

## Consolidated Financial Statements

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# Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

We have audited the accompanying consolidated financial statements of IGM Financial Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditor's Responsibility*

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

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

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IGM Financial Inc. as at December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

February 8, 2013

Winnipeg, Manitoba

# Consolidated Statements of Earnings

For the years ended December 31 <i>(in thousands of Canadian dollars, except shares and per share amounts)</i>	2012	2011
<b>Revenues</b>		
Management fees	\$ 1,766,348	\$ 1,892,728
Administration fees	337,155	344,887
Distribution fees	321,071	333,461
Net investment income and other	80,611	81,887
Proportionate share of affiliate's earnings <i>(Note 9)</i>	72,322	79,489
	<b>2,577,507</b>	<b>2,732,452</b>
<b>Expenses</b>		
Commission	858,248	894,860
Non-commission <i>(Note 4)</i>	664,483	637,487
Interest	92,188	102,807
	<b>1,614,919</b>	<b>1,635,154</b>
Earnings before income taxes and discontinued operations	962,588	1,097,298
Income taxes <i>(Note 15)</i>	191,604	250,497
Net earnings from continuing operations	770,984	846,801
Net earnings from discontinued operations <i>(Note 3)</i>	-	62,644
<b>Net earnings</b>	<b>770,984</b>	<b>909,445</b>
Perpetual preferred share dividends	8,850	8,850
<b>Net earnings available to common shareholders</b>	<b>\$ 762,134</b>	<b>\$ 900,595</b>
Average number of common shares <i>(in thousands) (Note 24)</i>		
– Basic	254,853	258,151
– Diluted	255,277	259,075
Earnings per share <i>(in dollars) (Note 24)</i>		
Net earnings available to common shareholders from continuing operations		
– Basic	\$ 2.99	\$ 3.25
– Diluted	\$ 2.99	\$ 3.24
Net earnings available to common shareholders		
– Basic	\$ 2.99	\$ 3.49
– Diluted	\$ 2.99	\$ 3.48

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

# Consolidated Statements of Comprehensive Income

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

	2012	2011
<b>Net earnings</b>	<b>\$ 770,984</b>	<b>\$ 909,445</b>
<b>Other comprehensive income (loss), net of tax</b>		
<b>Employee benefits</b>		
Net actuarial gains (losses), <i>net of tax of \$15,825 and \$11,293</i>	<b>(42,781)</b>	(30,548)
<b>Available for sale securities</b>		
Net unrealized gains (losses), <i>net of tax of \$(33) and \$188</i>	<b>312</b>	(1,788)
Reclassification of realized (gains) losses to net earnings, <i>net of tax of \$(201) and \$1,555</i>	<b>327</b>	(3,488)
	<b>639</b>	(5,276)
<b>Investment in affiliate and other</b>		
Other comprehensive income (loss), <i>net of tax of \$49 and \$57</i>	<b>(16,013)</b>	816
	<b>(58,155)</b>	(35,008)
<b>Comprehensive income</b>	<b>\$ 712,829</b>	<b>\$ 874,437</b>

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

# Consolidated Balance Sheets

As at December 31 (in thousands of Canadian dollars)

2012

2011

## Assets

Cash and cash equivalents	\$ 1,059,090	\$ 1,052,423
Securities (Note 5)	268,338	292,432
Accounts and other receivables	307,907	281,982
Income taxes recoverable	42,280	27,796
Loans (Note 6)	4,922,169	4,085,929
Derivative financial instruments (Note 22)	63,299	88,092
Other assets (Note 8)	31,115	40,228
Investment in affiliate (Note 9)	621,100	612,480
Capital assets	122,703	109,953
Deferred selling commissions (Note 10)	696,229	750,763
Deferred income taxes (Note 15)	78,609	59,612
Intangible assets (Note 11)	1,121,601	1,117,858
Goodwill (Note 11)	2,638,954	2,640,523
	<b>\$ 11,973,394</b>	<b>\$ 11,160,071</b>

## Liabilities

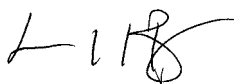
Accounts payable and accrued liabilities	\$ 282,373	\$ 300,094
Income taxes payable	34,445	62,816
Repurchase agreements (Note 5)	225,445	227,280
Derivative financial instruments (Note 22)	70,783	111,424
Deposits and certificates (Note 12)	163,194	150,716
Other liabilities (Note 13)	403,782	357,959
Obligations to securitization entities (Note 7)	4,700,871	3,827,339
Deferred income taxes (Note 15)	309,891	308,968
Long-term debt (Note 16)	1,325,000	1,325,000
	<b>7,515,784</b>	<b>6,671,596</b>

## Shareholders' Equity

Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,572,573	1,578,270
Contributed surplus	36,468	35,842
Retained earnings	2,715,865	2,726,285
Accumulated other comprehensive income (loss)	(17,296)	(1,922)
	<b>4,457,610</b>	<b>4,488,475</b>
	<b>\$ 11,973,394</b>	<b>\$ 11,160,071</b>

(See accompanying notes to consolidated financial statements.)

These financial statements were approved and authorized for issuance by the Board of Directors on February 8, 2013.



Murray J. Taylor  
Director



John McCallum  
Director

## Consolidated Statements of Changes in Shareholders' Equity

<i>(in thousands of Canadian dollars)</i>	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) <i>(Note 20)</i>	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES <i>(Note 17)</i>	COMMON SHARES <i>(Note 17)</i>	CONTRIBUTED SURPLUS			
<b>2012</b>						
<b>Balance, beginning of year</b>	<b>\$ 150,000</b>	<b>\$ 1,578,270</b>	<b>\$ 35,842</b>	<b>\$ 2,726,285</b>	<b>\$ (1,922)</b>	<b>\$ 4,488,475</b>
Net earnings	-	-	-	770,984	-	770,984
Net actuarial gains (losses) on employee benefit plans, net of tax	-	-	-	(42,781)	-	(42,781)
Other comprehensive income (loss), net of tax	-	-	-	-	(15,374)	(15,374)
<b>Total comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>728,203</b>	<b>(15,374)</b>	<b>712,829</b>
Common shares						
Issued under stock option plan	-	27,401	-	-	-	27,401
Purchased for cancellation	-	(33,098)	-	-	-	(33,098)
Stock options						
Current period expense	-	-	4,784	-	-	4,784
Exercised	-	-	(4,158)	-	-	(4,158)
Perpetual preferred share dividends	-	-	-	(8,850)	-	(8,850)
Common share dividends	-	-	-	(546,497)	-	(546,497)
Common share cancellation excess and other <i>(Note 17)</i>	-	-	-	(183,276)	-	(183,276)
<b>Balance, end of year</b>	<b>\$ 150,000</b>	<b>\$ 1,572,573</b>	<b>\$ 36,468</b>	<b>\$ 2,715,865</b>	<b>\$ (17,296)</b>	<b>\$ 4,457,610</b>
<b>2011</b>						
<b>Balance, beginning of year</b>	<b>\$ 150,000</b>	<b>\$ 1,567,725</b>	<b>\$ 37,785</b>	<b>\$ 2,559,238</b>	<b>\$ 2,538</b>	<b>\$ 4,317,286</b>
Net earnings	-	-	-	909,445	-	909,445
Net actuarial gains (losses) on employee benefit plans, net of tax	-	-	-	(30,548)	-	(30,548)
Other comprehensive income (loss), net of tax	-	-	-	-	(4,460)	(4,460)
<b>Total comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>878,897</b>	<b>(4,460)</b>	<b>874,437</b>
Common shares						
Issued under stock option plan	-	36,093	-	-	-	36,093
Purchased for cancellation	-	(25,548)	-	-	-	(25,548)
Stock options						
Current period expense	-	-	2,231	-	-	2,231
Exercised	-	-	(4,174)	-	-	(4,174)
Perpetual preferred share dividends	-	-	-	(8,850)	-	(8,850)
Common share dividends	-	-	-	(541,002)	-	(541,002)
Common share cancellation excess and other <i>(Note 17)</i>	-	-	-	(161,998)	-	(161,998)
<b>Balance, end of year</b>	<b>\$ 150,000</b>	<b>\$ 1,578,270</b>	<b>\$ 35,842</b>	<b>\$ 2,726,285</b>	<b>\$ (1,922)</b>	<b>\$ 4,488,475</b>

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

# Consolidated Statements of Cash Flows

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

2012

2011

<b>Operating activities – continuing operations</b>		
Earnings before income taxes and discontinued operations	\$ 962,588	\$ 1,097,298
Income taxes paid	(236,663)	(307,329)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	266,149	281,540
Amortization of capital and intangible assets	33,521	33,121
Changes in operating assets and liabilities and other	(104,424)	(90,288)
	921,171	1,014,342
Deferred selling commissions paid	(211,615)	(237,748)
	709,556	776,594
<b>Financing activities – continuing operations</b>		
Net increase (decrease) in deposits and certificates	12,478	(3,593)
Net decrease in obligations related to assets sold under repurchase agreements	(1,835)	(408,022)
Net increase in obligations to securitization entities	873,465	318,619
Repayment of long-term debt	-	(450,000)
Issue of common shares	24,487	35,098
Common shares purchased for cancellation	(214,942)	(185,826)
Perpetual preferred share dividends paid	(8,850)	(8,850)
Common share dividends paid	(548,954)	(536,154)
	135,849	(1,238,728)
<b>Investing activities – continuing operations</b>		
Purchase of securities	(57,871)	(17,114)
Proceeds from the sale of securities	90,175	446,922
Net increase in loans	(825,431)	(370,360)
Net additions to capital assets	(30,819)	(19,844)
Net cash used in dispositions (acquisitions) and additions to intangible assets	(14,792)	(9,531)
Proceeds on disposal of MRS <i>(Note 3)</i>	-	198,693
	(838,738)	228,766
Increase (decrease) in cash and cash equivalents from continuing operations	6,667	(233,368)
Decrease in cash and cash equivalents from discontinued operations	-	(287,835)
Cash and cash equivalents from continuing and discontinued operations, beginning of year	1,052,423	1,573,626
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,059,090</b>	<b>\$ 1,052,423</b>
Cash	\$ 100,750	\$ 96,966
Cash equivalents	958,340	955,457
	\$ 1,059,090	\$ 1,052,423
Supplemental disclosure of cash flow information related to operating activities		
Amount of interest and dividends received	\$ 201,397	\$ 203,246
Amount of interest paid during the year	\$ 191,638	\$ 186,153

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

# Notes to Consolidated Financial Statements

DECEMBER 31, 2012 AND 2011 (In thousands of Canadian dollars, except shares and per share amounts)

## 1. CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada, R3C 3B6. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

### 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 and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment 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 Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

The Company's investment in Great-West Lifeco Inc. (Lifeco) 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 comprehensive income and the dividends received since the date of acquisition.

### Changes in accounting policies

#### *IFRS 7 Financial Instruments Disclosures*

On January 1, 2012, the Company adopted *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7). The amendments require additional disclosures related to the Company's securitization transactions (*Note 7*).

### Revenue recognition

Management fees are based on the net asset value of mutual fund or other 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.



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

### **Financial instruments**

All financial assets are classified in one of the following categories: available for sale, 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 with the intent to sell in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. 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.

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 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, 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 and equity securities. Unrealized and realized gains and losses, dividends declared, and 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 in the Consolidated Statements of Earnings. Loans classified as loans and receivables are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

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

### **Loans** *(continued)*

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 collective 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.

### **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 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.

### **Capital assets**

Capital assets are recorded at cost of \$298.1 million at December 31, 2012 (2011 – \$274.5 million), less accumulated amortization of \$175.4 million (2011 – \$164.6 million). Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets 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 carrying 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 costs to sell 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.

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.

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.

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

### **Employee benefits**

The Company maintains a number of employee benefit plans which are related parties in accordance with IFRS. These plans include a funded defined benefit pension plan for eligible employees, unfunded supplementary executive retirement plans (SERP) for certain executive officers, an unfunded post-employment health care and life insurance plan for eligible retirees and defined contribution pension plans for eligible employees.

The defined benefit pension plan provides pensions based on length of service and final average earnings.

The cost of pension and other post-employment 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.

Benefits expense or income, which is included in Non-commission expense, includes the cost of pension or other post-employment 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-employment 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-employment benefit plan. Vested past service costs or credits are recognized immediately in benefits expense or income.

The Company recognizes actuarial gains and losses immediately 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.

Payments to the defined contribution pension plan are expensed as incurred.

### **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.

The Company recognizes a liability for cash settled awards including those granted under the Performance Share Unit plan and the Deferred Share Unit plan. Compensation expense is recognized over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

### **Provisions**

A provision is recognized if, as a result of a past event, the Company has a present obligation where a reliable estimate can be made, and it is probable that an outflow of resources will be required to settle the obligation.

### **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.

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

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

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.

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 hedging instruments. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company also enters into total return swaps 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 derivatives are not designated as hedging instruments and changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Earnings.

Derivatives 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 continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes 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. This is the first phase of a three-phase project to replace IAS 39, the current standard for accounting for financial instruments. The remaining phases of the project are currently under development and include impairment methodology and hedge accounting. The impact of this new standard will be assessed once the remaining phases of the project are completed. The standard is currently effective for annual periods beginning on or after January 1, 2015.

### ***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 not expected to have a significant impact on the Company's financial position or results of operations. The standard is applied retroactively and is effective for annual periods beginning on or after January 1, 2013.

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

### Future accounting changes *(continued)*

#### ***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 expected to result in additional disclosures and is effective for annual 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 but is not expected to have a significant impact on the Company's financial position or results of operations. The standard is effective on a prospective basis for annual 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 amended standard relates only to presentation and will not have an impact on the Company's financial position or results of operations. The amendments are applied retroactively and are effective for annual periods beginning on or after July 1, 2012.

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

The IASB issued IAS 19 that amends the measurement, presentation and disclosure requirements for defined benefit plans. The standard is applied retroactively and is effective for annual periods beginning on or after January 1, 2013. These 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 to be recognized immediately in OCI. Actuarial gains and losses recognized in OCI are not reclassified to net earnings in subsequent periods. This amendment will have no impact on the Company as actuarial gains and losses are currently recognized immediately in OCI.
- 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. The effect of applying this standard retroactively will increase retained earnings as at January 1, 2012 by \$3.5 million, net of income taxes of \$1.3 million, and net earnings for the year ended December 31, 2012 will decrease by \$0.4 million, net of income taxes of \$0.2 million.
- 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. No adjustment is required to retained earnings as at January 1, 2012 as all actuarial gains (losses) are currently recorded in retained earnings. Net earnings for the year ended December 31, 2012 will decrease by \$2.5 million, net of income taxes of \$0.9 million, offset by an increase in Other comprehensive income.

### 3. DISCONTINUED OPERATIONS

On November 16, 2011, the Company completed the sale of 100% of the common shares of M.R.S. Trust Company and M.R.S Inc. (MRS). Cash consideration was \$198.7 million in addition to the repayment of \$20 million of subordinated debt and the assumption of the liability related to amounts held on deposit with MRS by Investors Group Securities Inc.

In accordance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the operating results and cash flows of MRS, which were previously included in the Mackenzie reportable segment, have been classified as discontinued operations.

#### Net earnings from discontinued operations

	PERIOD ENDED NOVEMBER 15, 2011
Revenues	\$ 32,516
Expenses	26,778
Earnings before income taxes	5,738
Income taxes	
Operations	1,579
Change in estimate related to tax filing positions	(28,162)
	(26,583)
	32,321
Gain on sale	32,246
Income taxes	1,923
	30,323
Net earnings from discontinued operations	\$ 62,644

#### Cash flows from discontinued operations

Included within the Company's cash flows are the following amounts attributable to discontinued operations:

	PERIOD ENDED NOVEMBER 15, 2011
Net cash flows from operating activities	\$ 7,256
Net cash flows used in financing activities	(32,867)
Net cash flows from investing activities	164,431
Net increase in cash and cash equivalents	\$ 138,820

#### 4. NON-COMMISSION EXPENSE

	2012		2011	
Salaries and employee benefits	\$	315,973	\$	294,501
Amortization of capital and intangible assets		33,521		33,121
Occupancy		50,745		49,023
Other		264,244		260,842
	\$	664,483	\$	637,487

#### 5. SECURITIES

	2012		2011	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale:				
Equity securities	\$ -	\$ -	\$ 4,876	\$ 4,876
Proprietary investment funds	35,351	36,685	30,725	31,173
	35,351	36,685	35,601	36,049
Fair value through profit or loss:				
Equity securities	6,057	6,163	-	-
Canada Mortgage Bonds	220,432	225,490	220,432	227,206
Fixed income securities	-	-	30,817	29,177
	226,489	231,653	251,249	256,383
	\$ 261,840	\$ 268,338	\$ 286,850	\$ 292,432

#### 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. These activities represent short-term funding transactions whereby 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 \$225.5 million at December 31, 2012 (2011 – \$227.2 million). The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of \$225.4 million (2011 – \$227.3 million). The interest expense related to these obligations is recorded in Net investment income and other in the Consolidated Statements of Earnings.

##### *Fixed income securities*

Fixed income securities which were comprised of the restructured notes of the master asset vehicle (MAV) conduits were disposed of in the fourth quarter of 2012 for proceeds of \$35.0 million resulting in a gain of \$1.6 million.

## 6. LOANS

	CONTRACTUAL MATURITY			2012 TOTAL	2011 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
<b>Loans and receivables</b>					
Residential mortgages	\$ 778,562	\$ 3,891,840	\$ 3,641	\$ 4,674,043	\$ 3,794,613
Less: Collective allowance				669	793
				4,673,374	3,793,820
<b>Held for trading</b>				248,795	292,109
				\$ 4,922,169	\$ 4,085,929
The change in the collective allowance for credit losses is as follows:					
Balance, beginning of year				\$ 793	\$ 4,338
Recoveries				(34)	(70)
Provision for credit losses				(90)	285
Allowance for credit losses - sale of MRS (Note 3)				-	(3,760)
Balance, end of year				\$ 669	\$ 793

Total impaired loans as at December 31, 2012 were \$963 (2011 – \$1,078).

Total interest income on loans classified as loans and receivables was \$146.6 million (2011 – \$147.6 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$96.2 million (2011 – \$84.3 million). Gains realized on the sale of residential mortgages totalled \$19.0 million (2011 – \$16.8 million). Other gains and fair value adjustments related to mortgage banking operations totalled \$10.0 million (2011 – nil). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.



## 7. SECURITIZATIONS

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 (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded an offsetting liability for the net proceeds received as Obligations to securitization entities which is carried at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$56.2 million at December 31, 2012.

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 from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

2012

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	\$ 3,284,932	\$ 3,312,273	\$ (27,341)
Bank sponsored ABCP	1,354,049	1,388,598	(34,549)
Total	\$ 4,638,981	\$ 4,700,871	\$ (61,890)
Fair value	\$ 4,685,492	\$ 4,786,705	\$ (101,213)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

## 8. OTHER ASSETS

	2012	2011
Deferred and prepaid expenses	\$ 27,468	\$ 30,362
Other	3,647	9,866
	\$ 31,115	\$ 40,228

Total other assets of \$10.3 million as at December 31, 2012 (2011 – \$14.7 million) are expected to be realized within one year.

## 9. INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's investment in Lifeco. Lifeco is a publicly listed company that is incorporated and domiciled in Canada and is controlled by Power Financial Corporation. Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia.

The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings. At December 31, 2012, the Company held 37,787,388 (2011 – 37,787,388) shares of Lifeco, which represented an equity interest of 4.0% (2011 – 4.0%). The Company uses the equity method to account for its investment in Lifeco as it exercises significant influence. Significant influence arises from several factors, including but not limited to, the following: common control of Lifeco by Power Financial Corporation, directors common to the boards of the Company and Lifeco, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies.

	2012	2011
Balance, beginning of year	\$ 612,480	\$ 580,478
Proportionate share of earnings	77,882	74,529
Proportionate share of changes in affiliate's litigation provision	(5,560)	4,960
Dividends received	(46,478)	(46,478)
Proportionate share of other comprehensive income (loss) and other adjustments	(17,224)	(1,009)
Balance, end of year	\$ 621,100	\$ 612,480
Share of equity, end of year	\$ 488,375	\$ 479,710
Fair value, end of year	\$ 918,611	\$ 768,973

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2012.

Lifeco's financial information as at December 31, 2012 can be obtained in its publicly available information.

## 10. DEFERRED SELLING COMMISSIONS

	2012	2011
Cost	\$ 1,448,619	\$ 1,551,410
Less: accumulated amortization	(752,390)	(800,647)
	\$ 696,229	\$ 750,763
Changes in deferred selling commissions:		
Balance, beginning of year	\$ 750,763	\$ 794,555
Changes due to:		
Sales of mutual funds	211,615	237,748
Amortization	(266,149)	(281,540)
	(54,534)	(43,792)
Balance, end of year	\$ 696,229	\$ 750,763

Amortization of deferred selling commissions includes \$43.3 million (2011 – \$44.3 million) of disposals related to redemption activity and is recorded in Commission expense in the Consolidated Statements of Earnings.

## 11. GOODWILL AND INTANGIBLE ASSETS

The components of goodwill and intangible assets are as follows:

	FINITE-LIFE		INDEFINITE-LIFE			TOTAL INTANGIBLE ASSETS	GOODWILL
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES			
<b>2012</b>							
Cost	\$ 88,490	\$ 110,361	\$ 739,750	\$ 285,177	\$ 1,223,778	\$ 2,638,954	
Less: accumulated amortization	(60,408)	(41,769)	-	-	(102,177)	-	
	\$ 28,082	\$ 68,592	\$ 739,750	\$ 285,177	\$ 1,121,601	\$ 2,638,954	
Changes in goodwill and intangible assets:							
Balance, beginning of year	\$ 19,445	\$ 73,486	\$ 739,750	\$ 285,177	\$ 1,117,858	\$ 2,640,523	
Additions	18,457	2,578	-	-	21,035	-	
Disposals	(1,500)	(186)	-	-	(1,686)	(1,569)	
Amortization	(8,320)	(7,286)	-	-	(15,606)	-	
Balance, end of year	\$ 28,082	\$ 68,592	\$ 739,750	\$ 285,177	\$ 1,121,601	\$ 2,638,954	
<b>2011</b>							
Cost	\$ 77,610	\$ 107,994	\$ 739,750	\$ 285,177	\$ 1,210,531	\$ 2,640,523	
Less: accumulated amortization	(58,165)	(34,508)	-	-	(92,673)	-	
	\$ 19,445	\$ 73,486	\$ 739,750	\$ 285,177	\$ 1,117,858	\$ 2,640,523	
Changes in goodwill and intangible assets:							
Balance, beginning of year	\$ 20,894	\$ 77,185	\$ 739,750	\$ 285,177	\$ 1,123,006	\$ 2,643,123	
Additions	6,513	3,581	-	-	10,094	-	
Disposals	(577)	(120)	-	-	(697)	(2,600)	
Amortization	(7,385)	(7,160)	-	-	(14,545)	-	
Balance, end of year	\$ 19,445	\$ 73,486	\$ 739,750	\$ 285,177	\$ 1,117,858	\$ 2,640,523	

## 11. GOODWILL AND INTANGIBLE ASSETS *(continued)*

The goodwill and indefinite life intangible assets consisting of mutual fund management contracts and trade names are allocated to each cash generating unit (CGU) as summarized in the following table:

	2012		2011	
	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
Investors Group	\$ 1,347,781	\$ -	\$ 1,347,781	\$ -
Mackenzie	1,168,580	1,002,681	1,170,149	1,002,681
Other	122,593	22,246	122,593	22,246
Total	\$ 2,638,954	\$ 1,024,927	\$ 2,640,523	\$ 1,024,927

The recoverable amount of goodwill for all CGUs at December 31, 2012 is based on fair value less costs to sell. The valuation models used to assess fair value utilized assumptions that included levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved, discount rates, and observable data from comparable transactions.

The fair value less costs to sell was compared with the carrying amount of goodwill and indefinite life intangible assets and it was determined there was no impairment in the value of these assets.

## 12. DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other financial liabilities measured at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, loans, and accounts and other receivables amounting to \$163.2 million (2011 – \$150.7 million) related to deposits and certificates.

	DEMAND	TERM TO MATURITY			2012 TOTAL	2011 TOTAL
		1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Deposits	\$ 136,101	\$ 9,381	\$ 11,910	\$ 1,777	\$ 159,169	\$ 146,649
Certificates	-	225	1,335	2,465	4,025	4,067
	\$ 136,101	\$ 9,606	\$ 13,245	\$ 4,242	\$ 163,194	\$ 150,716

## 13. OTHER LIABILITIES

	2012	2011
Dividends payable	\$ 137,709	\$ 140,166
Interest payable	20,664	26,719
Accrued benefit liabilities <i>(Note 14)</i>	185,630	115,105
Provisions	40,573	54,416
Other	19,206	21,553
	\$ 403,782	\$ 357,959

The Company establishes restructuring provisions related to business acquisitions and divestitures and other provisions in the normal course of its operations. Changes in provisions during 2012 consisted of additional estimates of \$2.5 million and payments of \$16.3 million.

Total other liabilities of \$184.9 million as at December 31, 2012 (2011 – \$210.0 million) are expected to be settled within one year.

## 14. EMPLOYEE BENEFITS

### Defined benefit plans

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

Effective July 1, 2012, the defined benefit pension plan was closed and will only accept members hired prior to July 1, 2012. For all eligible employees hired after July 1, 2012, the Company introduced a registered defined contribution pension plan.

An actuarial valuation is performed for funding purposes every three years for the registered defined benefit pension plan. The most recent actuarial valuation was completed as at December 31, 2009 and the next required valuation will be completed based on a measurement date of December 31, 2012. The Company's obligation to make contributions in 2013 will be determined once the valuation is completed.

Plan assets, benefit obligations and funded status:

	2012			2011		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS
<b>Fair value of plan assets</b>						
Balance, beginning of year	\$ 207,146	\$ -	\$ -	\$ 226,584	\$ -	\$ -
Employee contributions	3,535	-	-	4,007	-	-
Benefits paid	(9,459)	-	-	(7,642)	-	-
Expected return	14,339	-	-	15,733	-	-
Actuarial (losses) gains	(1,642)	-	-	(31,536)	-	-
Balance, end of year	213,919	-	-	207,146	-	-
<b>Accrued benefit obligation</b>						
Balance, beginning of year	240,875	41,969	34,566	213,762	36,218	32,818
Benefits paid	(9,459)	(1,482)	(1,397)	(7,642)	(1,382)	(1,087)
Current service cost	10,614	1,231	975	8,469	858	919
Employee contributions	3,535	-	-	4,007	-	-
Interest cost	13,050	2,124	1,732	12,106	2,058	1,714
Past service cost	-	-	-	-	4,287	-
Actuarial losses (gains)	47,842	3,038	6,083	10,173	(70)	202
Balance, end of year	306,457	46,880	41,959	240,875	41,969	34,566
<b>Funded status - plan surplus (deficit)</b>						
Unamortized past service cost	(92,538)	(46,880)	(41,959)	(33,729)	(41,969)	(34,566)
Accrued benefit asset (liability)	\$ (92,538)	\$ (44,873)	\$ (48,219)	\$ (33,729)	\$ (39,487)	\$ (41,889)
<b>Actuarial assumptions to calculate benefit obligation</b>						
Discount rate	4.45%	4.15%-4.60%	4.10%	5.35%	4.95%-5.30%	5.00%
Rate of compensation increase	4.36%	4.36%	N/A	4.36%	4.36%	N/A

#### 14. EMPLOYEE BENEFITS *(continued)*

##### Defined benefit plans *(continued)*

Summarized plan information:

	2012			2011		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS
Present value of defined benefit obligation	\$ 306,457	\$ 46,880	\$ 41,959	\$ 240,875	\$ 41,969	\$ 34,566
Fair value of plan assets	213,919	-	-	207,146	-	-
(Deficit)/surplus in the plan	\$ (92,538)	\$ (46,880)	\$ (41,959)	\$ (33,729)	\$ (41,969)	\$ (34,566)
Experience gains (losses) on:						
Plan liabilities	\$ (47,842)	\$ (3,038)	\$ (6,083)	\$ (10,173)	\$ 70	\$ (202)
Plan assets	(1,642)	N/A	N/A	(31,536)	N/A	N/A

Asset allocation of defined benefit pension plan by asset category:

	2012	2011
Equity securities	60.0 %	64.4 %
Fixed income securities	38.6 %	33.9 %
Cash and cash equivalents	1.4 %	1.7 %
	100.0 %	100.0 %

In determining the assumption for the expected long-term rate of return on assets for the defined benefit pension plan, the Company considered the historical returns and the future expectations for returns for each asset class as well as the investment policy of the plan. As a result, the assumption for the expected long-term rate of return on assets for 2012 was 7.00% (2011 – 7.00%). In 2012, the actual return on plan assets was \$12.7 million (2011 – \$(15.8) million).

Benefit expense:

	2012			2011		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- EMPLOYMENT BENEFITS
Current service cost	\$ 10,614	\$ 1,231	\$ 975	\$ 8,469	\$ 858	\$ 919
Past service cost	-	475	(1,063)	-	1,805	(1,063)
Interest cost on accrued benefit obligation	13,050	2,124	1,732	12,106	2,058	1,714
Expected return on plan assets	(14,339)	-	-	(15,733)	-	-
	\$ 9,325	\$ 3,830	\$ 1,644	\$ 4,842	\$ 4,721	\$ 1,570

## 14. EMPLOYEE BENEFITS *(continued)*

### Defined benefit plans *(continued)*

Actuarial assumptions to calculate benefit expense:

	2012			2011		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-EMPLOYMENT BENEFITS
Discount rate	5.35%	4.95%-5.60%	5.00%	5.60%	5.40%-5.50%	5.20%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A	7.00%	N/A	N/A
Rate of compensation increase	4.36%	4.36%	N/A	4.36%	4.36%	N/A
Health care cost trend rate <sup>(1)</sup>	N/A	N/A	6.18%	N/A	N/A	6.60%

(1) Trending to 4.50% in 2029 and remaining at that rate thereafter.

The cumulative amount of actuarial losses recognized as a charge in other comprehensive income as at December 31, 2012 was \$133.8 million (2011 – \$75.2 million).

Sensitivity analysis:

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-employment benefit obligation of \$2.3 million as at December 31, 2012. The increase in the 2012 other post-employment benefit expense would not be significant. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-employment benefit obligation of \$2.0 million as at December 31, 2012. The decrease in the 2012 other post-employment benefit expense would not be significant.

### Defined contribution pension plans

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Non-commission expense was \$0.6 million (2011 – \$0.5 million).

### Group Retirement Savings Plan (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Non-commission expense as paid and totalled \$5.9 million (2011 – \$5.3 million).

## 15. INCOME TAXES

Income tax expense on continuing operations:

	2012	2011
<b>Income taxes recognized in net earnings</b>		
Current taxes		
Tax on current year's earnings	\$ 232,690	\$ 262,329
Adjustments in respect of prior years	(38,893)	(9,851)
	193,797	252,478
Deferred taxes	(2,193)	(1,981)
	\$ 191,604	\$ 250,497
<b>Deferred income taxes recovery in retained earnings</b>	\$ (15,825)	\$ (11,293)

Effective income tax rate on continuing operations:

	2012	2011
Income taxes at Canadian federal and provincial statutory rates	26.53 %	28.15 %
Effect of:		
Proportionate share of affiliate's earnings <i>(Note 9)</i>	(2.17)	(1.92)
Tax loss consolidation <i>(Note 26)</i>	(2.08)	(2.33)
Other items	(0.66)	(0.94)
Reduction in estimates related to certain tax filings	(2.53)	-
Rate changes on deferred income taxes related to indefinite life intangible assets	0.67	-
Proportionate share of affiliate's provision <i>(Note 9)</i>	0.15	(0.13)
Effective income tax rate	19.91 %	22.83 %

As of January 1, 2012, the federal corporate tax rate decreased from 16.5% to 15%. The previously enacted Ontario corporate tax rate decrease from 11.5% to 11% scheduled for July 1, 2012 was rescinded on June 20, 2012 resulting in an increase to the tax rate for 2012.

### Deferred income taxes

Sources of deferred income taxes:

	2012	2011
Deferred income tax assets		
Accrued benefit liabilities	\$ 50,105	\$ 31,069
Loss carryforwards	20,943	19,501
Other	35,968	41,940
	107,016	92,510
Deferred income tax liabilities		
Deferred selling commissions	185,673	197,252
Intangible assets	142,789	134,339
Other	9,836	10,275
	338,298	341,866
	\$ 231,282	\$ 249,356

Deferred income tax assets and liabilities are presented on the Consolidated Balance Sheets as follows:

	2012	2011
Deferred income tax assets	\$ 78,609	\$ 59,612
Deferred income tax liabilities	309,891	308,968
	\$ 231,282	\$ 249,356



## 16. LONG-TERM DEBT

MATURITY	RATE	SERIES	2012	2011
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>\$ 1,325,000</b>

Long-term debt consists of unsecured debentures which 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 financial liabilities and is carried at amortized cost.

Interest expense relating to long-term debt was \$92.2 million (2011 – \$102.8 million).

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

## 17. SHARE CAPITAL

### Authorized

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares, no par value

### Issued and outstanding

	2012		2011	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of year	256,658,488	\$ 1,578,270	259,717,507	\$ 1,567,725
Issued under Stock Option Plan (Note 19)	788,319	27,401	1,125,981	36,093
Purchased for cancellation	(5,347,900)	(33,098)	(4,185,000)	(25,548)
Balance, end of year	252,098,907	\$ 1,572,573	256,658,488	\$ 1,578,270

### Normal course issuer bid

In 2012, 5,347,900 (2011 – 4,185,000) shares were purchased at a cost of \$214.9 million (2011 – \$185.8 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, 2012. Pursuant to this bid, the Company may purchase up to 12.8 million or 5% of its common shares outstanding as at March 31, 2012. On April 12, 2011, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 12.9 million or 5% of its common shares outstanding as at March 31, 2011.

## **17. SHARE CAPITAL** *(continued)*

### **Normal course issuer bid** *(continued)*

In connection with its normal course issuer bid, the Company established an automatic securities purchase plan for its common shares. The automatic securities purchase plan was established to provide standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods, subject to pre-established parameters. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

## **18. CAPITAL MANAGEMENT**

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

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

The total outstanding long-term debt was \$1,325.0 million at December 31, 2012, unchanged from December 31, 2011. 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 at December 31, 2012 remain unchanged from December 31, 2011.

The Company purchased 5,347,900 common shares during the year ended December 31, 2012 at a cost of \$214.9 million under its normal course issuer bid (Note 17). The Company commenced a normal course issuer bid on April 12, 2012 to purchase up to 5% of its common shares in order to mitigate the dilutive effect of stock options issued under the Company's stock option plan and for other capital management purposes. Other activities in 2012 included the declaration of perpetual preferred share dividends of \$8.9 million or \$1.475 per share and common share dividends of \$546.5 million or \$2.15 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

## **19. SHARE-BASED PAYMENTS**

### **Stock option plan**

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date. 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. At December 31, 2012, 11,662,622 (2011 – 12,450,941) common shares were reserved for issuance under the Plan.

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

### Stock option plan *(continued)*

During 2012, the Company granted 1,120,855 options to employees (2011 – 876,820). The weighted-average fair value of options granted during the year ended December 31, 2012 has been estimated at \$5.23 per option (2011 – \$6.59) using the Black-Scholes option pricing model. The weighted average share price at the grant dates was \$45.20. The assumptions used in these valuation models include:

	2012	2011
Exercise price	<b>\$ 45.63</b>	\$ 46.70
Risk-free interest rate	<b>1.80 %</b>	3.02 %
Expected option life	<b>6 years</b>	6 years
Expected volatility	<b>22.00 %</b>	22.00 %
Expected dividend yield	<b>4.71 %</b>	4.39 %

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. Stock options were exercised regularly throughout 2012 and the average share price in 2012 was \$41.62.

The Company recorded compensation expense related to its stock option program of \$4.8 million (2011 – \$2.2 million).

	2012		2011	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	<b>8,414,392</b>	<b>\$ 39.64</b>	8,958,494	\$ 37.59
Granted	<b>1,120,855</b>	<b>45.63</b>	876,820	46.70
Exercised	<b>(788,319)</b>	<b>29.48</b>	(1,125,981)	28.34
Forfeited	<b>(631,467)</b>	<b>39.66</b>	(294,941)	41.44
Balance, end of year	<b>8,115,461</b>	<b>\$ 41.45</b>	8,414,392	\$ 39.64
Exercisable, end of year	<b>3,570,846</b>	<b>\$ 40.34</b>	3,737,122	\$ 37.90

Options outstanding at December 31, 2012	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	<b>2013</b>	<b>25.66 - 28.66</b>	<b>119,367</b>	<b>119,367</b>
	<b>2014</b>	<b>33.52 - 35.77</b>	<b>634,575</b>	<b>412,271</b>
	<b>2015</b>	<b>37.09 - 37.78</b>	<b>857,211</b>	<b>857,211</b>
	<b>2016</b>	<b>46.68</b>	<b>543,521</b>	<b>375,857</b>
	<b>2017</b>	<b>50.60 - 50.92</b>	<b>1,049,214</b>	<b>549,117</b>
	<b>2018</b>	<b>42.09 - 44.60</b>	<b>870,323</b>	<b>434,730</b>
	<b>2019</b>	<b>26.67 - 44.00</b>	<b>1,155,119</b>	<b>406,892</b>
	<b>2020</b>	<b>40.45 - 42.82</b>	<b>990,484</b>	<b>282,015</b>
	<b>2021</b>	<b>42.49 - 46.72</b>	<b>804,302</b>	<b>133,386</b>
	<b>2022</b>	<b>45.56 - 47.23</b>	<b>1,091,345</b>	<b>-</b>
			<b>8,115,461</b>	<b>3,570,846</b>

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

### Performance share unit plan

In 2011, the Company introduced a Performance Share Unit (PSU) plan for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. Under the terms of the plan, PSUs are awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Company's common shares. The PSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional PSUs and deferred share units are issued in respect of dividends payable on common shares based on a value of the PSU or deferred share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of \$5.2 million in 2012 (2011 – \$2.6 million) and a liability of \$7.4 million at December 31, 2012 (2011 – \$2.5 million).

### Share purchase plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled \$10.7 million (2011 – \$9.8 million).

### Deferred share unit plan

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual retainer in the form of DSUs and may elect to receive the balance of their annual retainer in cash or DSUs. Directors may elect to receive their attendance fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of deferred share unit). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2012, the fair value of the DSUs outstanding was \$14.5 million (2011 – \$13.3 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Non-commission expense in the period in which the change occurs.

## 20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	NET UNREALIZED GAIN (LOSSES), NET OF TAX		
	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
<b>2012</b>			
Balance, beginning of year	\$ 324	\$ (2,246)	\$ (1,922)
Other comprehensive income (loss)	639	(16,013)	(15,374)
Balance, end of year	\$ 963	\$ (18,259)	\$ (17,296)
<b>2011</b>			
Balance, beginning of year	\$ 5,600	\$ (3,062)	\$ 2,538
Other comprehensive income (loss)	(5,276)	816	(4,460)
Balance, end of year	\$ 324	\$ (2,246)	\$ (1,922)

## 21. RISK MANAGEMENT

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

### Liquidity and funding risk related to financial instruments

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

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

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

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

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

Certain subsidiaries of the Company are approved issuers of National Housing Act Mortgage Backed Securities (NHA MBS) and are approved sellers into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides the Company with additional funding sources for residential mortgages. 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. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions that are subject to change.

The Company's contractual maturities were as follows:

As at December 31, 2012 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Repurchase agreements	\$ -	\$ 225.4	\$ -	\$ -	\$ 225.4
Derivative financial instruments	-	22.9	45.0	2.9	70.8
Deposits and certificates	136.1	9.6	13.2	4.3	163.2
Obligations to securitization entities	-	789.1	3,877.0	34.8	4,700.9
Long-term debt	-	-	-	1,325.0	1,325.0
Operating leases <sup>(1)</sup>	-	52.9	152.3	78.5	283.7
<b>Total contractual obligations</b>	<b>\$ 136.1</b>	<b>\$ 1,099.9</b>	<b>\$ 4,087.5</b>	<b>\$ 1,445.5</b>	<b>\$ 6,769.0</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.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's operating lines of credit. The Company's operating lines of credit with various Schedule I Canadian chartered banks totalled \$525 million as at December 31, 2012, compared to \$325 million as at December 31, 2011. On October 26, 2012, the Company entered into an additional \$200 million committed line of credit to provide financing to the Company's mortgage operations. The operating lines of credit as at December 31, 2012 consisted of committed lines of \$350 million (2011 – \$150 million) and uncommitted lines of \$175 million (2011 – \$175 million). The Company has accessed its uncommitted operating lines of credit in the past; however, any advances made by a bank under the uncommitted operating lines are at the bank's sole discretion. As at December 31, 2012 and 2011, the Company was not utilizing its committed lines of credit or its uncommitted operating lines of credit.

The Company accessed capital markets most recently in December 2010; however, its ability to access capital markets to raise funds in future is dependent on market conditions.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2011.

## 21. RISK MANAGEMENT *(continued)*

### Credit risk related to financial instruments

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

At December 31, 2012, cash and cash equivalents of \$1,059.1 million (2011 – \$1,052.4 million) consisted of cash balances of \$100.8 million (2011 – \$97.0 million) on deposit with Canadian chartered banks and cash equivalents of \$958.3 million (2011 – \$955.4 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$233.1 million (2011 – \$521.3 million), provincial government and government guaranteed commercial paper of \$472.6 million (2011 – \$340.4 million) and bankers' acceptances issued by Canadian chartered banks of \$252.6 million (2011 – \$93.7 million). The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fair value through profit or loss securities include Canada Mortgage Bonds with a fair value of \$225.5 million (2011 – \$227.2 million). The fair value represents the maximum exposure to credit risk at December 31, 2012 (Note 5).

The Company regularly reviews the credit quality of the mortgage portfolios, related to the Company's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2012, mortgages totalled \$4.9 billion (2011 – \$4.1 billion) and consisted of residential mortgages:

- Sold to securitization programs which are classified as loans and receivables and totalled \$4.6 billion compared to \$3.8 billion at December 31, 2011. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$4.7 billion at December 31, 2012, compared to \$3.8 billion at December 31, 2011.
- Related to the Company's mortgage banking operations which are classified as held for trading and totalled \$248.8 million compared to \$292.1 million at December 31, 2011. These loans are held by the Company pending sale or securitization.
- Related to the Company's intermediary operations which are classified as loans and receivables and totalled \$35.1 million at December 31, 2012, compared to \$31.3 million at December 31, 2011.

As at December 31, 2012, the mortgage portfolios related to the Company's intermediary operations were geographically diverse, 100% residential (2011 – 100%) and 86.2% insured (2011 – 99.4%). As at December 31, 2012, impaired mortgages were nil, unchanged from December 31, 2011. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2011. The characteristics of the mortgage portfolio have not changed significantly during 2012.

The NHA MBS and CMB Program requires that all securitized mortgages be insured against default by an approved insurer. The ABCP programs do not require mortgages to be insured; however, at December 31, 2012, 66.6% of these mortgages were insured compared to 86.5% at December 31, 2011. At December 31, 2012, 88.3% of the securitized portfolio and the residential mortgages classified as held for trading were insured compared to 93.0% at December 31, 2011. As at December 31, 2012, impaired mortgages on these portfolios were \$1.0 million, compared to \$1.1 million at December 31, 2011. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.6 million at December 31, 2012, compared to nil at December 31, 2011.

The Company retains certain elements of credit risk on securitized loans. At December 31, 2012, 90.2% of securitized loans were insured against credit losses compared to 96.2% at December 31, 2011. The Company's credit risk on its securitization activities is limited to its retained interest. The fair value of the Company's retained interests in securitized mortgages was \$69.1 million at December 31, 2012 compared to \$24.3 million at December 31, 2011. Retained interests include:

- *Cash reserve accounts and rights to future net interest income* – which were \$23.7 million (2011 – \$10.7 million) and \$101.6 million (2011 – \$90.5 million), respectively, at December 31, 2012. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

## 21. RISK MANAGEMENT *(continued)*

### Credit risk related to financial instruments *(continued)*

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$55.1 million (2011 – \$44.9 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 previously discussed, and the Company's credit risk on insured loans is to the insurer.

Rights to future net interest income under the NHA MBS and CMB Program totalled \$70.2 million (2011 – \$56.3 million). Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. Outstanding mortgages securitized under these programs are \$3.3 billion (2011 – \$ 2.7 billion).

- *Fair value of principal reinvestment account swaps* – which had a negative fair value of \$56.2 million at December 31, 2012 (2011 – \$76.9 million) and is reflected on the Company's balance sheet. These swaps represent 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 the reinvestment of repaid mortgage principal. The notional amount of these swaps was \$931.5 million at December 31, 2012 (2011 – \$556.3 million).

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company's collective allowance for credit losses was \$0.7 million at December 31, 2012, compared to \$0.8 million at December 31, 2011, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based upon the following considerations:

- The Company's lending policy, underwriting standards and loan servicing capabilities.
- The Company's practice of originating its mortgages exclusively through its own network of Consultants and mortgage planning specialists as part of a client's comprehensive financial plan.
- The quality of the Company's mortgage portfolio based on: i) historical credit performance experience and recent trends; ii) current portfolio credit metrics and other relevant characteristics; and, iii) regular stress testing of losses under adverse real estate market conditions.
- The existence of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities, and mortgage portfolios have not changed materially since December 31, 2011.

The Company utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. To the extent that the fair value of the derivatives are in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfill their obligations under these arrangements.

The Company participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by the Company intermediate between the Company and the Canadian Housing Trust. The Company receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. The Company also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$26.5 million at December 31, 2012 (2011 – \$25.9 million) and the outstanding notional amount was \$5.7 billion (2011 – \$4.4 billion). Certain of these swaps relate to securitized mortgages that have been recorded on the Company's balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$3.3 billion (2011 – \$2.7 billion) and having a negative fair value of \$29.2 million (2011 – \$33.3 million), are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of \$2.4 billion (2011 – \$1.7 billion) and having a fair value of \$2.7 million (2011 – \$7.4 million), are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$63.1 million at December 31, 2012 compared to \$87.1 million at December 31, 2011.

## 21. RISK MANAGEMENT *(continued)*

### **Credit risk related to financial instruments** *(continued)*

The Company utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$4.9 million (2011 – \$23.4 million) on an outstanding notional amount of \$435.0 million at December 31, 2012 (2011 – \$1.0 billion). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$0.2 million at December 31, 2012 compared to \$0.6 million at December 31, 2011.

The Company also utilizes interest rate swaps to hedge interest rate risk associated with its investments in Canada Mortgage Bonds. The negative fair value of these interest rate swaps totalled \$5.4 million (2011 – \$7.4 million) on an outstanding notional amount of \$200.0 million at December 31, 2012 (2011 – \$200.0 million). The exposure to credit risk, which is limited to the fair value of the interest rate swaps which are in a gain position, was nil at December 31, 2012, unchanged from December 31, 2011.

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 as well as total return swaps and forward agreements on the Company's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was \$0.1 million on an outstanding notional amount of \$124.5 million at December 31, 2012 compared to a fair value of nil on an outstanding notional amount of \$76.4 million at December 31, 2011. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$1.6 million at December 31, 2012, compared to \$0.8 million at December 31, 2011.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$64.9 million (2011 – \$88.5 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was nil at December 31, 2012 (2011 – \$0.3 million). Counterparties are all 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, 2012. Management of credit risk related to derivatives has not changed materially since December 31, 2011.

### **Market risk related to financial instruments**

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

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

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

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2012, the total gap between deposit assets and liabilities was within the Company's trust subsidiary's 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:

- The Company has funded fixed rate mortgages with floating rate ABCP as part of the securitization transactions with bank-sponsored securitization trusts. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, the Company remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptance rates that it receives on its hedges.
- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages decline. As previously discussed, as part of the CMB Program, the Company is also entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. The Company hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.



## 21. RISK MANAGEMENT *(continued)*

### Market risk related to financial instruments *(continued)*

#### **Interest Rate Risk** *(continued)*

- The Company is exposed to the impact that changes in interest rates may have on the fair value of its investments in Canada Mortgage Bonds. The Company enters into interest rate swaps with Canadian 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, 2012, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$5.0 million (2011 – \$4.3 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2011.

#### **Equity Price Risk**

The Company is exposed to equity price risk on its proprietary investment funds which are classified as available for sale securities and its equity securities which are classified as fair value through profit or loss (Note 5). Unrealized gains and losses on available for sale securities are recorded in Other comprehensive income until they are realized or until management determines there is objective evidence of impairment in value, at which time they are recorded in the Consolidated Statements of Earnings.

The Company sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. The Company hedges this risk through the use of forward agreements and total return swaps.

#### **Risks related to assets under management**

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

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

2012	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
Swaps	\$ 813,007	\$ 1,931,990	\$ 400,177	\$ 3,145,174	\$ 63,299	\$ 63,299	\$ 69,291
Forward contracts	2,702	18,669	-	21,371	-	-	1,492
	<b>\$ 815,709</b>	<b>\$ 1,950,659</b>	<b>\$ 400,177</b>	<b>\$ 3,166,545</b>	<b>\$ 63,299</b>	<b>\$ 63,299</b>	<b>\$ 70,783</b>
2011							
Swaps	\$ 617,138	\$ 1,914,894	\$ 407,862	\$ 2,939,894	\$ 88,092	\$ 88,092	\$ 110,662
Forward contracts	-	10,233	-	10,233	-	-	762
	<b>\$ 617,138</b>	<b>\$ 1,925,127</b>	<b>\$ 407,862</b>	<b>\$ 2,950,127</b>	<b>\$ 88,092</b>	<b>\$ 88,092</b>	<b>\$ 111,424</b>

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of financial instruments using the valuation methods and assumptions described below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

	2012		2011	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Assets</b>				
Cash and cash equivalents	\$ 1,059,090	\$ 1,059,090	\$ 1,052,423	\$ 1,052,423
Securities	268,338	268,338	292,432	292,432
Accounts and other receivables	307,907	307,907	281,982	281,982
Loans	4,922,169	4,969,188	4,085,929	4,144,347
Derivative financial instruments	63,299	63,299	88,092	88,092
Other financial assets	1,300	1,300	6,300	6,300
<b>Total financial assets</b>	<b>\$ 6,622,103</b>	<b>\$ 6,669,122</b>	<b>\$ 5,807,158</b>	<b>\$ 5,865,576</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 282,373	\$ 282,373	\$ 300,094	\$ 300,094
Repurchase agreements	225,445	225,445	227,280	227,280
Derivative financial instruments	70,783	70,783	111,424	111,424
Deposits and certificates	163,194	164,811	150,716	151,978
Other financial liabilities	198,945	198,945	221,301	221,301
Obligations to securitization entities	4,700,871	4,786,705	3,827,339	3,930,446
Long-term debt	1,325,000	1,628,894	1,325,000	1,586,710
<b>Total financial liabilities</b>	<b>\$ 6,966,611</b>	<b>\$ 7,357,956</b>	<b>\$ 6,163,154</b>	<b>\$ 6,529,233</b>

Fair value is determined using the following methods and assumptions:

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

Obligations to securitization entities are valued by discounting the expected future cash flows by prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

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 using quoted prices for each debenture available in the market.

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

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

All financial instruments measured at fair value are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

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

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

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

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

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

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

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

Level 3 assets and liabilities include derivative financial instruments and financial liabilities and also included restructured notes of the MAV at December 31, 2011.

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

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets</b>				
Securities				
– Available for sale	\$ 36,685	\$ -	\$ -	\$ 36,685
– Held for trading	230,649	164	840	231,653
Loans				
– Held for trading	-	248,795	-	248,795
Derivative financial instruments	-	63,104	195	63,299
	\$ 267,334	\$ 312,063	\$ 1,035	\$ 580,432
<b>Liabilities</b>				
Derivative financial instruments	\$ -	\$ 14,343	\$ 56,440	\$ 70,783
Financial liabilities	-	-	20,931	20,931
	\$ -	\$ 14,343	\$ 77,371	\$ 91,714
<b>2011</b>				
<b>Assets</b>				
Securities				
– Available for sale	\$ 36,049	\$ -	\$ -	\$ 36,049
– Held for trading	227,206	-	29,177	256,383
Loans				
– Held for trading	-	292,109	-	292,109
Derivative financial instruments	-	88,092	-	88,092
	\$ 263,255	\$ 380,201	\$ 29,177	\$ 672,633
<b>Liabilities</b>				
Derivative financial instruments	\$ -	\$ 34,486	\$ 76,938	\$ 111,424
Financial liabilities	-	-	26,106	26,106
	\$ -	\$ 34,486	\$ 103,044	\$ 137,530

There were no significant transfers between Level 1 and Level 2 in 2012 and 2011.

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

2012	BALANCE JANUARY 1	GAINS/(LOSSES) INCLUDED IN NET EARNINGS <sup>(1)</sup>	PURCHASES AND ISSUANCES	SETTLEMENTS	BALANCE DECEMBER 31
<b>Assets</b>					
Securities					
– Held for trading	\$ 29,177	\$ 6,300	\$ 799	\$ 35,436	\$ 840
<b>Liabilities</b>					
Derivative financial instruments, net	76,938	9,568	2,684	13,809	56,245
Financial liabilities	26,106	(3,795)	1,244	10,214	20,931
<hr/>					
2011					
<b>Assets</b>					
Securities					
– Held for trading	\$ 27,601	\$ 2,060	\$ -	\$ 484	\$ 29,177
<b>Liabilities</b>					
Derivative financial instruments, net	26,107	(61,543)	121	10,833	76,938
Financial liabilities	18,592	(4,951)	3,184	621	26,106

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

There were no transfers in or out of Level 3 in 2012 and 2011.

## 24. EARNINGS PER COMMON SHARE

	2012	2011
<b>Earnings</b>		
Net earnings from continuing operations	\$ 770,984	\$ 846,801
Net earnings from discontinued operations	-	62,644
Net earnings	770,984	909,445
Perpetual preferred share dividends	8,850	8,850
Net earnings available to common shareholders	\$ 762,134	\$ 900,595
<b>Number of common shares (in thousands)</b>		
Average number of common shares outstanding		
Add:	254,853	258,151
– Potential exercise of outstanding stock options	424	924
Average number of common shares outstanding – diluted basis	255,277	259,075
<b>Earnings per common share (in dollars)</b>		
Basic		
From continuing operations available to common shareholders	\$ 2.99	\$ 3.25
From discontinued operations	-	0.24
Net earnings available to common shareholders	\$ 2.99	\$ 3.49
Diluted		
From continuing operations available to common shareholders	\$ 2.99	\$ 3.24
From discontinued operations	-	0.24
Net earnings available to common shareholders	\$ 2.99	\$ 3.48

## 25. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

### Contingent liabilities

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

### Commitments

The Company is committed to the following annual lease payments under its operating leases: 2013 – \$52.9 million; 2014 – \$47.2 million; 2015 – \$41.7 million; 2016 – \$34.6 million; and 2017 and thereafter – \$107.3 million.

### Guarantees

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

## 26. RELATED PARTY TRANSACTIONS

### Transactions and balances with related entities

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

- During 2012 and 2011, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received \$70.4 million in distribution fees (2011 – \$62.8 million). The Company received \$15.3 million (2011 – \$15.9 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid \$52.9 million (2011 – \$52.2 million) to London Life related to the distribution of certain mutual funds of the Company.
- During 2012, the Company sold residential mortgage loans to Great-West and London Life for \$231.7 million (2011 – \$201.7 million).

The Company entered into tax loss consolidation transactions with its parent company, Power Financial Corporation, after obtaining advance tax rulings:

- 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 demand 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 Consolidated Financial Statements of the Company. Tax savings arise due to the tax deductibility of the interest expense.
- On December 30, 2011, the Company acquired the shares of a wholly-owned subsidiary of Power Financial Corporation which had entered into a transaction similar to that described above that generated tax losses. This transaction was unwound immediately prior to the Company's acquisition of the shares. The Company has recognized the benefit of the tax losses acquired.
- On January 10, 2012, the Company acquired an additional \$250 million of 6.01% preferred shares of a wholly-owned subsidiary of Power Financial Corporation. As sole consideration for the preferred shares, the Company issued \$250 million of 6.00% secured demand debentures to Power Financial Corporation.



## 26. RELATED PARTY TRANSACTIONS *(continued)*

### Key management compensation

The total compensation and other benefits to directors and employees classified as key management, being individuals having authority and responsibility for planning, directing and controlling the activities of the Company, are as follows:

	2012	2011
Compensation and employee benefits	\$ 3,617	\$ 3,373
Post-employment benefits	2,902	1,388
Share-based payments	2,201	2,790
	\$ 8,720	\$ 7,551

## 27. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

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

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

Mackenzie earns fee-based revenues from services it provides as fund manager to its mutual funds and as investment advisor to sub-advisory and institutional accounts.

The operating results of Mackenzie for the year ended December 31, 2011 exclude discontinued operations (Note 3).

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco (Note 9), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

## 27. SEGMENTED INFORMATION *(continued)*

	2012			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 1,086,083	\$ 634,192	\$ 46,073	\$ 1,766,348
Administration fees	220,242	105,780	11,133	337,155
Distribution fees	190,789	16,954	113,328	321,071
Net investment income and other	61,625	2,497	94,371	158,493
	<b>1,558,739</b>	<b>759,423</b>	<b>264,905</b>	<b>2,583,067</b>
<b>Expenses</b>				
Commission	488,510	259,570	110,168	858,248
Non-commission	373,060	248,733	42,690	664,483
	<b>861,570</b>	<b>508,303</b>	<b>152,858</b>	<b>1,522,731</b>
Earnings before undernoted	<b>\$ 697,169</b>	<b>\$ 251,120</b>	<b>\$ 112,047</b>	<b>1,060,336</b>
Interest expense				(92,188)
Proportionate share of affiliate's provision				(5,560)
Earnings before income taxes				962,588
Income taxes				191,604
Net earnings				770,984
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				<b>\$ 762,134</b>
<b>Identifiable assets</b>				
Identifiable assets	<b>\$ 6,194,857</b>	<b>\$ 1,310,160</b>	<b>\$ 1,829,423</b>	<b>\$ 9,334,440</b>
Goodwill	1,347,781	1,168,580	122,593	2,638,954
Total assets	<b>\$ 7,542,638</b>	<b>\$ 2,478,740</b>	<b>\$ 1,952,016</b>	<b>\$11,973,394</b>

## 27. SEGMENTED INFORMATION *(continued)*

2011

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
<b>Revenues</b>				
Management fees	\$ 1,152,380	\$ 695,268	\$ 45,080	\$ 1,892,728
Administration fees	225,980	108,344	10,563	344,887
Distribution fees	188,172	20,166	125,123	333,461
Net investment income and other	70,190	2,455	83,771	156,416
	1,636,722	826,233	264,537	2,727,492
<b>Expenses</b>				
Commission	489,573	285,894	119,393	894,860
Non-commission	351,989	239,757	45,741	637,487
	841,562	525,651	165,134	1,532,347
Earnings before undernoted	\$ 795,160	\$ 300,582	\$ 99,403	1,195,145
Interest expense				(102,807)
Proportionate share of affiliate's provision				4,960
Earnings before income taxes				1,097,298
Income taxes				250,497
Net earnings from continuing operations				846,801
Net earnings from discontinued operations				62,644
Net earnings				909,445
Perpetual preferred share dividends				8,850
Net earnings available to common shareholders				\$ 900,595
<b>Identifiable assets</b>				
Goodwill	\$ 5,341,041	\$ 1,318,428	\$ 1,860,079	\$ 8,519,548
	1,347,781	1,170,149	122,593	2,640,523
Total assets	\$ 6,688,822	\$ 2,488,577	\$ 1,982,672	\$ 11,160,071