily mutual fund assets as shown in Table 6. For both the three and twelve month periods, management fees were 191 basis points of average daily mutual fund assets compared to 190 basis points in 2009. Management fee income and average management fee rates for all of the periods under review also reflected the effect of Investors Group waiving a portion of the investment management fees on its money market funds to ensure that these funds maintained a positive yield. For the three and twelve month periods, these waivers totalled \$1.2 million and \$6.5 million, respectively, in 2010 compared to \$2.3 million and \$6.8 million, respectively, in 2009.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$56.0 million in the current quarter compared to \$54.2 million a year ago and were \$218.4 million for the year ended December 31, 2010 compared to \$206.6 million in 2009. While average daily mutual fund assets under management increased by 6.5% and 12.5% for the three and twelve month periods in 2010 compared to 2009, administration fee income increased by 3.3% and 5.7% in these periods as a result of a reduction in operating expense adjustments. Operating expense adjustments, as discussed in previous periods, were nil for the fourth quarter of 2010

compared to \$1.2 million in 2009. For the twelve month period, operating expense adjustments were \$0.6 million in 2010 compared to \$13.5 million in 2009. In addition, administration fee revenue declined marginally, effective July 1, 2010, due to reductions in the fixed rate on administration fees charged on certain mutual funds.

Distribution fees are earned from:

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

Distribution fee income of \$47.4 million for the fourth quarter of 2010 increased by \$5.0 million from \$42.4 million in 2009. For the twelve month period, distribution fees of \$177.3 million increased by \$27.4 million from \$149.9 million in 2009. Distribution fee income from insurance and banking products and from securities services increased in both the three and twelve month periods. Redemption fee income increased by \$0.9 million to \$11.7 million in the fourth quarter of 2010 compared to 2009. For the twelve month period, redemption fee income increased by \$7.9 million to \$47.5 million. Redemption fee income may vary depending on the level of deferred sales charge attributable to fee-based redemptions.

### Net Investment Income and Other

As discussed, certain items previously reported in Net investment income and other have been reclassified. Prior periods have been restated to reflect these reclassifications.

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

Net investment income and other was \$9.6 million in the fourth quarter of 2010, a decrease of \$0.3 million from \$9.9 million in 2009. For the twelve months ended December 31, 2010, net investment income and other totalled \$27.3 million, a decrease of \$37.3 million from \$64.6 million in 2009.

The decrease in net investment income and other in the twelve month period ended December 31, 2010 compared to 2009 related primarily to Investors Group's mortgage banking operations.

TABLE 7: OPERATING RESULTS – INVESTORS GROUP<sup>(1)</sup>

THREE MONTHS ENDED (\$ millions)	2010		2009 DEC. 31	% CHANGE	
	DEC. 31	SEP. 30		2010 SEP. 30	2009 DEC. 31
<b>Revenues</b>					
Management fees	\$ 290.1	\$ 274.5	\$ 271.0	5.7 %	7.0 %
Administration fees	56.0	53.3	54.2	5.1	3.3
Distribution fees	47.4	43.2	42.4	9.7	11.8
	393.5	371.0	367.6	6.1	7.0
Net investment income and other	9.6	10.8	9.9	(11.1)	(3.0)
	403.1	381.8	377.5	5.6	6.8
<b>Expenses</b>					
Commission	68.7	67.5	66.8	1.8	2.8
Asset retention bonus and premium	53.5	51.0	49.7	4.9	7.6
Non-commission	80.3	78.9	75.6	1.8	6.2
	202.5	197.4	192.1	2.6	5.4
<b>Earnings before interest and taxes</b>	<b>\$ 200.6</b>	<b>\$ 184.4</b>	<b>\$ 185.4</b>	<b>8.8 %</b>	<b>8.2 %</b>
<b>TWELVE MONTHS ENDED</b>					
(\$ millions)	2010		2009 DEC. 31	% CHANGE	
	DEC. 31	DEC. 31		2010 DEC. 31	2009 DEC. 31
<b>Revenues</b>					
Management fees			\$ 1,112.0	\$ 981.3	13.3 %
Administration fees			218.4	206.6	5.7
Distribution fees			177.3	149.9	18.3
			1,507.7	1,337.8	12.7
Net investment income and other			27.3	64.6	(57.7)
			1,535.0	1,402.4	9.5
<b>Expenses</b>					
Commission			271.0	256.4	5.7
Asset retention bonus and premium			207.4	189.5	9.4
Non-commission			326.8	311.2	5.0
			805.2	757.1	6.4
<b>Earnings before interest and taxes</b>			<b>\$ 729.8</b>	<b>\$ 645.3</b>	<b>13.1 %</b>

(1) Effective January 1, 2010, the following items were reclassified and prior periods have been restated to reflect this reclassification:

- 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. 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 the Investors Group segment. Previously, the amount was recorded in Net investment income and other in the Investors Group segment.

A summary of mortgage banking activities for the twelve months ended December 31, 2010 compared to 2009 is presented in Table 8.

Net investment income related to Investors Group's mortgage banking operations declined in the twelve months ended December 31, 2010 compared to 2009 primarily due to:

- Lower gains realized on mortgage sales activity which decreased by \$27.2 million in the twelve month period ended December 31, 2010 compared to the same period in 2009. The decline in gains was a result of lower margins on mortgage sales made during 2010 relative to margins experienced on sales made over the same period of 2009 which were above historical averages.
- Lower favourable non-cash fair value adjustments to the retained interest receivables, which declined by \$15.3 million in the twelve month period ended December 31, 2010 compared to the same period in 2009. These non-cash fair value adjustments to the retained interest receivables resulted from lower credit spreads on asset-backed commercial paper structures.

#### Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. Commissions paid on the sale of mutual funds are deferred and amortized over a period of six years. Commission expense for the fourth quarter of 2010 increased by \$1.9 million to \$68.7 million

compared with \$66.8 million in 2009. For the twelve month period ended December 31, 2010, commission expense increased by \$14.6 million to \$271.0 million compared with \$256.4 million in 2009.

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

- Asset retention bonus which is paid monthly is based on the value of assets under management. Asset retention bonus expense increased by \$3.2 million and \$16.4 million for the three and twelve month periods ended December 31, 2010 to \$45.5 million and \$175.5 million, respectively, compared to 2009. The increases were primarily as a result of changes in average assets under management.
- Asset retention premium which is paid annually is a deferred component of compensation designed to promote Consultant retention and is based on assets under management at each year-end. Asset retention premium expense increased by \$0.5 million and \$1.5 million in the three and twelve month periods to \$8.0 million and \$31.9 million, respectively, compared to 2009.

Non-commission expenses include costs incurred by Investors Group related to Consultant network support, the administration, marketing and management of its mutual funds and other products, as well as other expenses. Non-commission expenses were \$80.3 million for the fourth quarter of 2010 compared to \$75.6 million in 2009. For the twelve month period, non-commission expenses were \$326.8 million compared to \$311.2 million in 2009.

TABLE 8: MORTGAGE BANKING ACTIVITIES

(\$ millions)	2010 DEC. 31	2009 DEC. 31	% CHANGE
AS AT			
<b>Mortgages Serviced</b>	\$ 5,741	\$ 5,366	7.0 %
<b>Mortgage Warehouse<sup>(1)</sup></b>	\$ 183	\$ 227	(19.4)%
TWELVE MONTHS ENDED			
<b>Mortgage Originations<sup>(2)</sup></b>	\$ 1,178	\$ 1,153	2.2 %
<b>Mortgage Sales<sup>(3)</sup> to:</b>			
CMB/MBS Programs	\$ 967	\$ 1,099	(12.0)%
Bank-sponsored ABCP programs	244	218	11.9
Institutional investors through private placements	216	140	54.3
Investors Mortgage and Short Term Income Fund	675	677	(0.3)
	\$ 2,102	\$ 2,134	(1.5)%

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

(2) Excludes renewals and refinances.

(3) Represents principal amounts sold.

The change in non-commission expenses reflects Investors Group's strategy of maximizing returns on business investments that have direct benefits to clients and Consultants while controlling expenditures and increasing efficiency as follows:

- Investors Group's Consultant network continued to grow during the twelve months ended December 31, 2010. As a result, expenses related to recruiting, training, field support and region office expansion increased in both of the three and twelve month periods of 2010 compared to the same periods in 2009.
- Sub-advisory fees increased in the three and twelve month periods of 2010 compared to the same periods in the prior year, resulting from increases in related assets.
- Non-commission expenses, excluding those related directly to growth and support of the Consultant network, as noted above, increased marginally in both the three and twelve month periods in 2010 compared with 2009.

#### **Q4 2010 VS. Q3 2010**

##### **Fee Income**

Management fee income increased by \$15.6 million or 5.7% to \$290.1 million in the fourth quarter of 2010 compared with the third quarter of 2010 consistent with the change in average daily mutual fund assets as shown in Table 6. Management fee income was 191 basis points of average daily mutual fund assets for both the third and fourth quarters of 2010. Money market fund waivers totalled \$1.2 million in the fourth quarter of 2010 compared to \$1.5 million in the prior quarter.

Administration fees increased to \$56.0 million in the fourth quarter of 2010 from \$53.3 million in the third quarter consistent with the change in average daily mutual fund assets.

Distribution fee income of \$47.4 million in the fourth quarter of 2010 increased by \$4.2 million from \$43.2 million in the third quarter. The increase was primarily due to distribution fee income from insurance products and securities services.

##### **Net Investment Income and Other**

Net investment income and other was \$9.6 million in the fourth quarter of 2010, a decrease of \$1.2 million from \$10.8 million in the previous quarter. Net investment income related to Investors Group's mortgage banking operations in the fourth quarter of 2010 was relatively consistent with the third quarter results.

##### **Expenses**

Commission expense in the current quarter was \$68.7 million compared with \$67.5 million in the previous quarter primarily due to increases in the commissions related to other financial services and products.

The asset retention bonus and premium expense increased by \$2.5 million to \$53.5 million in the fourth quarter of 2010 related to increases in mutual fund assets.

Non-commission expenses increased \$1.4 million to \$80.3 million in the fourth quarter of 2010 compared with the third quarter due primarily to seasonal patterns of expenses related to mutual fund operations and increases in sub-advisory fees.

# Mackenzie

## Review of the Business

Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through the multiple distribution channels focused on independent financial advice.

Mackenzie earns revenue primarily from:

- Management fees charged to its mutual funds, sub-advised accounts and institutional clients.
- Fees charged to its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

Fee income is also earned from the administration of registered and open accounts at M.R.S. Inc. and through deposit, lending and related services at M.R.S. Trust Company.

Revenues depend largely on the level and composition of assets under management. Mackenzie's proprietary investment research and team of experienced investment professionals and sub-advisors across the multiple brands offered at Mackenzie contribute to delivering flexibility and diversification opportunities through our broad product offerings for our clients.

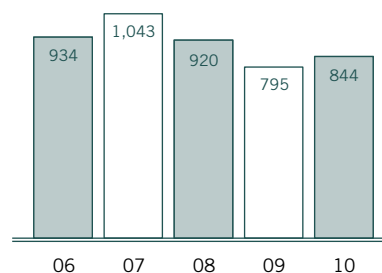
### MACKENZIE STRATEGY

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

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

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

**Fee Income – Mackenzie**  
For the financial year (\$ millions)



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

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

### ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 9.

The change in Mackenzie's assets under management is determined by: (1) the increase or decrease in the market value of the securities held in the portfolios of investments; (2) the level of sales as compared to the level of redemptions; and (3) acquisitions. Assets under management are subject to the risk of asset volatility resulting from changes in the global financial and equity markets.

## 2010 vs. 2009

Mackenzie's total assets under management at December 31, 2010 were \$68.3 billion, an increase of 7.5% from \$63.6 billion at December 31, 2009. Mackenzie's mutual fund assets under management were \$43.4 billion at December 31, 2010, an increase of 7.0% from \$40.6 billion at December 31, 2009. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2010 were \$24.9 billion, an increase of 8.4% from \$23.0 billion last year.

In the three months ended December 31, 2010, Mackenzie's gross sales were \$3.1 billion, an increase of 6.2% from \$3.0 billion in the comparative period last year. Redemptions in the current period were

\$3.4 billion, a decrease of 1.8% from \$3.5 billion last year. Net redemptions for the three months ended December 31, 2010 were \$0.3 billion, as compared to net redemptions of \$0.5 billion last year. During the current quarter, market and income resulted in assets increasing by \$4.1 billion as compared to an increase of \$2.1 billion in 2009.

During the year ended December 31, 2010, Mackenzie's gross sales were \$12.2 billion, an increase of 4.5% from \$11.6 billion in the comparative period last year. Redemptions in the current period were \$13.6 billion as compared to redemptions of \$13.0 billion in 2009. Net redemptions for the year ended December 31, 2010 were \$1.4 billion,

TABLE 9: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2010 DEC. 31	2010 SEP. 30	2009 DEC. 31	% CHANGE	
				2010 SEP. 30	2009 DEC. 31
Sales	\$ 3,132.5	\$ 2,459.3	\$ 2,951.0	27.4 %	6.2 %
Redemptions	3,399.6	3,230.3	3,460.4	5.2	(1.8)
<b>Net redemptions</b>	(267.1)	(771.0)	(509.4)	65.4	47.6
Market and income	4,080.4	4,417.0	2,058.6	(7.6)	98.2
Net change in assets	3,813.3	3,646.0	1,549.2	4.6	146.1
Beginning assets	64,533.0	60,887.0	62,030.2	6.0	4.0
<b>Ending assets</b>	\$ 68,346.3	\$ 64,533.0	\$ 63,579.4	5.9 %	7.5 %
<b>Consists of:</b>					
Mutual funds	\$ 43,452.2	\$ 41,111.6	\$ 40,624.2	5.7 %	7.0 %
Sub-advisory, institutional and other accounts	24,894.1	23,421.4	22,955.2	6.3	8.4
	\$ 68,346.3	\$ 64,533.0	\$ 63,579.4	5.9 %	7.5 %
<b>Daily average mutual fund assets</b>	\$ 42,197.7	\$ 39,980.5	\$ 40,023.1	5.5 %	5.4 %
<b>Monthly average total assets<sup>(1)</sup></b>	\$ 66,355.3	\$ 62,656.1	\$ 62,490.9	5.9 %	6.2 %
<b>TWELVE MONTHS ENDED (\$ millions)</b>					
			2010 DEC. 31	2009 DEC. 31	% CHANGE
Sales			\$ 12,162.6	\$ 11,643.3	4.5 %
Redemptions			13,616.1	13,048.5	4.3
<b>Net redemptions</b>			(1,453.5)	(1,405.2)	(3.4)
Market and income			6,220.4	10,324.1	(39.7)
Net change in assets			4,766.9	8,918.9	(46.6)
Beginning assets			63,579.4	54,660.5	16.3
<b>Ending assets</b>			\$ 68,346.3	\$ 63,579.4	7.5 %
<b>Daily average mutual fund assets</b>			\$ 40,788.1	\$ 37,026.6	10.2 %
<b>Monthly average total assets<sup>(1)</sup></b>			\$ 64,059.9	\$ 57,643.4	11.1 %

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

consistent with the level of net redemptions last year. During 2010, market and income resulted in assets increasing by \$6.2 billion as compared to an increase of \$10.3 billion in 2009.

Redemptions of long-term mutual funds in 2010 were \$6.5 billion as compared to redemptions of \$5.1 billion in 2009. As at December 31, 2010, Mackenzie's twelve-month trailing redemption rate for long-term funds was 16.5%, as compared to 14.6% last year. The average twelve-month trailing redemption rate for long-term funds for all other members of IFIC increased to approximately 15.1% at December 31, 2010 from 14.2% last year. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

#### **Q4 2010 vs. Q3 2010**

Mackenzie's total assets under management at December 31, 2010 were \$68.3 billion, an increase of 5.9% from \$64.5 billion at September 30, 2010 as summarized in Table 9. Mackenzie's mutual fund assets under management increased \$2.3 billion or 5.7% to \$43.4 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts increased \$1.5 billion or 6.3% to \$24.9 billion at December 31, 2010.

Redemptions of long-term mutual fund assets in the current quarter were \$1.7 billion as compared to \$1.4 billion in the quarter ended September 30, 2010. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2010 was 17.0%, as compared to 15.2% in the third quarter of 2010.

#### **INVESTMENT MANAGEMENT**

Mackenzie's assets under management are diversified by investment objective as set out in Table 10. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Investors faced uncertain financial markets in 2010. Early optimism gave way to declines in May and June as European sovereign debt problems became more public, leaving interest rates and share prices lower through

June. Conditions improved during the second half of the year as stronger than expected economic growth rekindled investor optimism, driving equity markets, commodity prices and interest rates higher. Canada was a major beneficiary of these positive market trends, with the Canadian stock market posting a 17.6% return for the year, and the Canadian dollar ending the year basically on par with the U.S. dollar.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2010, 50% of Mackenzie's mutual funds were rated in the top two performance quartiles for the one year time frame, 56% for the three year time frame and 59% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar<sup>†</sup> fund ranking service. At December 31, 2010, 76% of Mackenzie's mutual fund assets measured by Morningstar<sup>†</sup> had a rating of three stars or better and 48% had a rating of four or five stars. This compared to the Morningstar<sup>†</sup> universe of 79% for three stars or better and 40% for four and five star funds at December 31, 2010.

#### **PRODUCTS**

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. In 2010 Mackenzie continued to evaluate and adjust its product shelf by merging funds and by providing additional investment solutions for financial advisors to offer their investment clients. A summary of product initiatives undertaken this year included the following:

- **January 7** – Mackenzie launched the Mackenzie Universal Gold Bullion Class, a fund that invests 80% to 100% of its assets in gold bullion and/or permitted gold certificates.
- **February 17** – Mackenzie completed the first closing of the initial public offering of MSP\* 2010 Resource Limited Partnership.
- **March 10** – Mackenzie announced its intention to merge Mackenzie Universal World Science & Technology Class into Mackenzie Universal Technology Class.
- **April 26** – Mackenzie completed the second closing of its initial public offering of MSP\* 2010 Resource Limited Partnership.
- **July 20** – Mackenzie launched three new Saxon Corporate Class funds: Mackenzie Saxon Balanced Class, Mackenzie Saxon Stock Class and Mackenzie Saxon Small Cap Class.
- **July 20** – Mackenzie launched the Mackenzie All-Sector Canadian Balanced Fund.

TABLE 10: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

<i>(\$ millions)</i>	2010		2009	
<b>Equity</b>				
Domestic	\$ 19,456.4	28.5 %	\$ 17,804.5	28.0 %
Foreign	22,469.4	32.9	21,595.1	34.0
	41,925.8	61.4	39,399.6	62.0
<b>Balanced</b>				
Domestic	10,402.3	15.2	8,466.6	13.3
Foreign	1,811.2	2.7	1,868.9	2.9
	12,213.5	17.9	10,335.5	16.2
<b>Fixed Income</b>				
Domestic	11,737.3	17.2	10,694.0	16.8
Foreign	113.2	0.1	70.0	0.1
	11,850.5	17.3	10,764.0	16.9
<b>Money Market</b>				
Domestic	2,333.2	3.4	3,043.4	4.8
Foreign	23.3	–	36.9	0.1
	2,356.5	3.4	3,080.3	4.9
<b>Total</b>	\$ 68,346.3	100.0 %	\$ 63,579.4	100.0 %
<b>Consists of:</b>				
Mutual funds	\$ 43,452.2	63.6 %	\$ 40,624.2	63.9 %
Sub-advisory, institutional and other accounts	24,894.1	36.4	22,955.2	36.1
	\$ 68,346.3	100.0 %	\$ 63,579.4	100.0 %

- **August 27** – Mackenzie announced a change to the investment strategy of Mackenzie Sentinel Corporate Bond Fund such that the fund can invest up to 49% of its assets in foreign securities, an increase from the current limit of 30%.
- **September 20** – Mackenzie announced changes to two Saxon international mutual funds. Effective October 1, 2010, the Mackenzie Cundill team was appointed portfolio manager of Mackenzie Saxon International Equity Fund and Mackenzie Saxon World Fund.
- **October 27** – Mackenzie announced a change to the investment strategy of Mackenzie Ivy Growth & Income Fund to allow the fund to invest up to 49% of its assets in foreign securities, an increase from the current limit of 30%.
- **November 16** – Mackenzie announced its plan to merge Mackenzie Universal European Opportunities Class with Mackenzie Ivy European Class.
- **November 17** – Mackenzie launched the Mackenzie Founders Global Equity Class.

#### TRUST, DEALER AND ADMINISTRATION SERVICES

Mackenzie continues to provide products and services to dealers, financial advisors and their respective clients through its subsidiaries. M.R.S. Trust Company provides an array of loan and deposit products to clients of independent financial advisors including registered and non-registered investment loans, residential mortgages, high-yield deposits and GICs. In addition, M.R.S. Trust provides trustee services to certain distribution companies within the Power Financial group of companies. M.R.S. Inc. (MRS) is a carrying dealer service provider to distributors of mutual funds across Canada. At December 31, 2010 MRS served over 130 dealers and over 14,500 financial advisors. Clients can hold mutual funds, equities, fixed income securities and other specialty investments in an MRS account. Winfund Software Corp. is one of the larger providers of software for distributors of mutual funds and insurance products in Canada.

## Review of Segment Operating Results

Mackenzie's earnings before interest and taxes are presented in Table 11.

### 2010 VS. 2009

#### Revenues

Mackenzie's management fee revenues are earned from services it provides as fund manager to the Mackenzie mutual funds and as investment advisor to sub-advisory and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis. Mackenzie also offers certain series of its mutual funds with management

fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. Mackenzie does not pay commissions on these non-retail series of its mutual funds. At December 31, 2010, there were \$10.0 billion of mutual fund assets in these series of funds, as compared to \$8.2 billion at December 31, 2009.

Management fees were \$178.3 million for the three months ended December 31, 2010, an increase of \$8.9 million or 5.3% from \$169.4 million last year. For the twelve month period ended December 31, 2010, management fees were \$687.1 million, an increase of

TABLE 11: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2010		2009	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2010 SEP. 30	2009 DEC. 31
<b>Revenues</b>					
Management fees	\$ 178.3	\$ 168.8	\$ 169.4	5.6 %	5.3 %
Administration fees	33.3	32.9	33.5	1.2	(0.6)
Distribution fees	6.7	5.3	6.5	26.4	3.1
	218.3	207.0	209.4	5.5	4.3
Net investment income and other	4.2	3.4	3.4	23.5	23.5
	222.5	210.4	212.8	5.8	4.6
<b>Expenses</b>					
Commission	29.4	28.8	31.5	2.1	(6.7)
Trailing commission	47.3	44.4	44.5	6.5	6.3
Non-commission	68.1	66.3	64.7	2.7	5.3
	144.8	139.5	140.7	3.8	2.9
<b>Earnings before interest and taxes</b>	<b>\$ 77.7</b>	<b>\$ 70.9</b>	<b>\$ 72.1</b>	<b>9.6 %</b>	<b>7.8 %</b>
<b>TWELVE MONTHS ENDED (\$ millions)</b>					
			2010 DEC. 31	2009 DEC. 31	% CHANGE
<b>Revenues</b>					
Management fees			\$ 687.1	\$ 631.4	8.8 %
Administration fees			132.0	137.4	(3.9)
Distribution fees			24.7	25.8	(4.3)
			843.8	794.6	6.2
Net investment income and other			14.0	14.6	(4.1)
			857.8	809.2	6.0
<b>Expenses</b>					
Commission			115.5	119.8	(3.6)
Trailing commission			182.7	164.9	10.8
Non-commission			270.9	269.2	0.6
			569.1	553.9	2.7
<b>Earnings before interest and taxes</b>			<b>\$ 288.7</b>	<b>\$ 255.3</b>	<b>13.1 %</b>

\$55.7 million or 8.8% from \$631.4 million in 2009. The increase in management fees was due to the change in Mackenzie's monthly average total assets under management combined with the change in the mix of assets under management.

Monthly average total assets under management were \$66.4 billion in the three month period ended December 31, 2010 compared to \$62.5 billion in 2009, an increase of 6.2%. Monthly average total assets under management for the twelve month period ended December 31, 2010 were \$64.1 billion compared to \$57.6 billion in 2009, an increase of 11.1%.

Mackenzie's average management fee rate was 106.6 basis points in the three month period ended December 31, 2010 and 107.3 basis points in the twelve month period ended December 31, 2010, compared to 107.5 basis points and 109.5 basis points respectively in 2009. Factors contributing to the net decrease in the average management fee rate as compared to 2009 are as follows:

- The relative change in Mackenzie's institutional accounts and in its non-retail mutual funds relative to the change in its retail mutual funds decreased Mackenzie's average management fee rate. Institutional assets and non-retail mutual funds have lower management fees than retail mutual funds.
- The lower level of waivers of management fees on its money market funds in the current year relative to last year increased Mackenzie's average management fee rate. Due to the continuing low interest rate environment in the current period, Mackenzie waived a portion of its management fees on these funds in order to maintain positive net returns for investors. In the three month and twelve month periods ended December 31, 2010, Mackenzie waived management fees of \$0.3 million and \$5.3 million respectively on its money market funds as compared to \$5.0 million and \$7.7 million in 2009.

Administration fees include the following main components:

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

Administration fees were \$33.3 million for the three months ended December 31, 2010, as compared to \$33.5 million in 2009. Administration fees were \$132.0 million for the twelve months ended December 31, 2010, as compared to \$137.4 million in 2009.

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

- From August 1, 2007 until December 31, 2009, and thereafter as may be applicable, the funds that existed as at August 1, 2007 may be required to pay a monthly operating expense adjustment to Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets. If it becomes payable, Mackenzie will be entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on August 1, 2007 throughout the month.
- As the applicable mutual fund asset levels as at December 31, 2009 were below 95% of the net asset levels on August 1, 2007, the monthly operating expense adjustment continues until the first month where average asset levels exceed 95% of the net asset levels on August 1, 2007. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on August 1, 2007, the operating expense adjustment will no longer be payable.

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in 2010. Included in administration fees were operating expense adjustments of \$2.7 million in the three months ended December 31, 2010 and \$12.9 million in the twelve months ended December 31, 2010, compared to \$3.5 million and \$23.0 million respectively in 2009.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended December 31, 2010 was \$6.7 million, an increase of \$0.2 million from \$6.5 million last year.

Distribution fee income in the twelve months ended December 31, 2010 was \$24.7 million, a decrease of \$1.1 million from \$25.8 million in 2009.

The primary component of net investment income and other is the net interest margin from M.R.S. Trust Company's lending and deposit-taking operations. Net investment income and other in the three months ended December 31, 2010 was \$4.2 million, an increase of \$0.8 million from \$3.4 million in 2009. Net investment income in the twelve months ended December 31, 2010 was \$14.0 million, a decrease of \$0.6 million from \$14.6 million in the comparative period last year.

### Expenses

Mackenzie's expenses were \$144.8 million for the three months ended December 31, 2010, an increase of \$4.1 million or 2.9% from \$140.7 million last year. Expenses for the twelve months ended December 31, 2010 were \$569.1 million, an increase of \$15.2 million or 2.7% from \$553.9 million in 2009.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. Commission expense, which represents the amortization of selling commissions, was \$29.4 million in the three months ended December 31, 2010, as compared to \$31.5 million last year. Commission expense in the twelve months ended December 31, 2010 was \$115.5 million as compared to \$119.8 million in 2009. Mackenzie amortizes selling commissions over three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$47.3 million in the three months ended December 31, 2010, an increase of \$2.8 million or 6.3% from \$44.5 million last year. Trailing commissions in the twelve months ended December 31, 2010 were \$182.7 million, an increase of \$17.8 million or 10.8% from \$164.9 million in the comparative period last year. The change in trailing commissions in both the three and twelve month periods ended December 31, 2010 is consistent with the period over period increase in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 44.5 basis

points in the three months ended December 31, 2010 and 44.8 basis points in the twelve months ended December 31, 2010, as compared to 44.1 basis points and 44.5 basis points respectively last year.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management, and in its account administration and trust company businesses. Non-commission expenses were \$68.1 million in the three months ended December 31, 2010, an increase of \$3.4 million or 5.3% from \$64.7 million last year. Non-commission expenses in the twelve months ended December 31, 2010 were \$270.9 million, an increase of \$1.7 million or 0.6% from \$269.2 million in the comparative period last year. Mackenzie actively manages its non-commission expenses to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

### Q4 2010 VS. Q3 2010

#### Revenues

Management fees were \$178.3 million for the current quarter, an increase of \$9.5 million or 5.6% from \$168.8 million in the third quarter of 2010. Factors contributing to this increase are as follows:

- Monthly average total assets under management were \$66.4 billion in the current quarter compared to \$62.7 billion in the quarter ended September 30, 2010, an increase of 5.9%.
- Mackenzie's average management fee rate was 106.6 basis points in the current quarter as compared to 106.9 basis points in the third quarter of 2010. The decrease in the average management fee rate as compared to the third quarter was due to the relative change in Mackenzie's institutional accounts and in its non-retail mutual funds relative to the change in its retail mutual funds offset somewhat by a reduction in waived management fees on its money market funds. In the three months ended December 31, 2010, Mackenzie waived management fees of \$0.3 million on its money market funds as compared to \$0.9 million in the three months ended September 30, 2010.

Administration fees were \$33.3 million in the current quarter compared to \$32.9 million in the quarter ended September 30, 2010. Included in administration fees for the current quarter were fund operating expense adjustments of \$2.7 million as compared to \$3.8 million in the third quarter of 2010.

**Expenses**

Mackenzie's expenses were \$144.8 million for the current quarter, an increase of \$5.3 million or 3.8% from \$139.5 million in the third quarter of 2010.

Commission expense, which represents the amortization of selling commissions, was \$29.4 million in the quarter ended December 31, 2010, as compared to \$28.8 million in the third quarter of 2010.

Trailing commissions were \$47.3 million in the current quarter, an increase of \$2.9 million or 6.5% from \$44.4 million in the third quarter of 2010. The increase in trailing commissions is relatively consistent with the change in average mutual fund assets. Trailing commissions as a percentage of average mutual fund assets under management were 44.5 basis points in the current quarter and 44.1 basis points in the prior quarter.

Non-commission expenses were \$68.1 million in the current quarter, an increase of \$1.8 million or 2.7% from the third quarter of 2010.

## Corporate and Other

### Review of Segment Operating Results

The Corporate and Other segment includes net investment income earned on unallocated investments (investments not allocated to the Investors Group or Mackenzie segments), the Company's proportionate share of earnings of Lifeco, operating results for Investment Planning Counsel Inc., as well as inter-segment eliminations.

Corporate and other earnings before interest and taxes are presented in Table 12.

#### 2010 VS. 2009

Net investment income and other increased by \$9.7 million in the fourth quarter of 2010 compared with 2009 primarily resulting from:

- An increase of \$2.6 million in the Company's proportionate share of Lifeco's earnings, which are reflected in Table 14 in the Consolidated Financial Position section of this MD&A.

- A charge of \$6.5 million recorded in the fourth quarter of 2009 related to a non-retail mutual fund product.

Net investment income and other increased by \$9.5 million in the twelve months ended December 31, 2010 compared with 2009 primarily resulting from:

- An increase of \$2.5 million in the Company's proportionate share of Lifeco's earnings, which are reflected in Table 14 in the Consolidated Financial Position section of this MD&A.
- An increase of \$2.3 million in net gains on the sale of equity securities which totalled \$6.5 million in 2010 compared to \$4.2 million in 2009.
- A negative fair value adjustment of \$3.7 million related to the Company's holdings of non-bank-sponsored asset-backed commercial paper (ABCP) recorded in the first quarter of 2009.

TABLE 12: OPERATING RESULTS – CORPORATE AND OTHER<sup>(1)</sup>

THREE MONTHS ENDED (\$ millions)	2010		2009	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2010 SEP. 30	2009 DEC. 31
<b>Revenues</b>					
Fee income	\$ 41.7	\$ 31.4	\$ 31.7	32.8 %	31.5 %
Net investment income and other	25.3	21.8	15.6	16.1	62.2
	67.0	53.2	47.3	25.9	41.6
<b>Expenses</b>					
Commission	28.3	20.3	21.0	39.4	34.8
Non-commission	10.2	9.8	8.4	4.1	21.4
	38.5	30.1	29.4	27.9	31.0
<b>Earnings before interest and taxes</b>	<b>\$ 28.5</b>	<b>\$ 23.1</b>	<b>\$ 17.9</b>	<b>23.4 %</b>	<b>59.2 %</b>
<b>TWELVE MONTHS ENDED</b>					
(\$ millions)	2010		2009	% CHANGE	
	DEC. 31		DEC. 31		
<b>Revenues</b>					
Fee income			\$ 139.1	\$ 117.7	18.2 %
Net investment income and other			98.8	89.3	10.6
			237.9	207.0	14.9
<b>Expenses</b>					
Commission			92.4	77.9	18.6
Non-commission			38.0	33.8	12.4
			130.4	111.7	16.7
<b>Earnings before interest and taxes</b>			<b>\$ 107.5</b>	<b>\$ 95.3</b>	<b>12.8 %</b>

(1) Effective January 1, 2010, the Company's proportionate share of earnings of Lifeco as well as realized gains and losses on the sale of equity securities were reclassified to the Corporate and other segment from the Investors Group segment and are recorded in Net investment income and other. Prior periods have been restated to reflect this reclassification.

- A charge of \$6.5 million recorded in the fourth quarter of 2009 related to a non-retail mutual fund product.
- A decrease of \$5.3 million in net investment income on unallocated investments primarily due to lower dividend income resulting from the decline in the Company's available for sale equity securities portfolio in the first quarter of 2010.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.9 million higher in the fourth quarter of 2010 and \$2.7 million higher for the twelve months ended December 31, 2010 compared to the same periods in 2009.

#### **Q4 2010 VS. Q3 2010**

Net investment income and other increased by \$3.5 million in the fourth quarter of 2010 compared with the previous quarter due primarily to an increase of \$2.4 million in the Company's proportionate share of Lifeco's earnings and an increase of \$1.1 million in net investment income on unallocated investments.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.9 million higher in the fourth quarter of 2010 compared with the previous quarter.

Effective November 1, 2010, Investment Planning Counsel acquired Partners in Planning Financial Group Ltd., including its subsidiaries, Partners in Planning Financial Services Ltd. (a mutual fund dealer) and Partners in Planning Insurance Services Ltd. (a national insurance agency). In a separate and concurrent transaction, a subsidiary of Investment Planning Counsel acquired Titan Funds Incorporated, manager of Titan Managed Portfolios.

# IGM Financial Inc.

## Consolidated Financial Position

IGM Financial's total assets were \$8.9 billion at December 31, 2010, compared to \$8.6 billion at December 31, 2009.

### SECURITIES

The composition of the Company's securities holdings is detailed in Table 13.

#### Available for Sale (AFS) Securities

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

The fair value of the Company's common share holdings was \$7.7 million as at December 31, 2010 compared to \$237.1 million at December 31, 2009, a decrease of \$229.4 million due primarily to sales of common share holdings. The Company's exposure to and management of equity price risk related to its common share holdings is discussed in the Financial Instruments section of the MD&A.

The Company holds a diversified portfolio of fixed income securities totalling \$243.7 million at December 31, 2010 which is comprised primarily of bankers' acceptances, Canadian chartered bank senior deposit and floating rate notes, and corporate bonds.

#### Held for Trading Securities

Securities classified as held for trading include Canada Mortgage Bonds, which are discussed below, National Housing Act Mortgage-Backed Securities (NHA MBS), and fixed income securities comprised of non-bank-sponsored asset-backed commercial paper (ABCP). Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Canada Mortgage Bonds were purchased as part of the Company's ongoing interest rate risk management activities related to its participation in the CMB Program. The Canada Mortgage Bonds are financed through repurchase agreements, which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future. 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 has a carrying value of \$635.3 million. The interest expense related to these obligations is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

#### LOANS

Loans, including mortgages and investment loans, decreased by \$50.3 million to \$621.3 million at December 31, 2010 and represented 7.0% of total assets, compared to 7.8% at December 31, 2009. Residential mortgage loans related to the Company's mortgage banking operations decreased by \$16.0 million. In the

TABLE 13: SECURITIES

(\$ thousands)	DECEMBER 31, 2010		DECEMBER 31, 2009	
	COST	FAIR VALUE	COST	FAIR VALUE
<b>Available for Sale</b>				
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
<b>Held for Trading</b>				
Canada Mortgage Bonds	647,318	637,850	647,318	624,703
Fixed income securities	31,301	27,601	31,443	27,743
NHA MBS	52,581	52,629	—	—
	731,200	718,080	678,761	652,446
	\$ 1,017,152	\$ 1,007,320	\$ 1,270,663	\$ 1,246,259

Company's deposit and lending operations, investment loans decreased by \$21.8 million and residential mortgage loans decreased by \$15.2 million in 2010. The general allowance for credit losses decreased by \$2.7 million during 2010 as discussed in the Credit Risk section of the MD&A.

Residential mortgage loans originated by Investors Group are funded primarily through sales to third parties, including CMHC or Canadian bank sponsored securitization trusts, on a fully serviced basis. M.R.S. Trust Company sources mortgage loans and investment loans through financial advisors. These loans are funded through M.R.S. Trust Company's deposit operations.

The Company's exposure to and management of credit risk and interest rate risk related to its loan portfolios and its mortgage banking operations is discussed in the Financial Instruments section of the MD&A.

#### INVESTMENT IN AFFILIATE

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

The equity method is used to account for IGM Financial's investment in Lifeco and the Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three and twelve month periods ended December 31, 2010 compared with the same periods in 2009 are shown in Table 14.

#### OFF-BALANCE SHEET SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company retains servicing responsibilities and, in some cases, certain elements of recourse with respect to credit losses on transferred loans. During 2010, the Company entered into securitization transactions with Canadian bank-sponsored securitization trusts and the CMB Program through its mortgage banking operations with proceeds of \$1.2 billion compared to \$1.3 billion in 2009 as discussed in Note 4 to the Consolidated Financial Statements. Securitized loans serviced at December 31, 2010 totalled \$3.5 billion compared with \$3.3 billion at December 31, 2009. The fair value of the Company's retained interest was \$107.0 million at December 31, 2010 compared to \$173.5 million at December 31, 2009. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Notes 1 and 4 of the Consolidated Financial Statements.

TABLE 14: INVESTMENT IN AFFILIATE

(\$ millions)	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
	2010	2009	2010	2009
<b>Carrying value, beginning of period</b>	\$ 593.3	\$ 615.5	\$ 598.2	\$ 574.4
Proportionate share of earnings and other items	19.7	17.1	71.9	69.4
Proportionate share of affiliate's provision <sup>(1)</sup>	—	—	(8.2)	—
Dividends received	(11.7)	(11.7)	(46.5)	(46.5)
Proportionate share of other comprehensive income (loss) and other adjustments	2.7	(22.7)	(11.4)	0.9
<b>Carrying value, end of period</b>	\$ 604.0	\$ 598.2	\$ 604.0	\$ 598.2
<b>Fair value, end of period</b>	\$ 996.1	\$ 1,013.5	\$ 996.1	\$ 1,013.5

(1) Great-West Lifeco Inc. established an incremental litigation provision in the third quarter and the Company's after-tax proportionate share is reported in Net investment income and other in the Consolidated Statements of Earnings.

# Consolidated Liquidity and Capital Resources

## LIQUIDITY

Cash and cash equivalents totalled \$1.57 billion at December 31, 2010 compared with \$945.1 million at December 31, 2009. Cash and cash equivalents related to the Company's deposit operations were \$326.2 million at December 31, 2010 compared with \$308.4 million at December 31, 2009, as shown in Table 15.

Net working capital, which totalled \$695.6 million at December 31, 2010, reflects a reduction of \$450.0 million related to the 2001 Series, 6.75% debentures which are due within one year on May 9, 2011. Net working capital totalled \$834.8 million at December 31, 2009. Net working capital excludes the Company's cash and cash equivalents related to its deposit operations as shown in Table 15.

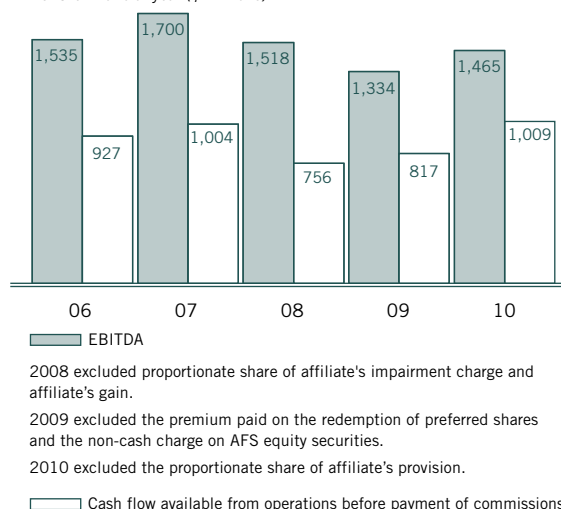
Net working capital may be utilized to:

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

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$1.47 billion in 2010 compared to \$1.33 billion in 2009. EBITDA for each period under review also excludes the impact of amortization of deferred selling commissions which totalled \$305.1 million in 2010 compared to \$303.7 million in 2009. As well as being an important

## Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

For the financial year (\$ millions)



alternative measure of performance, EBITDA as reported by the Company is one of the primary metrics utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

## Cash Flows

Table 16 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2010. Cash and cash equivalents increased by \$628.5 million in 2010 compared with a decrease of \$287.1 million in 2009.

TABLE 15: DEPOSIT OPERATIONS – FINANCIAL POSITION

As at December 31 (\$ millions)	2010	2009	% CHANGE
<b>Assets</b>			
Cash and cash equivalents	\$ 326.2	\$ 308.4	5.8 %
Securities	243.7	315.4	(22.7)
Loans	422.4	435.4	(3.0)
<b>Total assets</b>	<b>\$ 992.3</b>	<b>\$ 1,059.2</b>	<b>(6.3)%</b>
<b>Liabilities and shareholders' equity</b>			
Deposit liabilities	\$ 834.8	\$ 907.4	(8.0)%
Other liabilities – net	59.6	54.5	9.4
Shareholders' equity	97.9	97.3	0.6
<b>Total liabilities and shareholders' equity</b>	<b>\$ 992.3</b>	<b>\$ 1,059.2</b>	<b>(6.3)%</b>

TABLE 16: CASH FLOWS

<i>(\$ millions)</i>	2010	2009	% CHANGE
Operating activities			
Before payment of commissions	\$ 1,101.2	\$ 912.7	20.7 %
Commissions paid	(238.0)	(213.2)	(11.6)
Net of commissions paid	863.2	699.5	23.4
Financing activities	(536.3)	(236.9)	(126.4)
Investing activities	301.6	(749.7)	140.2
<b>Increase (decrease) in cash and cash equivalents</b>	628.5	(287.1)	N/M
Cash and cash equivalents, beginning of year	945.1	1,232.2	(23.3)
<b>Cash and cash equivalents, end of year</b>	\$ 1,573.6	\$ 945.1	66.5 %

Operating activities, before payment of commissions, generated \$1.10 billion during the year ended December 31, 2010, as compared to \$912.7 million in 2009. Cash commissions paid were \$238.0 million in 2010 compared to \$213.2 million in 2009. Net cash flows from operating activities, net of commissions paid, was \$863.2 million in 2010 as compared to \$699.5 million in 2009.

Financing activities during the year ended December 31, 2010 compared to 2009 related primarily to:

- A net decrease of \$72.5 million in deposits and certificates in 2010 compared to a net decrease of \$51.7 million in 2009. The net decrease in 2010 related to decreases in demand deposit levels, offset in part by increases in term deposit levels.
- Net proceeds of \$5.5 million in 2010 arising from obligations related to assets sold under repurchase agreements compared to net proceeds of \$629.8 million in 2009.
- Net proceeds received on the issuance of debentures of \$200.0 million in the fourth quarter of 2010 compared to \$375.0 million in the second quarter of 2009.
- Proceeds received on the issuance of common shares of \$33.2 million in 2010 compared with \$34.0 million in 2009.
- The purchase of 3,956,700 common shares in 2010 under IGM Financial's normal course issuer bid at a cost of \$156.9 million compared with the purchase of 1,762,800 common shares at a cost of \$70.2 million in 2009.
- The payment of perpetual preferred share dividends which totalled \$7.9 million in 2010.

- The payment of regular common share dividends which totalled \$537.6 million in 2010 compared to \$539.5 million in 2009.

Financing activities during 2009 also included:

- The repayment of the \$286.6 million bankers' acceptances related to the acquisition of Saxon Financial Inc.
- The repayment of the outstanding uncommitted operating line of credit of \$100.0 million.
- The redemption of Series A preferred shares of \$374.4 million on December 31, 2009 which included a premium on the redemption of \$14.4 million.
- Proceeds received on the issuance of perpetual preferred shares of \$150.0 million in the fourth quarter of 2009. Share issue costs on the issuance of the preferred shares were \$3.4 million in 2009.

Investing activities during the year ended December 31, 2010 compared to 2009 related primarily to:

- Purchases of securities totalling \$320.0 million and sales of securities with proceeds of \$673.0 million in 2010 compared to \$1,357.3 million and \$699.4 million, respectively, in 2009. Purchases of securities in 2009 included \$647.3 million related to Canada Mortgage Bonds.
- Net increases in loans of \$1,195.3 million compared to \$1,400.6 million in 2009 related primarily to residential mortgages in the Company's mortgage banking operations.
- Net cash proceeds resulting from the securitization of residential mortgage loans through Canadian bank-sponsored securitization trusts and the CMB Program of \$1,203.3 million in 2010 compared to \$1,324.5 million in 2009.

## CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consisted of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$6.3 billion at December 31, 2010, compared to \$6.0 billion at December 31, 2009. 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.

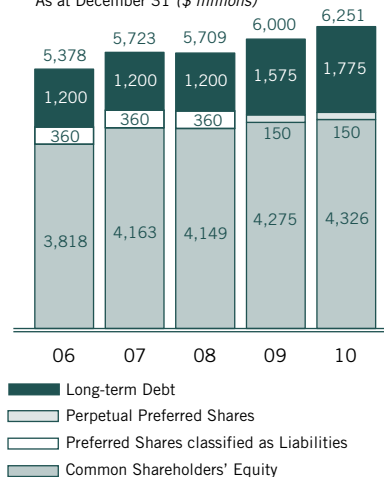
Long-term debt of \$1,775 million included the issuance of \$200 million of 30 year, 6.0% debentures on December 9, 2010 under the short form base shelf prospectus filed in 2008. The debentures were priced to provide a yield to maturity of 6.019%. The net proceeds of the issue were used for general corporate purposes. 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 to the Consolidated Financial Statements). The Company commenced a normal course issuer bid

## Capital

As at December 31 (\$ millions)



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.

On December 22, 2010 the Company renewed its short form base shelf prospectus aggregating \$1.5 billion to allow the Company more timely access to the capital markets to adjust its capital structure in response to changes in economic conditions and changes in its financial condition.

On April 23, 2010 Standard & Poor's (S&P) reaffirmed its "A+" rating with a stable outlook on IGM Financial's senior debt and liabilities. The stable outlook reflects S&P's view of an improved operating environment in the asset management industry, the Company's increased levels of assets under management, its current and likely prospective improvement in profitability, and the expectation that IGM Financial will maintain a strong balance sheet.

On January 13, 2010, Dominion Bond Rating Service (DBRS) reaffirmed its rating at "A (high)" with a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each

obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

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

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

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

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

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

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

## FINANCIAL INSTRUMENTS

Table 17 presents the carrying value and the fair value of financial instruments.

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, repurchase agreements, certain other financial assets, and other financial liabilities.
- Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk and maturity.

TABLE 17: FINANCIAL INSTRUMENTS

As at December 31 (\$ millions)	2010		2009	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Assets</b>				
Cash and cash equivalents	\$ 1,573.6	\$ 1,573.6	\$ 945.1	\$ 945.1
Securities	1,007.3	1,007.3	1,246.3	1,246.3
Loans	621.3	623.5	671.6	674.8
Other financial assets	256.7	256.7	267.0	267.0
Derivative assets	79.1	79.1	120.4	120.4
<b>Total financial assets</b>	<b>\$ 3,538.0</b>	<b>\$ 3,540.2</b>	<b>\$ 3,250.4</b>	<b>\$ 3,253.6</b>
<b>Liabilities</b>				
Deposits and certificates	\$ 834.8	\$ 840.1	\$ 907.3	\$ 916.1
Repurchase agreements	635.3	635.3	629.8	629.8
Other financial liabilities	691.9	691.9	591.4	591.4
Derivative liabilities	93.2	93.2	112.7	112.7
Long-term debt	1,775.0	1,966.5	1,575.0	1,714.3
<b>Total financial liabilities</b>	<b>\$ 4,030.2</b>	<b>\$ 4,227.0</b>	<b>\$ 3,816.2</b>	<b>\$ 3,964.3</b>

- 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.

Details of each component of the financial instruments are contained in the various related notes to the Consolidated Financial Statements, including Note 18 which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the year ended December 31, 2010. The Company actively manages risks that arise as a result of holding financial instruments which include liquidity, credit and market risk.

#### Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's liquidity management practices include:

- Controls over liquidity management processes.
- Stress testing of various operating scenarios.
- Oversight over liquidity management by Committees of the Board of Directors.

As part of these ongoing liquidity management practices during 2010 and 2009, the Company:

- Completed a public offering of \$375 million debentures on April 7, 2009 maturing in April 2019.
- Completed a public offering of \$150 million perpetual preferred shares on December 8, 2009.
- Redeemed \$360 million in preferred shares on December 31, 2009.

- Completed a public offering of \$200 million debentures on December 9, 2010 maturing in December 2040 as discussed in the Capital Resources section of this MD&A.
- Filed a short form base shelf prospectus in December 2010 to give the Company more timely access to the capital markets.
- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Reduced the equity component of the Company's securities portfolio.

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

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

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

Investors Group is an approved issuer of NHA MBS and an approved seller into the CMB Program. This issuer and seller status provides Investors Group with additional funding sources for residential mortgages (Note 4 to the Consolidated Financial Statements). Proceeds from securitizations were \$1,203.3 million and whole loan sales to third parties totalled \$225.9 million in 2010, compared with \$1,324.5 million and \$147.1 million, respectively, in 2009.

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.

The Company's contractual maturities are reflected in Table 18.

TABLE 18: CONTRACTUAL OBLIGATIONS

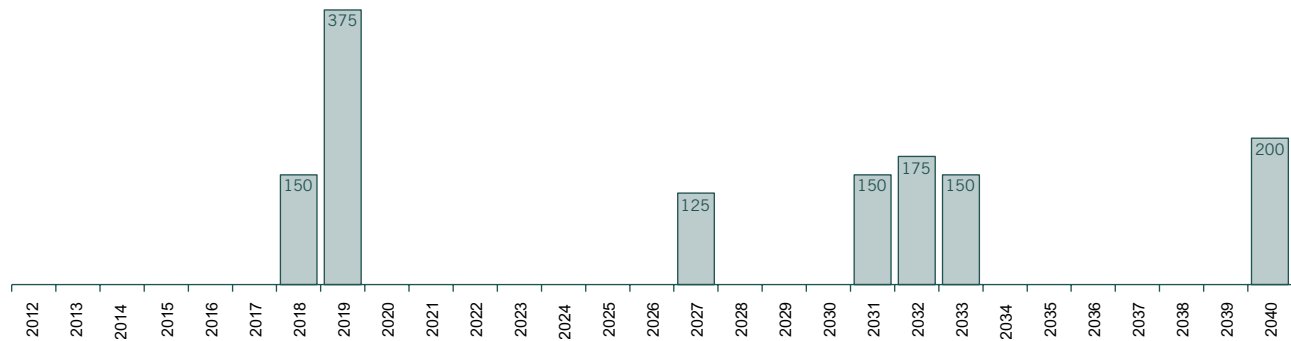
As at December 31, 2010 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 604.3	\$ 90.7	\$ 134.9	\$ 4.9	\$ 834.8
Other liabilities	–	50.2	43.0	–	93.2
Long-term debt	–	450.0	–	1,325.0	1,775.0
Operating leases <sup>(1)</sup>	–	45.0	129.0	93.5	267.5
<b>Total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

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

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

## Long-Term Debt Maturity Schedule

(\$ millions)



As discussed in the Consolidated Liquidity and Capital Resources section of this MD&A, net working capital of \$695.6 million as at December 31, 2010 reflected the reduction of \$450.0 million related to the 2001 Series 6.75% debentures which are due on May 9, 2011. The maturity schedule for long-term debt of \$1,325 million, which excludes debentures due in 2011, is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

In addition to IGM Financial's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. 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.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The

declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the performance of debt and equity markets. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2009.

### Credit Risk

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

At 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. Refer to Note 2 to the Consolidated Financial Statements for information related to the valuation of ABCP.

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* – 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 rate 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.

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.

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

### **Market Risk**

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

### ***Interest Rate Risk***

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

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at 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.

### ***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

TABLE 19: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at December 31	2010	2009
<b>IGM Financial Inc.</b>		
Investors Group	8.3%	7.4%
Mackenzie	16.5%	14.6%
Counsel	12.0%	11.6%

shown in Table 13. 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

At December 31, 2010, mutual fund industry assets in Canada were approximately \$726.5 billion, an increase of 11.2% relative to December 31, 2009.

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

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

Interest rates at unprecedented low levels have significantly decreased the yields of the Company's money market and managed yield unit trust and Corporate Class mutual funds. Throughout both 2010 and 2009, Investors Group and Mackenzie waived a portion of investment management fees or absorbed some expenses to ensure that these funds maintained positive yields. The Company will review its practices in this regard in response to changing market conditions.

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

The mutual fund industry and financial advisors continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility our Consultants and independent financial advisors play a key role in assisting investors to maintain perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 19 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

#### OTHER RISK FACTORS

##### Distribution Risk

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

Group is focused on growing its distribution network of Consultants as discussed in the Investors Group Review of the Business section of this MD&A.

*Mackenzie* – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These independent financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading companies serving independent financial advisors. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

### **The Regulatory Environment**

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

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

monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

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

### **Contingencies**

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

### **Acquisition Risk**

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

### **Model Risk**

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

# Outlook

## THE FINANCIAL SERVICES ENVIRONMENT

At December 31, 2010, mutual fund industry assets in Canada were approximately \$726.5 billion, an increase of 11.2% relative to December 31, 2009. This \$73.4 billion increase in industry assets from December 31, 2009 reflected net cash inflow of \$5.9 billion, an estimated \$60.5 billion in market appreciation and \$7.0 billion related primarily to new reporting industry participants.

Mutual fund dealers and other financial planning firms represent a significant distribution channel for mutual funds in Canada, currently accounting for 52.2% of long term mutual fund sales for the year ending December 31, 2010.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. In recent years, bank branches have increased their emphasis on both financial planning and mutual funds. In addition, each of the big six banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the big six bank-owned mutual fund managers and affiliated firms represented 39% of total industry long-term mutual fund assets at December 31, 2010.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 77.4% of industry long-term mutual fund assets and 77.6% of total mutual fund assets under management at December 31, 2010. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of products and services in-house. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent forces are obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf.

Investment funds, which include mutual funds, remain the most popular financial asset class relied upon by Canadians for their retirement savings, and they represent over one-third of Canadian long-term discretionary financial assets. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide

investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

The financial services industry continues to be influenced by:

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

## THE COMPETITIVE LANDSCAPE

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

Strong evidence is emerging that Canadians value advice in their financial planning and investment activities. Multiple sources of research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. We believe the provision of comprehensive financial planning is and will continue to be a competitive advantage.

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

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

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

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

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

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

#### **Broad and Diversified Distribution**

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing sub-advisory business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

#### **Broad Product Capabilities**

During 2010, as discussed earlier within the segmented results, IGM Financial's subsidiaries continued to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

#### **Enduring Relationships**

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

#### **Significant Economies of Scale**

At December 31, 2010, IGM Financial's total assets under management were \$129.5 billion compared with \$120.5 billion in 2009, an increase of 7.4%. Included in the Company's total assets under management were mutual fund assets of \$107.9 billion at year end 2010 compared to \$100.4 billion at year end 2009. Increases in mutual fund assets during 2010 were consistent with increases in assets in the mutual fund industry. IGM Financial enjoys a 14.8% share of industry mutual fund assets under management (2009 – 15.3%) and has 9% more long-term mutual fund assets than its nearest competitor. This scale continues to assist the Company in managing its resources effectively and developing long-term growth in its businesses.

#### **Part of Power Financial Group of Companies**

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products, and capital.

# Critical Accounting Estimates and Policies

## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

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

Critical accounting estimates relating to the fair value of financial instruments, goodwill and intangibles, income taxes and deferred selling commissions relate to both the Investors Group and Mackenzie reportable segments while critical accounting estimates relating to employee future benefits relate only to the Investors Group reportable segment.

The major critical accounting estimates are summarized below.

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans and receivables which are carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The Company also holds financial instruments, including retained interests in securitization trusts and related derivatives, where published market prices are not available. In these instances the values are determined using various valuation models. These valuation models maximize the use of observable market inputs where available; however, certain assumptions and estimates require management judgment including excess spread, prepayment rates, expected credit losses, and discount rates. Valuation methodologies and assumptions are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

The Company's investment securities which are classified as available for sale are comprised of equity securities held for long-term investment, debt securities and investments in proprietary mutual funds. Unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive

income until realized or until the securities are other than temporarily impaired, at which time they are recorded in the Consolidated Statements of Earnings. Management regularly reviews the investment securities classified as available for sale to assess whether there has been an other than temporary decline in value. The Company considers such factors as the nature of the investment, the length of time and the extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the investment to allow for the recovery of its fair value. A significant change in this assessment may result in unrealized losses being recognized in net earnings. Refer to the Consolidated Financial Position and Financial Instruments sections of this MD&A and Notes 2 and 18 of the Consolidated Financial Statements for additional information.

- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 7 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. 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. Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing fair value, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data for comparable transactions.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets during the quarter ended June 30, 2010, based on March 31, 2010 financial information, and determined that there was no impairment in the value of those assets.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management’s best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management’s best estimates are reflected in the provision for income taxes. The recognition of future tax assets depends on management’s assumption that future earnings will be sufficient to realize the future benefit. The amount of the future tax asset or liability recorded is based on management’s best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results and in Note 11 of the Consolidated Financial Statements.
- *Employee future benefits* – The Company maintains a number of employee future benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan for certain executive officers and an unfunded post-retirement health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings.

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

are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and benefit obligations. Actual experience that differs from the actuarial assumptions will affect the amounts of the accrued benefit obligation and benefit expense.

The measurement date for the Company’s defined benefit pension plan assets and benefit obligations is December 31. During 2010, the performance of the defined benefit pension plan assets continued to be positively impacted by improving economic conditions. Pension plan assets grew to \$226.6 million at December 31, 2010 from \$206.9 million at December 31, 2009. Market gains in 2010 accounted for \$23.4 million of this increase compared to market gains of \$53.3 million in 2009. Bond yields decreased in 2010 thereby impacting the discount rate used to measure the Company’s benefit obligations. The discount rate utilized to value the defined benefit pension plan obligations at December 31, 2010 decreased to 5.60% from 6.75% at December 31, 2009. The decrease in the discount rate resulted in an actuarial loss of \$37.4 million which was partially offset by asset gains described above. These actuarial gains and losses are amortized over the expected average remaining service life of employees which decreases the volatility to pension expense recognized each year. The total pension obligation was \$213.8 million at December 31, 2010 compared to \$163.5 million at December 31, 2009. As a result of these changes in the level of plan assets and the level of benefit obligations, the pension plan had a funding excess of \$12.8 million at December 31, 2010 compared to an excess of \$43.4 million at the end of 2009.

A change of 0.25% in the discount rate utilized in 2010 would result in a change of \$12.8 million in the accrued benefit obligation and \$1.2 million in pension expense. A change of 0.25% in the long-term rate of return on assets assumed for 2010 would result in a change of \$0.5 million in pension expense. Additional information regarding the Company’s accounting for pensions and other post-retirement benefits is included in Notes 1 and 10 of the Consolidated Financial Statements.

- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven 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.

## CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies adopted by the Company during 2010. Changes to accounting policies adopted by the Company in 2009 are discussed below.

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 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.

## FUTURE ACCOUNTING CHANGES

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by IFRS, as published by the International Accounting Standards Board (IASB). Publicly accountable enterprises will be required to adopt IFRS for fiscal

periods beginning on or after January 1, 2011. The Company will commence reporting under IFRS in its initial interim Consolidated Financial Statements, including comparative information, for the quarter ended March 31, 2011.

The Company has developed an IFRS changeover plan which addresses key elements of the conversion to IFRS and includes a formal project governance structure. In addition to the project teams assigned to analyze specific accounting topics, there are oversight committees, including: a technical review committee comprised of financial managers from each of the Company's operating subsidiaries, an executive steering committee, and the Company's Audit Committee. The Company has developed appropriate levels of IFRS financial reporting expertise throughout the Company and its subsidiaries, and has engaged an external consultant to support this effort. The changeover plan consists of three primary phases.

### *Phases of Changeover Plan*

- Scoping and diagnostic (Phase 1) which consists of:
  - Establishing the project structure;
  - Providing initial training and education;
  - Developing a financial reporting solution for parallel accounting under IFRS and Canadian GAAP in 2010;
  - Identifying the key differences between Canadian GAAP and IFRS; and,
  - Identifying potential effects on internal controls and information technology systems.This phase began in the first quarter of 2008 and is complete.
- Impact analysis and design (Phase 2) which consists of:
  - Quantifying the differences between Canadian GAAP and IFRS and selecting initial policy choices;
  - Making preliminary First Time Adoption of International Financial Reporting Standards – IFRS 1 elections;
  - Testing and implementing parallel accounting for Canadian GAAP and IFRS;
  - Continuing to analyze new and revised standards as they are issued;
  - Performing required impairment testing of goodwill and intangible assets as at January 1, 2010;
  - Providing ongoing training and education on specific IFRS issues;
  - Designing a communication plan, including: IFRS financial reporting reviews with regulators, credit rating agencies and equity and debt analysts; and,
  - Drafting templates for IFRS financial statements and note disclosure.

This phase began in December 2009 and is complete.

- Implementation (Phase 3) consists of:
  - Finalizing the Company's IFRS accounting policies;
  - Making final selections of the conversion elections available under IFRS 1;
  - Completing 2011 financial statement disclosures; and
  - Ensuring all elements of the communication plan are completed.

The implementation phase is expected to be substantially completed once the Company has issued its first quarter 2011 financial statements.

#### *Activities in the Quarter*

The Company has completed Phase 2 of its IFRS project – impact analysis and design. The following elements have been completed:

- Determination of the effects on opening retained earnings, as at January 1, 2010, for the differences related to derecognition, deferred selling commissions, share-based payments, employee benefits, property plant and equipment, and provisions;
- Preliminary determination of its IFRS 1 elections;
- Impairment testing of Goodwill and Intangible Assets as at January 1, 2010, with no adjustment required to the amounts previously recognized in the consolidated financial statements;
- Development of IFRS financial statements and note disclosures.

The Company has made significant progress on Phase 3 – implementation activities:

- Selection of the Company's IFRS accounting policies;
- IFRS 1 elections as follows:
  - Business Combinations – The Company has elected not to restate business combinations prior to January 1, 2010;
  - Derecognition – The Company has elected to recognize assets that were originated subsequent to January 1, 2004 which do not meet the criteria for derecognition under IFRS. Consequently, certain mortgages that were transferred and treated as sales will now be recorded on the balance sheet with an associated liability;
  - Property Plant and Equipment – The Company has elected to restate certain assets to fair value as at January 1, 2010; and,
  - Employee Benefits – The Company has elected to recognize all unamortized actuarial gains and losses as at January 1, 2010 related to its defined benefit plans in retained earnings rather than applying the IFRS requirements retrospectively.

- Determination of the estimated effect on opening retained earnings based upon information and analysis currently available; and
- Completion of the reconciliation required between Canadian GAAP and IFRS as at January 1, 2010 and for the quarters ending in 2010, based on current estimates.

#### *Completing IFRS Changeover*

The Company continues to focus its resources on the following areas of Phase 3 of its IFRS project:

- Finalization and validation of the Company's selection of IFRS accounting policies;
- Finalization and validation of the Company's IFRS 1 elections;
- Finalization and validation of the effect on opening retained earnings;
- Finalization and validation of the reconciliation required between Canadian GAAP and IFRS as at January 1, 2010 and for the quarters ending in 2010;
- Completion of the 2011 financial statement disclosures;
- Communication of the effect of the IFRS changes and financial reporting to external parties; and,
- Continuing to monitor the development and interpretation of accounting standards, industry practices as well as regulatory developments with respect to IFRS.

The areas where the Company has identified accounting differences between IFRS and Canadian GAAP are discussed below and the expected impact on the balance sheet and retained earnings is disclosed where applicable. This information reflects the current views, assumptions and expectations of the Company.

#### *Accounting Differences Identified*

##### *Derecognition of Financial Assets*

The IFRS determination of whether a financial asset should be derecognized is based to a greater extent on the transfer of risks and rewards of ownership; whereas in Canadian GAAP, the focus is on the surrendering of control over the transferred assets. The Company's analysis indicates most of its securitization transactions will be accounted for as secured borrowings under IFRS rather than sales, which will result in an increase in total assets and liabilities recorded on the consolidated balance sheets. As these transactions are to be treated as financing transactions rather than sale transactions, a transitional adjustment to opening retained earnings is required to reflect this change in accounting treatment.

The Company has completed its analysis based on assumptions that: (i) the mortgages are carried at

amortized cost, (ii) mortgage origination costs are capitalized and amortized, and (iii) the transactions are restated on a retroactive basis. The estimated increase in the mortgage balances is \$3.3 billion with a corresponding increase in liabilities. Certain other mortgage related assets and liabilities, including retained interests, certain derivative instruments and servicing liabilities, will be adjusted. The estimated decrease in other assets is \$129 million, other liabilities is \$55 million and opening retained earnings is approximately \$77 million.

#### *Deferred Selling Commissions*

Commissions paid on the sale of certain mutual fund units are considered finite life intangible assets and are amortized over their useful life. The IFRS standard for intangible assets more specifically addresses the disposal of intangible assets. When a mutual fund client redeems units in certain mutual funds, a redemption fee is paid by the client that is recorded as revenue by the Company. IFRS indicates that the remaining deferred selling commission asset related to the units being redeemed be recorded as a disposal. The current estimate of this difference is a decrease in the deferred selling commission asset of \$3 million and an after tax decrease in retained earnings of \$1 million.

#### *Share-Based Payments*

Under IFRS, the graded vesting method is used to recognize compensation expense related to awards that vest in installments over the vesting period as opposed to a straight line amortization method which is currently used by the Company. This results in compensation expense being recognized on an accelerated basis; therefore, higher compensation expense will be recorded earlier in the amortization period of the share-based payment award. The current estimate of this difference is a decrease in retained earnings of \$5 million with an offsetting increase to contributed surplus.

#### *Property, Plant and Equipment*

IFRS 1 permits an issuer to use the fair value of property, plant and equipment as its deemed cost upon its transition to IFRS. This election is made on an asset by asset basis. The Company has elected to restate its own-use property at fair value upon transition which results in a current estimated increase in other assets of \$12 million and an after tax increase in retained earnings of \$8 million.

#### *Employee Benefits*

The Company has elected to recognize all unamortized actuarial gains and losses related to its defined benefit plans in retained earnings as permitted by IFRS 1, rather

than applying the IFRS requirements retrospectively. The current estimate of this difference is a decrease in other assets and other liabilities of \$5 million and \$7 million, respectively, and an after tax increase of \$1 million to retained earnings.

#### *Investment in Affiliate*

Under IFRS, the Company will continue to utilize equity accounting to account for its investment in Lifeco. The Company will disclose its proportionate share of the effect of Lifeco's IFRS adjustments in the first quarter of 2011.

#### *Deferred Income Taxes*

Under IFRS, the cost of assets acquired outside of a business combination is not adjusted for the tax effect of differences between the accounting cost and tax cost at the time of acquisition. Under Canadian GAAP, the cost of the asset was adjusted for the tax effect of the difference between the accounting cost and tax cost. The current estimate of this difference is a decrease in intangible assets of \$7 million and a decrease of \$3 million in retained earnings.

#### *Provisions*

IFRS requires a provision to be recognized when there is a present obligation as a result of a past transaction or event, it is "probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, additional provisions are likely to meet the recognition criteria under IFRS that were not previously recognized under Canadian GAAP. In determining the best estimate for a provision, IFRS also provides for the use of the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes. The current estimate of this difference is an increase in other liabilities of \$19 million and a decrease of \$17 million in retained earnings.

#### *Balance Sheet and Shareholders' Equity Reconciliation*

Tables 20 and 21 reflect the Company's estimated balance sheet and shareholders' equity as at January 1, 2010, but may not include all possible adjustments that will be recorded on transition to IFRS. These tables reflect the current views, assumptions and expectations of the Company. The Company continues to monitor IFRS and industry developments which may result in further changes on conversion to IFRS.

TABLE 20: CONSOLIDATED BALANCE SHEET – ESTIMATED IFRS ADJUSTMENTS

As at January 1, 2010 (\$ millions)	CANADIAN GAAP	ESTIMATED IFRS ADJUSTMENTS <sup>(1)</sup>		IFRS
		PRESENTATION	CONVERSION	
<b>Assets</b>				
Cash and cash equivalents	\$ 945	\$ –	\$ –	\$ 945
Securities	1,246	–	–	1,246
Loans	672	–	3,277	3,949
Investment in affiliate	598	–	–	598
Deferred selling commissions	850	(850)	–	–
Other assets	593	–	(123)	470
Intangible assets	1,128	850	(10)	1,968
Goodwill	2,614	–	–	2,614
	\$ 8,646	\$ –	\$ 3,144	\$ 11,790
<b>Liabilities</b>				
Deposits and certificates	\$ 907	\$ –	\$ –	\$ 907
Repurchase agreements	630	–	–	630
Other liabilities	780	–	(43)	737
Deferred income taxes	329	–	(34)	295
Long-term debt	1,575	–	–	1,575
Obligations to securitization entities	–	–	3,310	3,310
	4,221	–	3,233	7,454
<b>Shareholders' Equity</b>				
Share capital				
Perpetual preferred shares	150	–	–	150
Common shares	1,563	–	–	1,563
Contributed surplus	33	–	5	38
Retained earnings	2,738	–	(94)	2,644
Accumulated other comprehensive income	(59)	–	–	(59)
	4,425	–	(89)	4,336
	\$ 8,646	\$ –	\$ 3,144	\$ 11,790

(1) Presentation adjustments relate to balance sheet reclassification.

Conversion adjustments relate to identified differences between Canadian GAAP and IFRS.

TABLE 21: SHAREHOLDERS' EQUITY – ESTIMATED IFRS RECONCILIATION

As at January 1, 2010 (\$ millions)	
<b>Shareholders' equity – Canadian GAAP</b>	\$ 4,425
Derecognition	(77)
Provisions	(17)
Property, plant and equipment	8
Intangible assets	(3)
Deferred selling commissions	(1)
Employee benefits	1
Total IFRS adjustment	(89)
<b>Shareholders' equity – IFRS</b>	\$ 4,336

The Company is currently in the process of finalizing its opening balance sheet and templates for IFRS financial statements which is expected to result in some additional note disclosures. The Company has a presentation difference as the deferred selling commission asset will be presented in intangible assets on its opening balance sheet. Additional differences may be identified as the opening balance sheet and IFRS financial statements and note disclosures are finalized.

#### ***Accounting Standard Changes***

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

<b>IFRS Standard</b>	<b>Expected date of issuance</b>
Consolidations Financial Statement	Q1 2011 – Final Standard
Presentation	Q1 2011 – Final Standard
Fair Value Measurement	Q1 2011 – Final Standard
Post Employment Benefits Consolidations –	Q1 2011 – Final Standard
Investment Companies	Q2 2011 – Exposure Draft
Revenue Recognition	Q2 2011 – Final Standard
Hedge Accounting	Q2 2011 – Final Standard
Impairment	Q2 2011 – Final Standard
Leases	Q2 2011 – Final Standard
Derecognition	2012

Source: IASB website at [www.iasb.org](http://www.iasb.org)

#### ***Information Systems and Internal Controls***

The Company has developed and implemented changes to its financial reporting systems and processes to prepare the Company to effectively transition to IFRS at January 1, 2011. These include the design, testing, and implementation of general ledger changes and related internal controls to enable the Company to parallel account and report under both Canadian GAAP and IFRS during 2010. As each IFRS standard is analyzed and adopted, additional controls are developed and tested, as appropriate. The Company's internal controls and accounting procedures have been modified, as appropriate, based on the adoption of IFRS accounting policies. Throughout 2010, the Company tested its ability to prepare IFRS financial results and compared them to the Canadian GAAP results, in order to test and validate the differences between IFRS and Canadian GAAP that were quantified during Phase 2 of the project.

The Company's information technology, data systems, and financial reporting processes have been updated to address IFRS requirements, including systems beyond the Company's primary financial reporting system, the general ledger. The Company continues to assess its requirements as IFRS accounting and reporting decisions are made.

#### ***Training and Education***

Training and education plans have been conducted based on IFRS accounting policies and IFRS 1 elections made by the Company. These plans considered the training and education requirements of various internal constituents, which include: the staff of the Company and its subsidiaries, the Disclosure and Audit Committees, the Company's Board of Directors and external users of the Company's financial reporting, including equity and debt analysts, credit rating agencies, shareholders, debtholders, and prospective investors.

#### ***Mutual Funds***

The Company's overall IFRS changeover plan includes a component designed to assess the adoption of IFRS by the mutual funds sponsored and managed by the Company's operating subsidiaries. During the year, the CICA approved an optional one year deferral for IFRS adoption for most investment funds until fiscal years beginning on or after January 1, 2012. In January 2011, the CICA made a decision to extend the deferral for most investment funds until fiscal years beginning on or after January 1, 2013. Accordingly, the mutual funds will adopt IFRS for their fiscal period beginning April 1, 2013 and will issue their initial financial statements in accordance with IFRS for the interim period ending September 30, 2013. Based on the current evaluation of the differences between Canadian GAAP and IFRS, the impact to mutual funds is expected to be limited to financial statement note disclosure and presentation changes. No significant effect is expected on the net asset values used to determine the subscription and redemption price of the mutual funds.

## Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2010, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that (a) material information relating to the issuer is made known to the Co-Presidents and Chief Executive Officers and the Chief

Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

## Internal Controls Over Financial Reporting

Based on their evaluations as of December 31, 2010, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial

statements for external purposes in accordance with Canadian GAAP. During the fourth quarter of 2010, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Other Information

### TRANSACTIONS WITH RELATED PARTIES

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

- The Company provided to and received from Great-West Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributed insurance products under a distribution agreement with Great-West Life 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 Life, 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.

- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2010, the Company sold residential mortgage loans to Great-West Life and London Life for \$225.9 million compared to \$147.1 million in 2009. For further information on transactions involving related parties, see Notes 5 and 21 of the Consolidated Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2010 totalled 259,717,507. As at February 11, 2011, outstanding common shares totalled 259,361,723.

### SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).