

# Interim Condensed Consolidated Financial Statements

## Consolidated Statements of Earnings

<i>(unaudited)</i>	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
<i>(in thousands of Canadian dollars, except shares and per share amounts)</i>	2011	2010	2011	2010
<b>Revenues</b>				
Management fees	\$ 491,734	\$ 455,458	\$ 983,796	\$ 905,192
Administration fees	92,982	89,168	185,775	177,682
Distribution fees	83,997	71,946	173,688	144,795
Net investment income and other	41,496	20,094	87,356	74,306
	<b>710,209</b>	<b>636,666</b>	<b>1,430,615</b>	<b>1,301,975</b>
<b>Expenses</b>				
Commission	228,866	212,005	462,495	425,701
Non-commission	171,980	159,016	341,163	318,043
Interest	26,139	27,571	56,410	54,873
	<b>426,985</b>	<b>398,592</b>	<b>860,068</b>	<b>798,617</b>
Earnings before income taxes	283,224	238,074	570,547	503,358
Income taxes	64,116	57,589	137,396	127,640
<b>Net earnings</b>	<b>219,108</b>	<b>180,485</b>	<b>433,151</b>	<b>375,718</b>
Perpetual preferred share dividends	2,212	2,213	4,425	5,680
<b>Net earnings available to common shareholders</b>	<b>\$ 216,896</b>	<b>\$ 178,272</b>	<b>\$ 428,726</b>	<b>\$ 370,038</b>
Average number of common shares <i>(in thousands) (Note 11)</i>				
– Basic	258,296	262,339	258,792	262,485
– Diluted	259,559	263,567	259,892	263,790
Earnings per share <i>(in dollars) (Note 11)</i>				
– Basic	\$ 0.84	\$ 0.68	\$ 1.66	\$ 1.41
– Diluted	\$ 0.84	\$ 0.68	\$ 1.65	\$ 1.40

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

# Consolidated Statements of Comprehensive Income

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
<b>Net earnings</b>	<b>\$ 219,108</b>	<b>\$ 180,485</b>	<b>\$ 433,151</b>	<b>\$ 375,718</b>
<b>Other comprehensive income (loss), net of tax</b>				
<b>Available for sale securities</b>				
Net unrealized gains (losses), <i>net of tax of \$(280), \$1,050, \$(260) and \$(303)</i>	<b>1,281</b>	(4,923)	<b>790</b>	2,530
Reclassification of realized (gains) losses to net earnings, <i>net of tax of \$162, \$182, \$490 and \$1,154</i>	<b>(366)</b>	(697)	<b>(1,256)</b>	(6,247)
	<b>915</b>	(5,620)	<b>(466)</b>	(3,717)
<b>Employee benefits</b>				
Net actuarial gains (losses), <i>net of tax of \$3,252, \$2,253, \$1,471 and \$4,505</i>	<b>(8,791)</b>	(6,090)	<b>(3,978)</b>	(12,180)
<b>Investment in affiliate and other</b>				
Other comprehensive income (loss), <i>net of tax of \$(83), \$(31), \$(183) and \$(17)</i>	<b>(3,551)</b>	(16,734)	<b>(19,254)</b>	(22,834)
	<b>(11,427)</b>	(28,444)	<b>(23,698)</b>	(38,731)
<b>Comprehensive income</b>	<b>\$ 207,681</b>	<b>\$ 152,041</b>	<b>\$ 409,453</b>	<b>\$ 336,987</b>

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

# Consolidated Balance Sheets

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	JUNE 30 2011	DECEMBER 31 2010	JANUARY 1 2010
<b>Assets</b>			
Cash and cash equivalents	\$ 896,817	\$ 1,573,626	\$ 945,081
Securities <i>(Note 2)</i>	476,533	954,691	1,246,259
Loans <i>(Note 3)</i>	4,281,971	4,094,652	3,928,361
Investment in affiliate	572,100	580,478	574,754
Deferred selling commissions	795,240	794,581	847,427
Other assets	389,281	405,579	470,153
Intangible assets	1,119,508	1,123,006	1,121,269
Goodwill	2,639,521	2,639,465	2,613,532
	<b>\$ 11,170,971</b>	<b>\$ 12,166,078</b>	<b>\$ 11,746,836</b>
<b>Liabilities</b>			
Deposits and certificates	\$ 777,501	\$ 834,801	\$ 907,343
Repurchase agreements <i>(Note 2)</i>	214,300	635,302	629,817
Other liabilities	695,409	823,913	742,200
Deferred income taxes	277,103	264,255	288,456
Obligations to securitization entities <i>(Note 4)</i>	3,506,877	3,505,451	3,310,084
Long-term debt <i>(Note 5)</i>	1,325,000	1,775,000	1,575,000
	<b>6,796,190</b>	<b>7,838,722</b>	<b>7,452,900</b>
<b>Shareholders' Equity</b>			
Share capital			
Perpetual preferred shares	150,000	150,000	150,000
Common shares	1,580,977	1,567,725	1,562,925
Contributed surplus	36,955	37,785	37,845
Retained earnings	2,655,610	2,596,909	2,534,216
Accumulated other comprehensive income (loss)	(48,761)	(25,063)	8,950
	<b>4,374,781</b>	<b>4,327,356</b>	<b>4,293,936</b>
	<b>\$ 11,170,971</b>	<b>\$ 12,166,078</b>	<b>\$ 11,746,836</b>

The interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issuance on August 4, 2011.

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

# Consolidated Statements of Changes in Shareholders' Equity

(unaudited)  
(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30  
2011 2010

## Share capital – Perpetual preferred shares (Note 6)

Balance, end of period	\$ 150,000	\$ 150,000
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## Share capital – Common shares (Note 6)

Balance, beginning of period	1,567,725	1,562,925
Issued under stock option plan	29,749	13,984
Purchased for cancellation	(16,497)	(8,321)
Balance, end of period	1,580,977	1,568,588

## Contributed surplus

Balance, beginning of period	37,785	37,845
Stock options		
Current period expense	2,589	132
Exercised	(3,419)	(1,675)
Balance, end of period	36,955	36,302

## Retained earnings

Balance, beginning of period	2,596,909	2,534,216
Net earnings	433,151	375,718
Perpetual preferred share dividends	(4,425)	(5,680)
Common share dividends	(264,645)	(268,811)
Common share cancellation excess and other (Note 6)	(105,380)	(44,105)
Balance, end of period	2,655,610	2,591,338

## Accumulated other comprehensive income (loss) on:

### Available for sale securities

Balance, beginning of period	2,357	1,321
Change in unrealized gains (losses), net of tax	(466)	(3,717)
Balance, end of period	1,891	(2,396)

### Employee benefits

Balance, beginning of period	(24,359)	–
Change in actuarial gains (losses), net of tax	(3,978)	(12,180)
Balance, end of period	(28,337)	(12,180)

### Investment in affiliate and other

Balance, beginning of period	(3,061)	7,629
Other comprehensive income (loss), net of tax	(19,254)	(22,834)
Balance, end of period	(22,315)	(15,205)

<b>Total accumulated other comprehensive income (loss), end of period</b>	<b>(48,761)</b>	<b>(29,781)</b>
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<b>Total Shareholders' Equity</b>	<b>\$ 4,374,781</b>	<b>\$ 4,316,447</b>
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(See accompanying notes to interim condensed consolidated financial statements.)

# Consolidated Statements of Cash Flows

(unaudited)  
(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30  
2011 2010

## Operating activities

Net earnings	\$ 433,151	\$ 375,718
Adjustments to determine net cash from operating activities		
Deferred income taxes	14,878	2,668
Commission amortization	143,137	148,266
Amortization of property, plant and equipment and intangible assets	16,501	16,154
Changes in operating assets and liabilities and other	(136,424)	(68,334)
	471,243	474,472
Commissions paid	(143,796)	(136,266)
	327,447	338,206

## Financing activities

Net decrease in deposits and certificates	(57,300)	(44,706)
Net decrease in obligations related to assets sold under repurchase agreements	(421,002)	(5,585)
Net (decrease) increase in obligations to securitization entities	(110)	53,012
Repayment of long-term debt	(450,000)	–
Issue of common shares	27,532	16,574
Common shares purchased for cancellation	(121,479)	(51,838)
Perpetual preferred share dividends paid	(4,425)	(3,467)
Common share dividends paid	(265,531)	(269,101)
	(1,292,315)	(305,111)

## Investing activities

Purchase of securities	(125,500)	(141,845)
Proceeds from the sale of securities	607,435	464,368
Net increase in loans	(182,508)	(173,209)
Net additions to property, plant and equipment	(7,744)	(4,916)
Net additions to intangible assets	(3,624)	(8,244)
	288,059	136,154
(Decrease) increase in cash and cash equivalents	(676,809)	169,249
Cash and cash equivalents, beginning of period	1,573,626	945,081
<b>Cash and cash equivalents, end of period</b>	<b>\$ 896,817</b>	<b>\$ 1,114,330</b>

Cash	\$ 75,189	\$ 79,323
Cash equivalents	821,628	1,035,007
	\$ 896,817	\$ 1,114,330

## Supplemental disclosure of cash flow information

Amount of interest and dividends received	\$ 114,264	\$ 109,914
Amount of interest paid during the period	107,517	89,823
Amount of income taxes paid during the period	182,931	143,765

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

# Notes to the Interim Condensed Consolidated Financial Statements

JUNE 30, 2011 (unaudited) (in thousands of Canadian dollars, except shares and per share amounts)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim Condensed Consolidated Financial Statements (Interim Financial Statements) of IGM Financial Inc. (the Company) have been prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises which is International Financial Reporting Standards (IFRS) and in accordance with IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of IFRS* (IFRS 1). These Interim Financial Statements have been prepared in accordance with accounting policies the Company expects to adopt in its December 31, 2011 Consolidated Financial Statements and are based on the IFRS standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

The Company's Consolidated Financial Statements were previously prepared in accordance with Canadian generally accepted accounting principles (previous Canadian GAAP). Previous Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting policies and valuation methods applied in the previous Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these differences. Certain information and note disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are included along with reconciliations and descriptions of the effect of the transition from previous Canadian GAAP to IFRS (Note 14).

### Use of judgment, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies. It also requires management to make estimates and assumptions that affect the amounts reported in the Interim Financial Statements and accompanying notes. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the determination that significant influence exists for its investment in affiliate. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, deferred selling commissions, provisions and employee benefits. Actual results may differ from such estimates.

### Basis of consolidation

The Interim Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. The Company is controlled by Power Financial Corporation.

Investment in affiliate represents the Company's investment in Great-West Lifeco Inc. (Lifeco) over which the Company has significant influence but not control and is accounted for using the equity method. The investment in Lifeco was initially recorded at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss since the date of acquisition.

### Revenue recognition

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

### Financial instruments

All financial assets are classified in one of the following categories: available for sale, at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Financial assets at fair value through profit or loss are financial assets classified as held for trading or upon initial recognition are designated by the Company as fair value through profit or loss. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories.

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

### Financial instruments (continued)

All financial assets are carried at fair value in the Consolidated Balance Sheets, except loans and receivables which are carried at amortized cost using the effective interest method. Financial liabilities are classified either as financial liabilities measured at amortized cost using the effective interest method or as fair value through profit or loss, which are carried at fair value.

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

### Cash and cash equivalents

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

### Securities

Investment securities, which are recorded on a trade date basis, are classified as either available for sale or fair value through profit or loss.

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

Fair value through profit or loss securities are held for trading and are comprised of Canada Mortgage Bonds and fixed income securities. Unrealized and realized gains and losses as well as interest income on these securities are recorded in Net investment income and other in the Consolidated Statements of Earnings.

### Loans

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

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

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt.

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

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

### **Derecognition**

The Company enters into transactions where it transfers financial assets recognized on its balance sheet. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in Net investment income and other in the Consolidated Statements of Earnings. The transactions for financial assets that are not derecognized are accounted for as secured financing transactions.

### **Deferred selling commissions**

Commissions paid on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by the Company. Any remaining unamortized deferred selling commission asset recognized on the initial sale of these mutual fund units is recorded as a disposal. 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.

### **Property, plant and equipment**

Property, plant and equipment, which are included in Other assets, are recorded at deemed cost of \$275.0 million at June 30, 2011 (December 31, 2010 – \$267.5 million; January 1, 2010 – \$260.7 million), less accumulated amortization of \$169.4 million (December 31, 2010 – \$162.8 million; January 1, 2010 – \$159.0 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 10 years for equipment and furnishings and 10 to 50 years for the building and its components. Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### **Goodwill and intangible assets**

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

Mutual fund management contracts have been assessed to have an indefinite useful life as the contractual right to manage the assets has no fixed term.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Trade names have been assessed to have an indefinite useful life as they contribute to the revenues of the Company's integrated asset management business as a whole and the Company intends to utilize them for the foreseeable future.

### **Employee benefits**

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

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2009 and the next required valuation is as at December 31, 2012.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities. The defined benefit pension plan assets are invested in proprietary equity, balanced and fixed income mutual funds and are carried at fair value.



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

### Employee benefits (continued)

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, and the expected return on plan assets. Benefits expense or income also includes past service costs or past service credits related to the pension plan, SERPs and other post retirement benefits. Unvested past service costs or credits are amortized over the vesting period which is the expected average remaining service life of the affected employee group for the pension plan and SERPs and over the period to full eligibility for the post-retirement benefit plan. Vested past service costs or credits are recognized immediately in benefits expense or income.

The Company recognizes actuarial gains and losses in the period incurred through other comprehensive income.

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

### Share-based payments

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

### Income taxes

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

### Earnings per share

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

### Derivative financial instruments

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

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

Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Earnings. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Earnings.

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

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

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

### **Derivative financial instruments (continued)**

The Company also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges, in which case changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Earnings.

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

### **Future accounting changes**

The Company continues to monitor the potential changes proposed by the International Accounting Standards Board (IASB) and to analyze the effect that changes in the standards may have on the Company's operations.

#### ***IFRS 9 Financial Instruments***

The IASB issued IFRS 9 that amends the classification and measurement criteria for financial instruments included within the scope of IAS 39. The standard is currently effective for annual periods beginning on or after January 1, 2013; however, the IASB is now expected to issue an exposure draft proposing a deferral of the standard beyond that effective date.

#### ***IFRS 10 Consolidated Financial Statements***

The IASB issued IFRS 10 which introduces a single consolidation model for all entities which focuses on control, including the rights an investor has to variable returns resulting from its involvement with the investee and the investor's ability to affect those returns through its power over the investee. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013.

#### ***IFRS 12 Disclosures of Interests in Other Entities***

The IASB issued IFRS 12 which integrates all of the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities into a single standard. The required disclosures provide information to evaluate the nature of, and risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial statements. The standard is effective for periods beginning on or after January 1, 2013.

#### ***IFRS 13 Fair Value Measurement***

The IASB issued IFRS 13 to consolidate all the fair value measurement and disclosure guidance into one standard. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The Standard requires more extensive financial statement disclosure. The standard is effective on a prospective basis for periods beginning on or after January 1, 2013.

#### ***IAS 1 Presentation of Financial Statements***

The IASB amended IAS 1 with respect to the presentation of Other Comprehensive Income (OCI). The most significant change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether or not they will be reclassified subsequently to net earnings. The amendments are applied retroactively and effective for periods beginning on or after July 1, 2012.

#### ***IAS 19 Employee Benefits***

The IASB issued IAS 19 that amends the measurement and presentation of defined benefit plans. Amendments include:

- The elimination of the deferral and amortization approach (corridor approach) for recognizing actuarial gains and losses in Net earnings. Actuarial gains and losses are recognized immediately in OCI and are not reclassified to net earnings in subsequent periods.
- Changes in the recognition of past service costs. Past service costs resulting from plan amendments or curtailments are recognized in the period in which the plan amendments or curtailment occurs, without regard to vesting.

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

### Future accounting changes *(continued)*

- The elimination of the concept of an expected return on assets (EROA). Amended IAS 19 requires the use of the discount rate in the place of EROA in the determination of the net interest component of the pension expense.

The amended standard requires additional disclosures in the financial statements. The standard is applied retroactively and is effective for periods beginning on or after January 1, 2013.

## 2. SECURITIES

	JUNE 30, 2011		DECEMBER 31, 2010		JANUARY 1, 2010	
	COST	FAIR VALUE	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:						
Common shares	\$ 8,687	\$ 7,666	\$ 8,687	\$ 7,698	\$ 236,383	\$ 237,085
Proprietary investment funds	26,339	28,887	33,326	37,794	41,259	41,341
Fixed income securities	196,149	197,696	243,939	243,748	314,260	315,387
	231,175	234,249	285,952	289,240	591,902	593,813
Fair value through profit or loss:						
Canada Mortgage Bonds	220,432	213,362	647,318	637,850	647,318	624,703
Fixed income securities	31,062	28,922	31,301	27,601	31,443	27,743
	251,494	242,284	678,619	665,451	678,761	652,446
	\$ 482,669	\$ 476,533	\$ 964,571	\$ 954,691	\$ 1,270,663	\$ 1,246,259

### Available for sale

#### *Fixed income securities*

The Company held a diversified portfolio of fixed income securities totalling \$197.7 million at June 30, 2011 which was comprised of bankers' acceptances of \$19.9 million, Canadian chartered bank senior deposit notes of \$83.5 million, and corporate bonds and other of \$94.3 million.

### Fair value through profit or loss

#### *Canada Mortgage Bonds*

As part of the Company's interest rate risk management activities relating to its mortgage banking operations, Canada Mortgage Bonds were purchased and subsequently sold under repurchase agreements, 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.

During the second quarter, the Company sold \$425.6 million of the securities and settled \$427.6 million of the repurchase obligations.

The remaining securities had a fair value of \$213.4 million at June 30, 2011. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$214.3 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.

#### *Fixed income securities*

Fixed income securities of \$28.9 million at June 30, 2011 were comprised of the restructured notes of the master asset vehicle (MAV) conduits. During 2011, the fair value of the underlying notes increased by \$1.5 million offset by \$0.2 million of principal and interest payments received from the restructured notes of the MAV conduits.

## 2. SECURITIES *(continued)*

### Fair value through profit or loss (continued)

The Company's valuation of the restructured notes of the MAV conduits was based on its assessment of the prevailing conditions at June 30, 2011. The estimated fair value reflects the allocation of the floating rate notes the Company received which are expected to mature in January 2017. The Company estimated the fair value of the senior and subordinated notes by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information. The fair value of the Ineligible Asset Tracking long-term floating rate notes was estimated using observable market inputs from independent pricing sources or by using discounted expected cash flows reflecting the Company's best available information, including reference to prevailing market yields on debt instruments in the Canadian market.

## 3. LOANS

	CONTRACTUAL MATURITY			JUNE 30	DECEMBER 31	JANUARY 1
	I YEAR OR LESS	I - 5 YEARS	OVER 5 YEARS	2011 TOTAL	2010 TOTAL	2010 TOTAL
<b>Loans and receivables</b>						
Residential mortgages	\$ 328,874	\$ 3,201,438	\$ 6,830	\$ 3,537,142	\$ 3,590,629	\$ 3,389,155
Commercial mortgages	–	379	–	379	393	423
	328,874	3,201,817	6,830	3,537,521	3,591,022	3,389,578
Investment loans	251,217	14,445	10,926	276,588	283,570	305,335
	\$ 580,091	\$ 3,216,262	\$ 17,756	3,814,109	3,874,592	3,694,913
Less: General allowance				4,331	4,338	6,943
				3,809,778	3,870,254	3,687,970
<b>Held for trading</b>						
				472,193	224,398	240,391
				\$ 4,281,971	\$ 4,094,652	\$ 3,928,361

The change in the allowance for credit losses is as follows:

Balance, beginning of period	\$ 4,338	\$ 6,943
Write-offs	(58)	(121)
Recoveries	13	20
Provision for credit losses	38	(2,504)
Balance, end of period	\$ 4,331	\$ 4,338

Total impaired loans as at June 30, 2011 were \$798 (December 31, 2010 – \$1,106; January 1, 2010 – \$1,495).

Total interest income on loans classified as loans and receivables was \$80.9 million (2010 – \$81.2 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$41.0 million (2010 – \$30.4 million). These amounts were included in Net investment income and other.

#### 4. SECURITIZATIONS

The Company enters into transactions that result in the transfer of financial assets to third parties.

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper programs. The Company has retained certain elements of credit risk associated with the transferred assets. However, the Company's credit risk on its securitization activities is limited to its retained interest, and substantially all securitized mortgages are insured. Additional information related to the management of credit risk is contained in the Financial Instruments section of the Company's Management Discussion and Analysis (MD&A), contained in the Second Quarter 2011 Report to Shareholders. The Company retains prepayment risk associated with the securitized loans. Accordingly, the Company has recorded these loans on its balance sheets at a carrying value of \$3.43 billion at June 30, 2011 (December 31, 2010 – \$3.47 billion; January 1, 2010 – \$3.26 billion), and has recorded an offsetting liability, Obligations to securitization entities, of \$3.51 billion (December 31, 2010 – \$3.51 billion; January 1, 2010 – \$3.31 billion) which is carried at amortized cost.

The Company's retained interest in securitized loans includes cash reserve accounts and rights to future excess spread. It also includes the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on reinvestment of repaid mortgage principal (Principal Reinvestment Account Swap) which is reflected on the Company's financial statements as a derivative at a fair value of \$(31.7) million at June 30, 2011 (December 31, 2010 – \$(26.1) million; January 1, 2010 – \$10.2 million). The retained interest is subordinated to the interests of investors in the securitization vehicles (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of mortgage borrowers to pay when due. At June 30, 2011, the fair value of the total retained interests, including the Principal Reinvestment Account Swap, was \$75.9 million (December 31, 2010 – \$107.0 million; January 1, 2010 – \$173.6 million).

The NHA MBS and CMB programs require securitized mortgages be insured by an approved insurer. At June 30, 2011, 98.3% of the Company's securitized loans were insured.

#### 5. LONG-TERM DEBT

MATURITY	RATE	SERIES	JUNE 30 2011	DECEMBER 31 2010
May 9, 2011	6.75%	2001	\$ –	\$ 450,000
March 7, 2018	6.58%	2003	150,000	150,000
April 8, 2019	7.35%	2009	375,000	375,000
December 13, 2027	6.65%	1997	125,000	125,000
May 9, 2031	7.45%	2001	150,000	150,000
December 31, 2032	7.00%	2002	175,000	175,000
March 7, 2033	7.11%	2003	150,000	150,000
December 10, 2040	6.00%	2010	200,000	200,000
			<b>\$ 1,325,000</b>	<b>\$ 1,775,000</b>

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

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

The \$450.0 million 2001 Series 6.75% debentures matured and were repaid on May 9, 2011.

## 6. SHARE CAPITAL

### Issued and outstanding

	JUNE 30, 2011		JUNE 30, 2010	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of period	259,717,507	\$ 1,567,725	262,633,255	\$ 1,562,925
Issued under Stock Option Plan	924,622	29,749	453,794	13,984
Purchased for cancellation	(2,711,300)	(16,497)	(1,390,000)	(8,321)
Balance, end of period	257,930,829	\$ 1,580,977	261,697,049	\$ 1,568,588

### Normal course issuer bid

In the second quarter of 2011, 711,300 (2010 – 850,000) shares were purchased at a cost of \$35.2 million (2010 – \$29.9 million). In the six months ended June 30, 2011, 2,711,300 (2010 – 1,390,000) shares were purchased at a cost of \$121.5 million (2010 – \$51.8 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid, effective for one year, on April 12, 2011. Pursuant to this bid, the Company may purchase up to 12.9 million or 5% of its common shares outstanding as at March 31, 2011. On April 12, 2010, the Company had commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.1 million or 5% of its common shares outstanding as at March 31, 2010.

## 7. CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Company's Management's Discussion and Analysis (MD&A), contained in the Second Quarter 2011 Report to Shareholders and have not changed significantly since December 31, 2010.

## 8. SHARE-BASED PAYMENTS

	JUNE 30 2011	DECEMBER 31 2010	JANUARY 1 2010
Common share options			
– Outstanding	8,714,613	8,958,494	9,415,005
– Exercisable	3,937,257	4,234,649	4,541,430

In the second quarter of 2011, the Company did not grant options to employees (2010 – 335,000). In the six months ended June 30, 2011, the Company granted 872,085 options to employees (2010 – 1,182,125). The fair value of options granted during the six months ended June 30, 2011 has been estimated at \$6.59 per option (2010 – \$5.53) using the Black-Scholes option pricing model. The assumptions used to determine the fair value of the options on the grant date include:

	2011	2010
Exercise price	\$ 46.72	\$ 42.15
Risk-free interest rate	3.02%	3.11%
Expected option life	6 years	6 years
Expected volatility	22.00%	22.00%
Expected dividend yield	4.39%	4.87%

## 8. SHARE-BASED PAYMENTS *(continued)*

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

## 9. RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Company's MD&A contained in the Second Quarter 2011 Report to Shareholders and have not changed significantly since December 31, 2010.

## 10. EMPLOYEE BENEFITS

The Company recorded pension and other post-retirement benefits expense as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Defined benefit pension plan and the supplementary executive retirement plans	\$ 1,962	\$ 994	\$ 3,922	\$ 1,990
Other post-retirement benefits expense	392	280	785	561
Total	\$ 2,354	\$ 1,274	\$ 4,707	\$ 2,551

## 11. EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
<b>Earnings</b>				
Net earnings available to common shareholders	\$ 216,896	\$ 178,272	\$ 428,726	\$ 370,038
<b>Number of common shares <i>(in thousands)</i></b>				
Average number of common shares outstanding	258,296	262,339	258,792	262,485
Add: Potential exercise of outstanding stock options	1,263	1,228	1,100	1,305
Average number of common shares outstanding				
– Diluted basis	259,559	263,567	259,892	263,790
<b>Earnings per common share <i>(in dollars)</i></b>				
– Basic	\$ 0.84	\$ 0.68	\$ 1.66	\$ 1.41
– Diluted	\$ 0.84	\$ 0.68	\$ 1.65	\$ 1.40

## 12. RELATED PARTY TRANSACTIONS

In February 2011, after obtaining advance tax rulings, the Company agreed to a tax loss consolidation transaction with its parent company, Power Financial Corporation.

On February 23, 2011, the Company acquired \$1.0 billion of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$1.0 billion of 6.00% secured debentures to Power Financial Corporation. The Company has legally enforceable rights to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the preferred shares and debentures and related dividend income and interest expense are offset in the Interim Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.

The Company also agreed to acquire the shares of a wholly-owned subsidiary of Power Financial Corporation which has tax losses resulting from a transaction similar to that described above. The Company has recognized the benefit of the tax losses realized to June 30, 2011.



### 13. SEGMENTED INFORMATION

IGM Financial's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

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

	2011			
Three months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 298,660	\$ 181,625	\$ 11,449	\$ 491,734
Administration fees	58,297	32,779	1,906	92,982
Distribution fees	47,315	5,381	31,301	83,997
Net investment income and other	12,818	4,045	24,633	41,496
	<b>417,090</b>	<b>223,830</b>	<b>69,289</b>	<b>710,209</b>
<b>Expenses</b>				
Commission	124,891	73,844	30,131	228,866
Non-commission	92,094	69,194	10,692	171,980
	<b>216,985</b>	<b>143,038</b>	<b>40,823</b>	<b>400,846</b>
Earnings before undernoted	<b>\$ 200,105</b>	<b>\$ 80,792</b>	<b>\$ 28,466</b>	<b>309,363</b>
Interest expense				<b>26,139</b>
Earnings before income taxes				<b>283,224</b>
Income taxes				<b>64,116</b>
Net earnings				<b>219,108</b>
Perpetual preferred share dividends				<b>2,212</b>
Net earnings available to common shareholders				<b>\$ 216,896</b>



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

2010

Three months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 275,719	\$ 170,682	\$ 9,057	\$ 455,458
Administration fees	54,615	33,094	1,459	89,168
Distribution fees	44,895	6,151	20,900	71,946
Net investment income and other	(6,215)	3,048	23,261	20,094
	369,014	212,975	54,677	636,666
<b>Expenses</b>				
Commission	118,956	72,556	20,493	212,005
Non-commission	83,638	67,151	8,227	159,016
	202,594	139,707	28,720	371,021
Earnings before undernoted	\$ 166,420	\$ 73,268	\$ 25,957	265,645
Interest expense				27,571
Earnings before income taxes				238,074
Income taxes				57,589
Net earnings				180,485
Perpetual preferred share dividends				2,213
Net earnings available to common shareholders				\$ 178,272

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

	2011			
Six months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 596,339	\$ 364,875	\$ 22,582	\$ 983,796
Administration fees	116,187	65,903	3,685	185,775
Distribution fees	95,000	11,750	66,938	173,688
Net investment income and other	34,318	8,579	44,459	87,356
	<u>841,844</u>	<u>451,107</u>	<u>137,664</u>	<u>1,430,615</u>
Expenses				
Commission	249,152	149,622	63,721	462,495
Non-commission	177,851	140,867	22,445	341,163
	<u>427,003</u>	<u>290,489</u>	<u>86,166</u>	<u>803,658</u>
Earnings before undernoted	<u>\$ 414,841</u>	<u>\$ 160,618</u>	<u>\$ 51,498</u>	<u>626,957</u>
Interest expense				<u>56,410</u>
Earnings before income taxes				<u>570,547</u>
Income taxes				<u>137,396</u>
Net earnings				<u>433,151</u>
Perpetual preferred share dividends				<u>4,425</u>
Net earnings available to common shareholders				<u>\$ 428,726</u>
Identifiable assets	<u>\$ 4,917,416</u>	<u>\$ 2,259,448</u>	<u>\$ 1,354,586</u>	<u>\$ 8,531,450</u>
Goodwill	<u>1,347,781</u>	<u>1,169,040</u>	<u>122,700</u>	<u>2,639,521</u>
Total assets	<u>\$ 6,265,197</u>	<u>\$ 3,428,488</u>	<u>\$ 1,477,286</u>	<u>\$11,170,971</u>

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

2010

Six months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 547,402	\$ 340,010	\$ 17,780	\$ 905,192
Administration fees	109,084	65,771	2,827	177,682
Distribution fees	86,691	12,682	45,422	144,795
Net investment income and other	18,904	6,438	48,964	74,306
	762,081	424,901	114,993	1,301,975
<b>Expenses</b>				
Commission	234,781	147,017	43,903	425,701
Non-commission	165,068	136,329	16,646	318,043
	399,849	283,346	60,549	743,744
Earnings before undernoted	\$ 362,232	\$ 141,555	\$ 54,444	558,231
Interest expense				54,873
Earnings before income taxes				503,358
Income taxes				127,640
Net earnings				375,718
Perpetual preferred share dividends				5,680
Net earnings available to common shareholders				\$ 370,038
Identifiable assets	\$ 5,196,736	\$ 2,378,573	\$ 1,543,454	\$ 9,118,763
Goodwill	1,347,781	1,172,750	98,908	2,619,439
Total assets	\$ 6,544,517	\$ 3,551,323	\$ 1,642,362	\$ 11,738,202

### 14. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS and the Interim Financial Statements were prepared as described in Note 1, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual consolidated financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

#### Initial elections upon adoption

IFRS 1 elected exemptions from full retroactive application that the Company applied in the conversion from previous Canadian GAAP to IFRS are detailed as follows:

#### a) *Business combinations:*

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value determined under previous Canadian GAAP as a result of applying these exemptions.

## 14. TRANSITION TO IFRS *(continued)*

### Initial elections upon adoption (continued)

**b) Employee benefits:**

IFRS 1 provides the option to retrospectively apply IAS 19, *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative actuarial gains and losses deferred under previous Canadian GAAP in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening retained earnings for all of its employee defined benefit plans.

**c) Fair value as deemed cost:**

IFRS 1 provides the option to measure an item of property, plant and equipment at the Transition Date at its fair value and use that fair value as its deemed cost at that date. The Company elected to utilize this option for certain items of property, plant and equipment.

### Reconciliations of previous Canadian GAAP to IFRS

The reconciliations from previous Canadian GAAP to IFRS for net earnings, comprehensive income, shareholders' equity, cash flows and the balance sheet are as follows:

#### Reconciliation of Net Earnings

		2010		
	REFERENCE	THREE MONTHS ENDED JUNE 30	SIX MONTHS ENDED JUNE 30	TWELVE MONTHS ENDED DECEMBER 31
Net earnings under previous Canadian GAAP		\$ 181,332	\$ 363,511	\$ 735,585
Differences increasing (decreasing) reported net earnings (net of tax):				
Derecognition	i	(3,464)	9,016	25,619
Deferred selling commissions	ii	2,006	2,541	8,913
Share-based compensation	iii	22	251	260
Property, plant and equipment	iv	(16)	37	31
Employee benefits	v	(214)	(430)	(13,700)
Investment in affiliate	vi	685	373	(1,086)
Deferred income taxes	vii	61	199	319
Provisions	viii	79	93	(2,924)
Business combinations	ix	–	–	(9,330)
Other		(6)	127	828
		(847)	12,207	8,930
Net earnings under IFRS		\$ 180,485	\$ 375,718	\$ 744,515

#### 14. TRANSITION TO IFRS *(continued)*

##### Reconciliations of previous Canadian GAAP to IFRS (continued)

###### *Reconciliation of Comprehensive Income*

		2010		
	REFERENCE	THREE MONTHS ENDED JUNE 30	SIX MONTHS ENDED JUNE 30	TWELVE MONTHS ENDED DECEMBER 31
Comprehensive income under previous Canadian GAAP		\$ 159,290	\$ 336,044	\$ 725,098
Differences increasing (decreasing) reported comprehensive income (net of tax):				
Increase in net earnings as a result of IFRS		(847)	12,207	8,930
Actuarial losses on employee benefit plans	v	(6,090)	(12,180)	(24,359)
Investment in affiliate	vi	(312)	916	833
		(7,249)	943	(14,596)
Comprehensive income under IFRS		\$ 152,041	\$ 336,987	\$ 710,502

###### *Reconciliation of Shareholders' Equity*

		2010		
	REFERENCE	JANUARY 1	JUNE 30	DECEMBER 31
Shareholders' equity under previous Canadian GAAP		\$ 4,424,813	\$ 4,447,061	\$ 4,475,529
Differences increasing (decreasing) reported shareholders' equity (net of tax):				
Derecognition	i	(90,752)	(81,736)	(65,133)
Deferred selling commissions	ii	(1,127)	1,414	7,786
Property, plant and equipment	iv	8,299	8,336	8,330
Employee benefits	v	1,537	(11,073)	(36,522)
Investment in affiliate	vi	(23,467)	(22,098)	(23,519)
Deferred income taxes	vii	(2,786)	(2,587)	(2,467)
Provisions	viii	(22,820)	(22,727)	(25,744)
Business combinations	ix	–	–	(9,330)
Other		239	(143)	(1,574)
		(130,877)	(130,614)	(148,173)
Shareholders' equity under IFRS		\$ 4,293,936	\$ 4,316,447	\$ 4,327,356

## 14. TRANSITION TO IFRS *(continued)*

### Reconciliations of previous Canadian GAAP to IFRS (continued)

#### *Reconciliation of Cash Flows*

	REFERENCE	SIX MONTHS ENDED JUNE 30, 2010
<b>Operating activities:</b>		
Operating cash flows under previous Canadian GAAP		\$ 370,346
Differences increasing (decreasing) reported operating cash flows:		
Increase in net earnings as a result of IFRS		12,207
Derecognition	i	(44,896)
Deferred income taxes		4,838
Other		(4,289)
Operating cash flows under IFRS		\$ 338,206
<b>Financial activities:</b>		
Financing cash flows under previous Canadian GAAP		\$ (358,123)
Differences increasing (decreasing) reported financing cash flows:		
Derecognition	i	53,012
Financing cash flows under IFRS		\$ (305,111)
<b>Investing activities:</b>		
Investing cash flows under previous Canadian GAAP		\$ 157,026
Differences increasing (decreasing) reported investing cash flows:		
Derecognition	i	(20,872)
Investing cash flows under IFRS		\$ 136,154

## 14. TRANSITION TO IFRS *(continued)*

### Reconciliations of previous Canadian GAAP to IFRS (continued)

#### *Reconciliation of Balance Sheet*

JANUARY 1, 2010

	REFERENCE	PREVIOUS CANADIAN GAAP	DIFFERENCES	IFRS
<b>Assets</b>				
Cash and cash equivalents		\$ 945,081	\$ –	\$ 945,081
Securities		1,246,259	–	1,246,259
Loans	i	671,556	3,256,805	3,928,361
Investment in affiliate	vi	598,221	(23,467)	574,754
Deferred selling commissions	ii	850,082	(2,655)	847,427
Other assets	i, iv, v	592,908	(122,755)	470,153
Intangible assets	vii	1,128,280	(7,011)	1,121,269
Goodwill		2,613,532	–	2,613,532
		\$ 8,645,919	\$ 3,100,917	\$ 11,746,836
<b>Liabilities</b>				
Deposits and certificates		\$ 907,343	\$ –	\$ 907,343
Repurchase agreements		629,817	–	629,817
Other liabilities	i, v, viii	780,329	(38,129)	742,200
Deferred income taxes		328,617	(40,161)	288,456
Obligations to securitization entities	i	–	3,310,084	3,310,084
Long-term debt		1,575,000	–	1,575,000
		4,221,106	3,231,794	7,452,900
<b>Shareholders' equity</b>				
Share capital				
Perpetual preferred shares		150,000	–	150,000
Common shares		1,562,925	–	1,562,925
Contributed surplus	iii	32,702	5,143	37,845
Retained earnings		2,737,785	(203,569)	2,534,216
Accumulated other comprehensive income		(58,599)	67,549	8,950
		4,424,813	(130,877)	4,293,936
		\$ 8,645,919	\$ 3,100,917	\$ 11,746,836

## 14. TRANSITION TO IFRS *(continued)*

### Changes in accounting policies

In addition to the exemptions and exceptions previously discussed, there are a number of differences between the Company's previous Canadian GAAP accounting policies and its current IFRS accounting policies. An explanation of these differences follows:

#### *i. Derecognition*

*Previous Canadian GAAP* – Derecognition focused on surrendering control over the transferred assets in order to derecognize the assets and recognize a sale.

*IFRS* – Derecognition focuses to a greater extent on the transfer of risks and rewards of ownership in order to derecognize the asset and recognize sale under IFRS. As a result, the Company's securitization transactions are accounted for as secured borrowings in accordance with IFRS rather than sales, which results in an increase in total assets and liabilities recorded on the Consolidated Balance Sheets. The increase in the mortgage balances was \$3.5 billion at December 31, 2010 (June 30, 2010 – \$3.3 billion; January 1, 2010 – \$3.3 billion) with a corresponding increase in liabilities. Certain other mortgage related assets and liabilities, which were recorded under previous Canadian GAAP, including retained interests, certain derivative instruments and servicing liabilities, were adjusted accordingly. At December 31, 2010, the decrease in other assets was \$91 million (June 30, 2010 – \$111 million; January 1, 2010 – \$129 million) and other liabilities was \$85 million (June 30, 2010 – \$83 million; January 1, 2010 – \$55 million).

In addition, as these transactions are treated as financing transactions rather than sale transactions, a transitional adjustment to opening retained earnings is required to reflect this change in accounting treatment. Opening retained earnings, revenue and expenses have been adjusted to reflect this change.

#### *ii. Deferred selling commissions*

*Previous Canadian GAAP* – Deferred selling commissions were finite life intangible assets under previous Canadian GAAP. Previous Canadian GAAP does not specifically address the accounting for disposals of finite life intangible assets and as a result, the Company utilized a shorter amortization period in order to account for disposals.

*IFRS* – Deferred selling commissions are finite life intangible assets under IFRS. IFRS more specifically addresses the approach to record the amortization and disposals of intangible assets. Opening retained earnings and expenses have been adjusted to reflect the change.

#### *iii. Share-based payments*

*Previous Canadian GAAP* – For grants of share-based awards, the total fair value of the award was recognized on a straight-line basis over the employment period necessary to vest the award.

*IFRS* – Each tranche in an award with graded vesting is considered a separate grant with a different vesting date. Each grant is accounted for on that basis. Opening retained earnings, opening contributed surplus and expenses for share-based awards have been adjusted to reflect the change.

#### *iv. Property, plant and equipment*

*IFRS* – The Company has elected under IFRS 1 to record certain property, plant and equipment at fair value as at the Transition Date and utilize this value as the deemed cost under IFRS. The aggregate fair value of the assets where this election was utilized was \$34.3 million. As a result of the increase in fair value, opening retained earnings increased by \$8.6 million. The effect of this adjustment on the depreciation expense is not significant.

#### *v. Employee benefits*

*IFRS* – In accordance with IFRS 1, the Company has elected to record all unamortized actuarial gains or losses through opening retained earnings. In addition, IFRS requires that vested past service costs or past service credits be recognized immediately in benefits expense or income. As a result, opening retained earnings and expenses have been adjusted. The Company has elected to recognize actuarial gains and losses related to its defined benefit plans in other comprehensive income rather than amortize them through earnings.



## 14. TRANSITION TO IFRS *(continued)*

### Changes in accounting policies (continued)

#### *vi. Investment in affiliate*

The Company's investment in its affiliate is recorded using the equity method of accounting. Opening retained earnings, accumulated other comprehensive income, and equity earnings reflect the changes made by the investee company upon its conversion to IFRS.

#### *vii. Deferred income taxes*

*Previous Canadian GAAP* – The cost of assets acquired outside of a business combination was adjusted for the tax effect on differences between the accounting cost and the tax cost at the time of the acquisition.

*IFRS* – The cost of assets acquired outside of a business combination are not adjusted for the tax effect on any differences between the accounting cost and the tax cost at the time of the acquisition. Opening retained earnings and expenses have been adjusted to reflect the difference in amortization expense related to certain intangible assets where deferred taxes increased the cost of the asset acquired.

#### *viii. Provisions*

*Previous Canadian GAAP* – A contingent liability was recognized as a result of a past transaction or event if it was likely that it would result in a loss and the amount of the loss could be reasonably estimated.

*IFRS* – A provision is recognized where: 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. The previous Canadian GAAP recognition criterion of “likely” was a higher threshold than “probable” which results in additional provisions being recognized under IFRS. In determining the best estimate for a provision, IFRS provides for the use of the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes.

#### *ix. Business combinations*

*Previous Canadian GAAP* – If certain conditions were met, the costs of a plan to exit an activity of an acquired company, to involuntarily terminate employees of an acquired company, or to relocate employees of an acquired company were liabilities assumed in the purchase and were included in the allocation of the acquisition cost.

*IFRS* – Restructuring provisions are only included as part of the acquired liabilities when the acquiree has recognized an existing liability for restructuring in accordance with applicable IFRS standards. As a result, restructuring provisions recorded as part of the purchase price allocation under previous Canadian GAAP are charged to earnings under IFRS.