Annual Report 2012

IGM Financial™

IGM FINANCIAL INC. is one of Canada's premier financial services companies with over $120 billion in total assets under management. The Company serves the financial needs of Canadians through multiple businesses, each operating distinctly within the advice segment of the financial services market. The Company is committed to building on its record of delivering long-term growth and value to its clients and shareholders. IGM Financial Inc. is a member of the Power Financial Corporation group of companies and its shares are listed on the Toronto Stock Exchange (IGM).

Investors Group™ Mackenzie INVESTMENTS* Investment Planning Counsel™ FINANCIAL SOLUTIONS FOR LIFE

Caution Regarding Forward-Looking Statements

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

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

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

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

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials filed with the securities regulatory authorities in Canada, available at www.sedar.com.

Non-IFRS Financial Measures and Additional IFRS Measures

This report contains non-IFRS financial measures and additional IFRS measures. Net earnings available to common shareholders, which is an additional measure in accordance with International Financial Reporting Standards (IFRS), may be subdivided into two components consisting of:

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

Terms by which non-IFRS financial measures are identified include but are not limited to "operating earnings available to common shareholders", "operating earnings per share", "operating return on average common equity" and other similar expressions used to provide management and investors with additional measures to assess earnings performance. As well, "earnings before interest and taxes (EBIT)" and "earnings before interest, taxes, depreciation and amortization (EBITDA)" are non-IFRS financial measures used to provide management, investors and investment analysts with additional measures to evaluate and analyze the Company's results. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS.

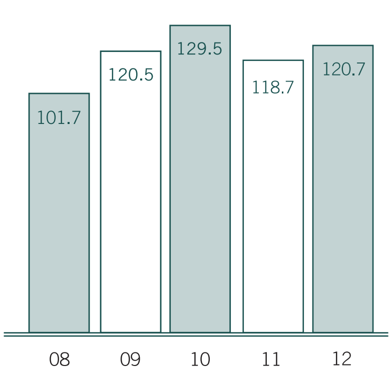
Terms by which additional IFRS measures are identified include "earnings before income taxes and discontinued operations", "net earnings from continuing operations" and "net earnings available to common shareholders". Additional IFRS measures are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

FINANCIAL HIGHLIGHTS

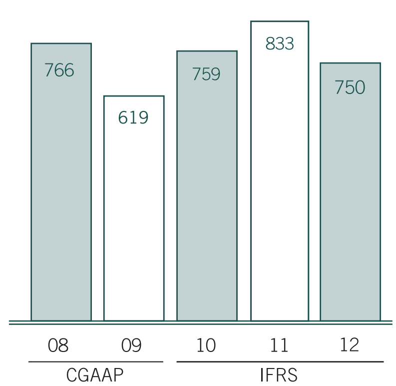
	2012	2011	CHANGE
Earnings available to common shareholders *($ millions)*			
Operating Earnings[1]	**$ 749.7**	$ 833.0	**(10.0)%**
Net Earnings	**762.1**	900.6	**(15.4)**
Diluted earnings per share			
Operating Earnings[1]	**2.94**	3.22	**(8.7)**
Net Earnings	**2.99**	3.48	**(14.1)**
Return on equity			
Operating Earnings[1]	**17.3%**	19.7%	
Net Earnings	**17.6%**	21.3%	
Dividends per share	**2.15**	2.10	**2.4**
Total assets under management[2] *($ millions)*	**$120,694**	$118,713	**1.7%**
Investors Group			
Mutual funds	**60,595**	57,735	**5.0**
Mackenzie			
Mutual funds	*40,394*	*39,141*	
Sub-advisory, institutional and other accounts	*21,083*	*22,511*	
Total	**61,477**	61,652	**(0.3)**
Counsel			
Mutual funds	**2,950**	2,811	**4.9**

	INVESTORS GROUP	MACKENZIE	COUNSEL	TOTAL[3]
Mutual Funds and Institutional Sales *($ millions)*				
Gross sales	**$ 5,778**	**$ 9,969**	**$ 401**	**$ 14,693**
Net sales (redemptions)	**(724)**	**(4,238)**	**(24)**	**(5,617)**

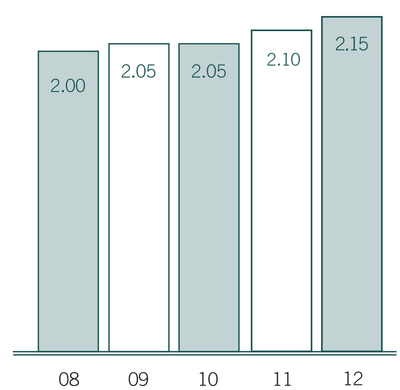
Total Assets Under Management
As at December 31 *($ billions)*



Operating Earnings[1][4]
For the financial year *($ millions)*



Dividends Per Share
For the financial year *($)*



(1) *Non-IFRS Financial Measures:*
2012 operating earnings excluded:
- *A favourable change in income tax provision estimates of $24.4 million, recorded in the fourth quarter, related to certain tax filings.*
- *An after-tax charge of $5.6 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.*
- *A non-cash income tax charge of $6.4 million, recorded in the second quarter, resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets arising from prior business acquisitions. There is no expectation that the deferred tax liability will become payable as the Company has no intention of disposing of these assets.*

2011 operating earnings excluded:
- *Net earnings from discontinued operations of $62.6 million.*
- *An after-tax benefit of $5.0 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.*

(2) *Total assets under management excluded $4.3 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($3.5 billion at December 31, 2011).*
(3) *Total Gross Sales and Net Sales excluded $1.5 billion and $631 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.*
(4) *Refer to Ten Year Review for Non-IFRS or Non-GAAP financial measures related to 2008-2010.*

REPORT TO SHAREHOLDERS

IGM Financial and its operating companies experienced an increase in total assets under management in 2012.

Investors Group Inc. and Mackenzie Financial Corporation, the Company's principal businesses, continued to generate business growth through product innovation, pricing enhancements, additional investment management resources and overall resource management throughout the year.

The Company is well diversified through its multiple distribution channels, product types, investment management units and fund brands. Assets under management are diversified by country of investment, industry sector, security type and management style.

We believe the vast majority of Canadians are best served through the support of a financial advisor who can help them to plan for and achieve their financial goals. The importance of financial advice became clearer throughout the financial services industry in the last few years where investors needed to consider long-term needs with fluctuating short-term investment returns.

The scope of our business and our association with other members of the Power Financial Corporation group of companies have placed the Company in a position of leadership and strength in the financial services industry. Together, these elements will enable IGM Financial to create long-term value for its clients, consultants, advisors, employees and shareholders over time.

FINANCIAL HIGHLIGHTS

Operating earnings available to common shareholders,[1] excluding other items, for the year ended December 31, 2012, were $749.7 million or $2.94 per share compared to operating earnings available to common shareholders, excluding other items, of $833.0 million or $3.22 per share in 2011.

Net earnings available to common shareholders for the year ended December 31, 2012, were $762.1 million or $2.99 per share compared to net earnings available to common shareholders of $900.6 million or $3.48 per share in 2011.

Total assets under management at December 31, 2012, totalled $120.7 billion. This compared with total assets under management of $118.7 billion at December 31, 2011, an increase of 1.7%.

Dividends were $2.15 per share for the year, up from $2.10 in the prior year.

[1] Please refer to the reconciliation of non-IFRS financial measures to measures prescribed by IFRS in Management's Discussion and Analysis (MD&A) on Page 17 of this Annual Report.

INDUSTRY PERSPECTIVE

Market fluctuations in recent years and increased volatility in the second quarter of 2012 have left investors with many questions on how best to manage their resources for the future. In this context, it is important for clients to have guidance from an advisor to keep focused on long-term goals. Positive equity markets in the last half of 2012 and an overall return (including dividends) for the S&P TSX of 7.2% for 2012 and 9.2% compounded over the last 10 years should increase confidence in investors' participation in equities for their long-term savings.

Most Canadians who invest know, and appreciate, the benefits of working with a financial advisor. In repeated surveys since 2006, the Investment Funds Institute of Canada (IFIC) has found approximately 85% of mutual fund investors prefer to invest through an advisor, highly rating their advisor's support.

Research shows that Canadians who rely on advice to guide their financial decisions are wealthier, more confident and better prepared for the financial implications of marriage, a new child, their children's education, retirement and other life events.

A groundbreaking 2012 study from Montreal-based Center for Interuniversity Research and Analysis on Organizations (CIRANO) shows that advisors positively affect the level of wealth of Canadian households. The research conducted by Professor Claude Montmarquette and Nathalie Viennot-Briot uses econometric modelling techniques on a very robust sample of Canadian households to demonstrate convincingly that financial advisors contribute significantly to the accumulation of financial wealth. After controlling for a host of socio-economic, demographic and attitudinal variables that can affect wealth, the research indicates that advised households have, on average, twice the level of financial assets when compared to their non-advised counterparts, and that this additional wealth is largely attributed to a greater savings discipline.

The CIRANO research further shows that having advice positively impacts retirement readiness and is an important contributor to levels of trust, satisfaction and confidence in financial advisors, which are strong indicators of the value of advice.

OPERATING HIGHLIGHTS

Investors Group expanded the number of its region offices by two in 2012, for a total of 108 across Canada. As at December 31, 2012, there were 4,518 Consultants working with clients to help them understand the impact of financial market volatility on their long-term financial planning.

Investors Group continued to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice. In May, Investors Group announced enhanced pricing for the majority of its funds effective June 30 and the addition of alternative high net worth series for households investing $500,000 or more with our company.

Investors Group mutual fund assets under management were $60.6 billion at the end of 2012, compared to $57.7 billion at December 31, 2011. Mutual fund sales were $5.8 billion compared to mutual fund sales in 2011 of $6.0 billion. Our redemption rate on long-term mutual funds was 10.0% at December 31, 2012, compared to 8.8% at December 31, 2011. Net redemptions of mutual funds in 2012 were $724 million.

Mackenzie maintained its focus on delivering consistent long-term investment performance, while emphasizing product innovation and communication with advisors and investors. Mackenzie's relationship with financial advisors is strengthened by the work we do through investor and advisor education programs, and through our commitment to focusing on active investment management strategies. During 2012, Mackenzie broadened its investment choices for Canadians by adding several new funds and more options, including tax-deferred solutions.

Mackenzie's total assets under management were $61.5 billion at the end of 2012, compared to $61.7 billion at December 31, 2011. Total sales were $10.0 billion, compared to the prior year level of $10.3 billion. Total net redemptions for the year were $4.2 billion, compared to $2.5 billion in 2011.

IGM Financial continues to build its business through its extensive network of distribution opportunities delivering high-quality advice and innovative, flexible solutions for investors. Our investment in technology and operations continue to help us manage our resources effectively and develop long-term growth in our business. The strength of our businesses, combined with our association with the Power Financial Corporation group of companies, gives IGM Financial a strong foundation to build upon.

CORPORATE SOCIAL RESPONSIBILITY

IGM Financial has a long-standing commitment to responsible management, which we believe is fundamental to long-term profitability and value creation. We conduct our business in a way that emphasizes good governance, operational integrity, ethical practices and respect for the environment. Our aim is to act responsibly in everything we do and we believe that long-term shareholder value creation results from an emphasis on client satisfaction, the development and support of our people and constructive involvement in the communities in which we operate.

Fundamental to our activities is our belief that advancing the financial literacy and financial security of Canadians is important to society. Our core business is serving our clients by assisting them in achieving their financial goals. We actively promote the value of financial advice and encourage Canadians to save and make informed investment decisions. We have a disciplined approach to both wealth management and the management of our business, with an emphasis on planning and measured risk-taking with a long-term view.

We have a long-standing practice of corporate giving through a range of philanthropic activities at each of IGM Financial's operating companies. Our people are encouraged to volunteer in the community, on industry committees and through professional associations.

In keeping with our commitment to good governance and ethical dealing, we have adopted an extensive written code of conduct that governs the Company's directors, officers and employees.

During 2012, we introduced formal responsibilities for Corporate Social Responsibility (CSR) activities as we work to enhance CSR disclosures and the coordination of activities across our companies and with our parent and sister companies. Board oversight responsibility for CSR resides with the Executive Committee of the Board. Executive management responsibility resides with the Co-Presidents and Chief Executive Officers. A CSR Steering Committee of senior executives has been established to approve IGM Financial's CSR strategy and monitor performance. Reports on CSR initiatives will be provided to the Executive Committee of the Board on a regular basis.

LOOKING AHEAD

As Canadians reflect on changing market conditions they will increasingly be focused on making informed decisions to provide for their long-term financial planning needs.

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

On behalf of the Board of Directors,

Murray J. Taylor
Co-President and
Chief Executive Officer
IGM Financial Inc.

Charles R. Sims, FCA
Co-President and
Chief Executive Officer
IGM Financial Inc.

February 8, 2013

Investors Group is committed to comprehensive planning delivered through long-term client and Consultant relationships. We provide advice and services through a network of over 4,500 Consultants to nearly one million Canadians.

Murray J. Taylor
President and Chief Executive Officer
Investors Group Inc.

HIGHLIGHTS

- The expansion of the region office network continued in 2012 with the addition of two new offices, bringing the total number of offices to 108. This represents growth of 61% since 2004. There were 4,518 Consultants at the end of 2012.
- Mortgage originations were up 45% year over year and sales increased 11% for insurance as our Consultants served the diverse financial planning needs of our clients.
- Driven by the strength of our client relationships, the redemption rate for Investors Group's long-term mutual funds was 10.0% for 2012, substantially below industry levels.
- Mutual fund sales in 2012 were $5.8 billion. Net redemptions of mutual funds were $724 million.
- Assets under management increased by 5.0% to $60.6 billion at December 31, 2012. Our median client return for the year, net of fees, was 5.5%.

REPORT ON OPERATIONS

In 2012, Investors Group continued to make progress in a number of key areas. Enhanced product and pricing opportunities combined with more stable equity markets in Canada and around the world is increasing investor and Consultant confidence. To provide more concentrated focus on the investment management of each fund we offer, Investors Group recruited several additional experienced portfolio managers and analysts throughout 2012.

CONTINUED CONSULTANT NETWORK STRENGTH

Since a number of improvements were introduced to our training and support programs in mid-2004, the Consultant network has expanded by 41% from 3,207 to 4,518. In the last two years, Investors Group has taken several steps to refine its selection and recruitment practices. This has resulted in a slightly lower number of Consultant appointments which has led to a slower growth rate in our Consultant network.

The company's commitment to training and support is integral to our Consultants' abilities to deliver effective financial advice. New Consultants refine their skills through an emphasis on experience-based training delivered by experienced field leadership and mentorship from successful senior Consultants. Investors Group's annual APEX conference offers advanced financial planning and practice management training to over 1,400 Consultants each year.

Our culture provides Consultants with an entrepreneurial environment and unique support structure to deliver personalized service and knowledgeable advice to our clients. Our clients enhance their financial literacy and gain financial confidence as our Consultants assist them with the development and deployment of their financial plans.

PRODUCTS FOR AN EVOLVING MARKETPLACE

The financial planning needs of Canadians are growing as economic uncertainties are more apparent and retirement and lifestyle decisions become more complex. Investors Group provides an industry-leading range of products and services to meet these diverse needs. We offer investment funds, segregated funds, insurance, securities, mortgage and Solutions Banking† products, along with other financial services to our clients through integrated financial planning.

Our Symphony Strategic Investment Planning™ supports Consultants in building optimized risk-adjusted portfolios for clients and provides enhanced reporting features.

In early 2012, we implemented the mergers of eight funds with similar investment mandates. These mergers serve to provide more effective management and, in some cases, broader, more diversified investment mandates, which in turn, will provide the potential for more stable long-term performance.

In May 2012, we announced a number of changes in the pricing of our mutual funds and product enhancements designed to expand services to our clients. The changes involved the reduction of management fees to approximately two-thirds of our funds and represent two-thirds of our managed assets. The reduction in management fees ranged from 0.05% to 0.40%.

With the reductions to our management fees, we introduced a new series of our mutual funds. Series J is for clients with household account balances in excess of $500,000.

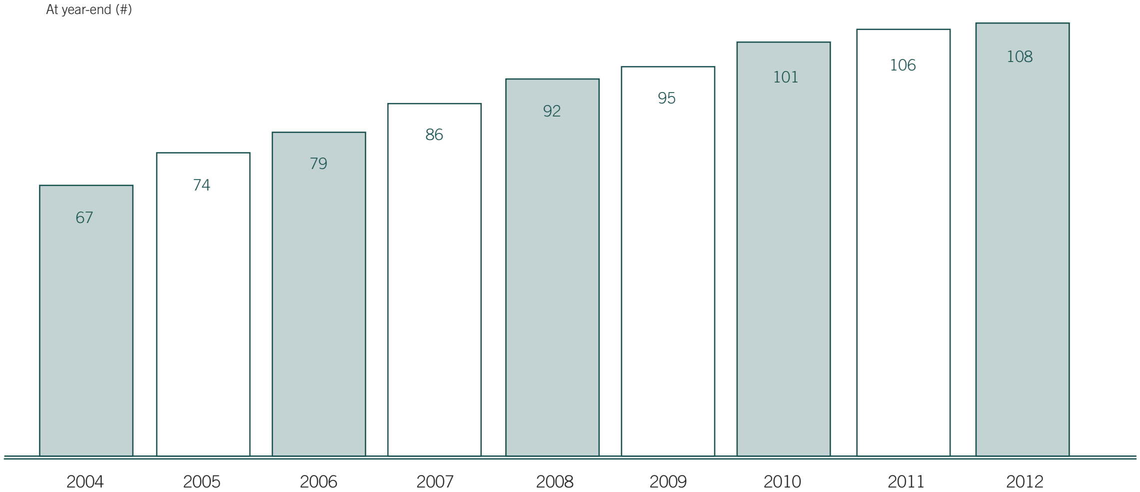
In October 2012, we announced our intention to add a new balanced fund, IG Mackenzie Sentinel Strategic Income Fund. This fund will seek income with the potential for long-term capital growth by investing primarily in fixed income investments and/or securities that pay equity income.

Finally, in December 2012, we announced our intention to implement enhancements to *iProfile*™, our managed asset program. The *iProfile* Program will be expanded to include *iProfile* Classes in addition to the existing *iProfile* Pools. The *iProfile* Classes will provide investors with the flexibility to make changes to their non-registered portfolios while deferring capital gains.

Investors Group's commitment to the ongoing evolution and expansion of its product and service offering enhances our ability to deliver comprehensive financial planning.

Region Office Growth

At year-end (#)



CORPORATE SOCIAL RESPONSIBILITY

Investors Group has a long-standing commitment to corporate social responsibility. We conduct our business in a manner that respects the long-term financial, economic, environmental and social interests of the communities in which we operate.

- Investors Group is committed to making a contribution to the many communities across Canada in which it operates by supporting local and national activities, events and organizations. Corporately, Investors Group has developed long associations with organizations like the Coaching Association of Canada and Food Banks Canada, supporting their work in communities across Canada. In 2012, Investors Group received the Award of Excellence from Food Banks Canada. This award is given to a company that has demonstrated long-term support of the organization and made a measurable positive impact on the issue of hunger or food banking in Canada. We continue to partner with Free the Children in inspiring youth leadership and volunteerism. We are also a major supporter of Imagine Canada and Volunteer Canada in encouraging charitable giving and volunteerism by Canadian companies.
- Investors Group has created a culture of "People Who Care," with a strong focus towards supporting and encouraging the volunteer engagement of employees and advisors through a wide offering of programs supported by head office. Our spirit of volunteerism is strong and continues to be recognized throughout the country.

Investors Group has created a culture of "People Who Care," with a strong focus towards supporting and encouraging the volunteer engagement of employees and advisors.

- During 2012, Investors Group presented the ninth annual Herbert H. Carnegie Community Service Award to Executive Financial Consultant Jim Mignault of London, Ontario. Jim has been a tireless advocate for diabetes treatment, research and education. Herbert Carnegie, an Order of Canada recipient, came to epitomize the qualities of success and caring for others in the community through his 35 years with Investors Group.
- Also in 2012, Investors Group Regional Director Paul Demay received the Herbert H. Carnegie Community Leadership Award. Paul was honoured for his long-time support of the food bank movement in British Columbia's Okanagan Valley together with leadership roles with organizations like United Way and YMCA/YWCA.
- The President's Lifetime Volunteer Achievement Award went to Aaron Margolis, Vice-President, Product Utilization & Planning, for his volunteer commitment to charitable organizations like Food Banks Canada, Salvation Army, Agape Table and the Jewish Foundation of Manitoba.

- We respect the environment and through the work of a cross-organizational environmental committee we endeavour to reduce our environmental impact through continuous improvement objectives. We have also been a pioneer and industry leader in promoting socially responsible investing (SRI). Our Investors Summa SRI™ Fund was launched in 1987, and has become the largest socially responsible fund in Canada. We now offer a suite of SRI funds with investment approaches which incorporate factors related to environmental sustainability, social responsibility and various social issues combined with traditional investment analysis.
- The Investors Group Charitable Giving Program™ is one of the few of its kind in Canada which can be used by our clients to build an enduring charitable giving legacy while receiving tax benefits today.
- Our Consultants contribute to the financial well-being of our clients through the delivery of comprehensive planning. Through their work and our financial support for programs and curriculum development, we are part of an ongoing effort to advance the financial literacy and financial security of Canadians.
- Our Investors Group Institute is a pre-eminent institution for training in financial planning and practice management and also offers development programs for our employees.
- Our employees and Consultants sign and adhere to a code of conduct and a respectful workplace policy to ensure that the business of the company is carried out with the highest ethical standards, in a manner worthy of the public trust and in an environment where all individuals feel they are treated with dignity and respect.

Our Consultants contribute to the financial well-being of our clients through the delivery of comprehensive planning.

BUILDING ON STRENGTH

Investors Group continues to focus on its strengths as building blocks for the future. In 2012, the Consultant network growth, the active engagement of over 1,800 employees, the continual refinement of financial planning, expanded investment management resources and the expanding product and service offerings demonstrate the company's commitment to meet the evolving financial needs of Canadians.

Charles R. Sims, FCA
President and Chief Executive Officer
Mackenzie Financial Corporation

Mackenzie provides investment management services through multiple product offerings utilizing proprietary investment research and experienced investment professionals. We distribute our investment services through multiple distribution channels to both retail and institutional investors.

HIGHLIGHTS

- Average assets under management were $61.7 billion.
- Total sales for the company were $10.0 billion.
- As of December 31, 2012, total assets under management were $61.5 billion, down 0.3% from the prior year-end. Mutual fund assets under management were $40.4 billion, an increase of 3.2% from last year. Institutional, sub-advised and other assets under management were $21.1 billion, down 6.3% from the prior year.

REPORT ON OPERATIONS

In 2012, Mackenzie focused on business growth, investment excellence and the client experience.

Mackenzie merged, reorganized and closed several funds to eliminate duplication and increase cost-effectiveness of certain funds, and to improve the overall relevance of our product shelf as investors' needs continue to evolve. We added a low volatility component to Symmetry Portfolios to help manage risk, grow capital and smooth out returns.

A continued focus on risk management led to the hiring of a team that provides enhanced analytical tools and specialized reporting to our portfolio managers.

Mackenzie established a company-wide Client Experience initiative to sustain and build our culture of service excellence, making it easier and more satisfying for advisors to work with us.

We sold Winfund Software Corp. to allow us to focus our energy and resources on our core business of investment management.

INVESTMENT MANAGEMENT

Under the Mackenzie Investments master brand, we deploy a sub-branding strategy in our retail product lineup to highlight the diverse investment styles and objectives offered within our diversified product lineup. We also provide multi-manager asset allocation solutions through Symmetry and through fund of fund structures. The quality and depth of investment research, and the talent of Mackenzie's portfolio managers and sub-advisors have all contributed to our ability to provide clients with consistent long-term investment performance results. As at December 31, 2012, 83% of Mackenzie fund assets were rated 3, 4 or 5 Star by Morningstar.†

Mackenzie earned three Lipper Fund Awards in 2012. For the fourth year in a row, Mackenzie Sentinel Income Fund was the best fund in its category over the past 10-year period. Mackenzie Ivy European Class and Mackenzie Ivy Enterprise Fund were also winners. At the 2012 Morningstar Canadian Investment Awards, Mackenzie Universal Emerging Markets Class was recognized for long-term investment excellence by winning its category.

In the past year we also saw important developments on the investment management team. Tony Elavia, PhD, was hired as Chief Investment Officer, bringing more than 25 years of international experience to the role.

DISTRIBUTION

Mackenzie's distribution efforts cover the market, with teams focused on the retail, strategic alliances and institutional channels, ensuring that Mackenzie is positioned to serve the needs of different clients.

In 2012, Mackenzie relaunched the institutional brand, building out 13 proprietary mandates, adding staff, investing in technology resources and establishing a U.S. presence to lay the groundwork for future growth.

The strength of Mackenzie's retail distribution network is built on our long-standing and expanding relationships with financial advisors, consultants and representatives across the breadth of our distribution channels. These relationships allow the company's products to be efficiently distributed through retail brokers, financial advisors, insurance agents, banks, pension consulting firms and financial institutions, giving us one of the broadest retail distribution platforms in Canada.

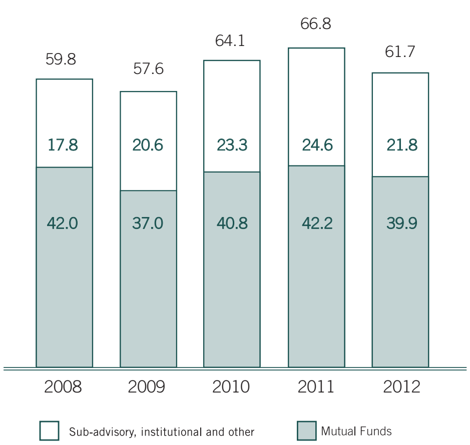
SERVICE

We are committed to consistently delivering a high-quality service experience for all our clients, while striving to improve cost efficiencies. In 2012, Mackenzie established the Client Experience initiative, a key corporate priority aimed at improving the advisor's experience in working with us. The initiative focused on reinforcing a culture of service excellence, identifying opportunities to make it easier to do business with Mackenzie and a comprehensive and systematic review of the key points of contact between advisors and Mackenzie.

Mackenzie developed an integrated communications strategy to address investor concerns, under the tagline "Take Control." Through print and online advertising, we acknowledged investor caution and

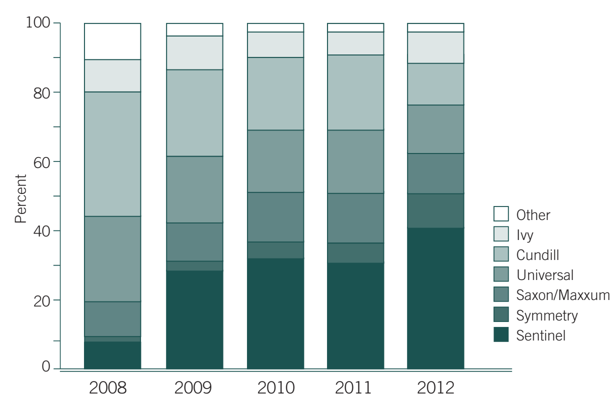
Average Assets under Management

As at December 31 *($ billions)*



Gross Sales Mix of Long-Term Mutual Funds by Mackenzie Sub-Brand

Twelve month periods ended December 31



Mackenzie's income-oriented Sentinel sub-brand continued to experience strong flows in 2012. Periods have been adjusted to remove the impact of significant rebalancing activity.

emphasized the importance of financial advice, as well as solutions to address investor needs in the low yield, high volatility environment. In addition, Mackenzie University and other advisor education programs and events provided perspectives on capital markets and delivered strategies to help advisors and their clients continue to focus on their financial goals.

We launched Mackenzie Tax and Estate Planning Online, as well as the Small-Business Owners Kit, both of which provided advisors with support in the areas of tax planning and tax-efficient investing. By equipping advisors with such value-added services, combined with professional portfolio management, Mackenzie contributes to the overall value of financial advice.

PRODUCT FOCUS

In 2012, we launched Mackenzie Global Tactical Fund, an innovative fund that seeks the best investment opportunities in any asset class, anywhere in the world. The portfolio management team at our sub-advisor in the U.S. has been using this approach successfully for the past 15 years.

We enhanced Symmetry Portfolios, our managed asset solution. Mackenzie created a low volatility component for Symmetry to help manage risk, grow capital and smooth out returns. Also as part of the enhancement, we launched Symmetry Conservative Income to satisfy the need for cash flow while also allowing investors to participate in the growth prospects of equity investing.

This past year we celebrated the 20th anniversary of the Mackenzie Ivy family of funds. Ivy funds have a rich history of providing solid growth in good markets and downside protection in bad markets using Ivy's renowned investment discipline and low volatility strategy.

In 2012, Mackenzie undertook activities and created several programs that support our continuing commitment to economic development while improving quality of life for our employees, industry and communities.

Mackenzie introduced two services: One-Step Dollar Cost Averaging (DCA) and the Flexible Payout Service (FPS). DCA helps investors build wealth in a systematic, common sense way, while FPS allows investors to customize the amount of cash they receive by choosing monthly payments either at a percentage rate or a specific dollar amount.

Also in 2012, Mackenzie merged, reorganized and closed several funds to eliminate duplication and increase cost-effectiveness of certain funds, and to improve the overall relevance of our product shelf as investors' needs continue to evolve.

Currently, many investors are seeking income and this was reflected in the continuation of strong flows into Mackenzie's income-oriented Sentinel sub-brand during the year (refer to the *Gross Sales Mix of Long-Term Mutual Funds by Mackenzie Sub-Brand* Table on page 11).

CORPORATE SOCIAL RESPONSIBILITY

In 2012, Mackenzie undertook activities and created several programs that support our continuing commitment to economic development while improving quality of life for our employees, industry and communities.

Employee initiatives

- From a diversity perspective, Mackenzie continued partnering with the Toronto Regional Immigrant Employment Council (TRIEC). Our employees mentored new immigrants and helped them integrate into the labour market. Mackenzie was recognized by TRIEC for surpassing 100 mentoring partnerships since we began participating in the program in early 2008.

Operations

- Mackenzie is also committed to environmental issues such as reducing the impact on forests through the responsible use of paper. We encourage clients to receive electronic statements and reports rather than printed copies. We also constantly monitor what materials we print and the quantities printed. Many items are only printed upon specific request. All vendors and paper stock we select are Forest Stewardship Council (FSC) certified.

Industry involvement

- Mackenzie has taken on a leadership role in investment funds and financial services industry affairs through participation in key industry associations. Mackenzie's CEO continued to chair the Board of Directors of the Investment Funds Institute of Canada (IFIC) until the completion of the term in October.
- Mackenzie also sits on the Board of Directors of the Toronto Financial Services Alliance, a public/private initiative of individuals seeking to enhance and promote the competitiveness of Toronto as a premier North American financial services centre.

Community activities

- We support charities across the country through the Mackenzie Financial Charitable Foundation, our corporate giving and our employee volunteer programs. Our focus is on charities that benefit underprivileged, challenged and sick children, youth and young adults, especially children and youth at risk. We also focus on financial literacy.
- The Mackenzie Charitable Giving Fund offers Canadians a donor-advised giving program designed to manage their ongoing charitable giving and leave their own community legacy. Developed with the Strategic Charitable Giving Foundation, this program builds the capacity of hundreds of charities across Canada.
- In each of the last five years, Mackenzie named Canada's Top Teen Philanthropist in a coast-to-coast competition. Entrants submit an essay on their volunteering and fundraising activities. By engaging youth, this contest reflects Mackenzie's broader commitment to philanthropy in communities.

Mackenzie remains dedicated to providing clients with high-quality, innovative investment solutions that meet their needs and strives to maintain strong long-term investment performance across its multiple product offerings. We are proud of our track record, our people and our business.

Investment Planning Counsel™
FINANCIAL SOLUTIONS FOR LIFE

Investment Planning Counsel is an integrated financial services company focused on providing Canadians with high-quality financial products, services and advice, while helping them achieve their financial dreams. Investment Planning Counsel is dedicated to providing independent financial advisors with the tools, products and support they need to build a better business.

Investment Planning Counsel is one of the largest financial planning organizations in Canada. From its inception in 1996, it has continued to evolve and adapt to meet the needs and expectations of its clients and advisors.

HIGHLIGHTS

- Investment Planning Counsel partners with close to 800 advisors across the country and continues to attract advisors into its business model.
- Assets under management in Counsel Portfolio Services increased from $2.8 billion to $2.9 billion in 2012, an increase of 4.9%.
- In 2012, Investment Planning Counsel's assets under administration were $16.1 billion, compared to $16.5 billion the previous year, a decrease of 2.1%.

STRENGTH IN PARTNERSHIP

The relationship between IGM Financial and Investment Planning Counsel provides a solid foundation for growth and excellence. The scale, strength and expertise of IGM Financial allows Investment Planning Counsel to improve operational efficiencies in various processes such as compliance and back-office infrastructure. The relationship enables the company to provide its advisors with a strong and stable operating environment, thereby allowing them to build a better business, while providing enhanced client service.

In addition to investment management solutions, advisors have access to a suite of insurance, securities and mortgage products. The broad product offering gives advisors a range of financial products to service their clients' evolving needs.

CORPORATE SOCIAL RESPONSIBILITY

Investment Planning Counsel is committed to supporting communities in the areas where we operate. The firm practices a culture of "giving back to society," supporting numerous local and national charities, events and organizations through our advisor and employee volunteering programs. Our Spirit Committee spearheads the firm's charitable giving initiatives. The group of employee volunteers coordinates fundraising activities, promotes employee volunteering and reviews requests for donations throughout the year. We are a major supporter of Junior Achievement and our advisors and employees volunteer their time and energy to provide financial literacy education to the youth in our communities. Our Go Green Committee is committed to reducing our environmental footprint and has implemented a number of initiatives that aim to reduce the amount of paper we consume each year.

BUILDING FOR THE FUTURE

Investment Planning Counsel continues to improve its product and service offering for advisors and clients. With ongoing improvements to its business fundamentals, Investment Planning Counsel will continue to deliver value to advisors and clients, while building its reputation as a leading network of advisors.

Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS

IGM Financial Inc.

Investors Group

Mackenzie

Corporate and Other

IGM Financial Inc.

FINANCIAL REVIEW

Consolidated Financial Statements

Supplementary Information

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2012 and 2011 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2012 is as of February 8, 2013.

Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 2 of the Consolidated Financial Statements).

Principal Holders of Voting Shares

As at December 31, 2012, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 58.7% and 3.7%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

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

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

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

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

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

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

"Earnings before interest and taxes" (EBIT) and "earnings before interest, taxes, depreciation and amortization" (EBITDA) are also non-IFRS financial measures. EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes and discontinued operations", "net earnings from continuing operations" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

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

IGM Financial Inc.
Summary of Consolidated Operating Results

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

Total assets under management were $120.7 billion as at December 31, 2012 compared with $118.7 billion as at December 31, 2011. Average total assets under management for the year ended December 31, 2012 were $119.7 billion compared to $126.7 billion in 2011.

Operating earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2012 were $749.7 million or $2.94 per share compared to operating earnings available to common shareholders of $833.0 million or $3.22 per share in 2011.

Net earnings available to common shareholders for the year ended December 31, 2012 were $762.1 million or $2.99 per share compared to net earnings available to common shareholders of $900.6 million or $3.48 per share in 2011.

Other items for the year ended December 31, 2012 consisted of:

- A favourable change in income tax provision estimates of $24.4 million, recorded in the fourth quarter, related to certain tax filings.
- An after-tax charge of $5.6 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.
- A non-cash income tax charge of $6.4 million, recorded in the second quarter, resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets arising from prior business acquisitions. There is no expectation that the deferred tax liability will become payable as the Company has no intention of disposing of these assets.

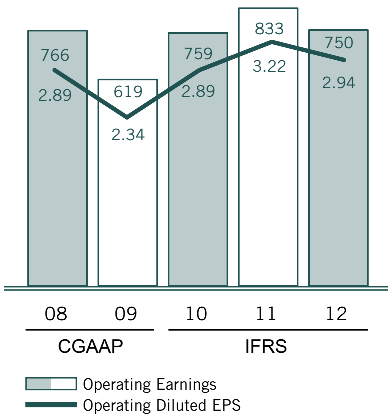
Other items for the year ended December 31, 2011 consisted of:

- Net earnings which have been classified as discontinued operations. On November 16, 2011, Mackenzie completed the sale of M.R.S. Trust Company and M.R.S. Inc. (MRS). Net earnings from discontinued operations were $62.6 million for the twelve months ended December 31, 2011. Net earnings for MRS include the after-tax gain on the sale of MRS of $30.3 million recorded in the fourth quarter of 2011 and a one-time tax adjustment of $28.7 million recorded in the third quarter of 2011. Excluding the items noted above, net earnings from discontinued operations totalled $3.6 million for the twelve months ended December 31, 2011.
- An after-tax benefit of $5.0 million, recorded in the fourth quarter, representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions.

Shareholders' equity was $4.5 billion as at December 31, 2012, unchanged from December 31, 2011. Return on average common equity based on operating earnings for the year ended December 31, 2012 was 17.3% compared with 19.7% in 2011. The quarterly dividend per common share was 53.75 cents in 2012, unchanged from the end of 2011.

Operating Earnings and Operating Earnings per Share

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



2008 excluded the proportionate share of affiliate's impairment charge and affiliate's gain.

2009 excluded net earnings on discontinued operations, a non-cash charge on AFS equity securities, a non-cash income tax benefit and a premium paid on the redemption of preferred shares.

2010 excluded net earnings on discontinued operations, non-recurring items related to transition to IFRS and the proportionate share of an affiliate's incremental litigation provision.

2011 excluded net earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.

2012 excluded a reduction in income tax estimates related to certain tax filings, the proportionate share of the charge related to the changes in an affiliate's litigation provision, and a non-cash income tax charge.

DISCONTINUED OPERATIONS

On November 16, 2011, the Company completed the sale of 100% of the common shares of 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, were classified as discontinued operations.

Net earnings from discontinued operations for all periods under review in 2011 are reported as a separate line item on the following tables: Table 1 – *Reconciliation of Non-IFRS Financial Measures*; Table 2 – *Consolidated Operating Results by Segment*; Table 6 – *Selected Annual Information*; and Table 7 – *Summary of Quarterly Results*.

Refer to Note 3 of the Consolidated Financial Statements for additional information.

REPORTABLE SEGMENTS

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

- Investors Group
- Mackenzie
- Corporate and Other.

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

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

- *Interest expense* – represents interest expense on long-term debt. The change in interest expense for the year ended December 31, 2012 compared to 2011 reflects the repayment of the $450 million 2001 Series 6.75% debentures on May 9, 2011.
- *Proportionate share of affiliate's provision* – represents changes in litigation provisions recorded by Lifeco. In the fourth quarter of 2012, Lifeco recorded net changes

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

($ millions)	2012 NET EARNINGS	2012 EPS[1]	2011 NET EARNINGS	2011 EPS[1]
Operating earnings available to common shareholders – Non-IFRS measure	$ 749.7	$ 2.94	$ 833.0	$ 3.22
Reduction in income tax estimates related to certain tax filings	24.4	0.10	-	-
Proportionate share of affiliate's provision	(5.6)	(0.02)	5.0	0.02
Non-cash income tax charge	(6.4)	(0.03)	-	-
Net earnings – Discontinued operations	-	-	62.6	0.24
Net earnings available to common shareholders – IFRS	$ 762.1	$ 2.99	$ 900.6	$ 3.48
EBITDA – Non-IFRS measure	$ 1,364.5		$ 1,515.3	
Commission amortization	(266.2)		(281.6)	
Amortization of capital assets and intangible assets and other	(38.0)		(38.6)	
Interest expense on long-term debt	(92.2)		(102.8)	
Proportionate share of affiliate's provision	(5.6)		5.0	
Earnings before income taxes and discontinued operations	962.5		1,097.3	
Income taxes	(191.6)		(250.5)	
Net earnings – Discontinued operations	-		62.6	
Perpetual preferred share dividends	(8.8)		(8.8)	
Net earnings available to common shareholders – IFRS	$ 762.1		$ 900.6	

(1) Diluted earnings per share

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
($ millions)	2012	2011	2012	2011	2012	2011	2012	2011
Revenues								
Fee income	$ 1,497.1	$ 1,566.5	$ 756.9	$ 823.8	$ 170.5	$ 180.8	$ 2,424.5	$ 2,571.1
Net investment income and other	61.6	70.2	2.5	2.4	94.4	83.8	158.5	156.4
	1,558.7	1,636.7	759.4	826.2	264.9	264.6	2,583.0	2,727.5
Expenses								
Commission	488.5	489.5	259.6	285.9	110.2	119.5	858.3	894.9
Non-commission	373.0	352.0	248.7	239.7	42.7	45.8	664.4	637.5
	861.5	841.5	508.3	525.6	152.9	165.3	1,522.7	1,532.4
Earnings before interest and taxes	$ 697.2	$ 795.2	$ 251.1	$ 300.6	$ 112.0	$ 99.3	1,060.3	1,195.1
Interest expense							(92.2)	(102.8)
Proportionate share of affiliate's provision							(5.6)	5.0
Earnings before income taxes and discontinued operations							962.5	1,097.3
Income taxes							191.6	250.5
Net earnings from continuing operations							770.9	846.8
Net earnings from discontinued operations							-	62.6
Net earnings							770.9	909.4
Perpetual preferred share dividends							8.8	8.8
Net earnings available to common shareholders							$ 762.1	$ 900.6
Operating earnings available to common shareholders(1)							$ 749.7	$ 833.0

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

in litigation provisions and the Company's after-tax proportionate share was a charge of $5.6 million. In the fourth quarter of 2011, Lifeco recorded net changes in litigation provisions and the Company's after-tax proportionate share was a benefit of $5.0 million.

- *Income taxes* – changes in the effective tax rates are shown in Table 3.

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

- *2011 Net earnings from discontinued operations* – represents the operating results of MRS, previously reported in the Mackenzie segment (Note 3 of the Consolidated Financial Statements).

  Net earnings from discontinued operations for the year ended December 31, 2011 were $62.6 million which also included the after-tax gain on the sale of MRS of $30.3 million and a reduction in income taxes of $28.7 million. Income taxes recorded in prior years were adjusted in the third quarter of 2011 to reflect changes in management's best estimates related to tax filing positions. Excluding the items noted above, net earnings for MRS totalled $3.6 million in 2011.

- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

TABLE 3: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2012 DEC. 31	2012 SEP. 30	2011 DEC. 31	2012 DEC. 31	2011 DEC. 31
Income taxes at Canadian federal and provincial statutory rates	26.52 %	26.52 %	28.14 %	26.53 %	28.15 %
Effect of:					
Proportionate share of affiliate's earnings	(2.44)	(2.25)	(2.05)	(2.17)	(1.92)
Loss consolidation[1]	(2.17)	(2.11)	(2.93)	(2.08)	(2.33)
Other items	(0.01)	(1.07)	(1.64)	(0.66)	(0.94)
Effective income tax rate – operating earnings continuing operations	21.90	21.09	21.52	21.62	22.96
Reduction in income tax estimates related to certain tax filings	(10.46)	-	-	(2.53)	-
Effect of tax rate increases on deferred income taxes related to indefinite life intangible assets	-	-	-	0.67	-
Proportionate share of affiliate's provision	0.64	-	(0.55)	0.15	(0.13)
Effective income tax rate – net earnings continuing operations	12.08 %	21.09 %	20.97 %	19.91 %	22.83 %

(1) See the Transactions with Related Parties section of this MD&A for additional information.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were $120.7 billion at December 31, 2012 compared to $118.7 billion at December 31, 2011. Changes in total assets under management are detailed in Tables 4 and 5.

Changes in assets under management for Investors Group and Mackenzie are discussed further in each of their respective Review of the Business sections in the MD&A.

TABLE 4: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q4 2012 VS. Q4 2011

	INVESTORS GROUP		MACKENZIE		INVESTMENT PLANNING COUNSEL		CONSOLIDATED[1]	
THREE MONTHS ENDED *($ millions)*	2012 DEC. 31	2011 DEC. 31	2012 DEC. 31	2011 DEC. 31	2012 DEC. 31	2011 DEC. 31	2012 DEC. 31	2011 DEC. 31
Mutual funds								
Gross sales – money market	$ 153.4	$ 174.6	$ 94.1	$ 109.6	$ 13.9	$ 20.9	$ 261.4	$ 305.1
Gross sales – long term	1,264.2	1,110.3	1,756.1	978.8	84.3	106.8	3,089.5	2,194.5
Total mutual fund gross sales	$ 1,417.6	$ 1,284.9	$ 1,850.2	$ 1,088.4	$ 98.2	$ 127.7	$ 3,350.9	$ 2,499.6
Net sales – money market	$ (43.7)	$ (13.0)	$ (24.7)	$ (13.7)	$ 10.4	$ 15.8	$ (58.0)	$ (10.9)
Net sales – long term	(217.2)	(144.5)	(518.7)	(570.2)	(26.3)	39.7	(776.6)	(676.4)
Total mutual fund net sales	$ (260.9)	$ (157.5)	$ (543.4)	$ (583.9)	$ (15.9)	$ 55.5	$ (834.6)	$ (687.3)
Sub-advisory, institutional and other accounts								
Gross sales	$ -	$ -	$ 991.8	$ 999.3	$ -	$ -	$ 712.4	$ 936.9
Net sales	-	-	(461.1)	(662.0)	-	-	(479.7)	(685.8)
Combined								
Gross sales	$ 1,417.6	$ 1,284.9	$ 2,842.0	$ 2,087.7	$ 98.2	$ 127.7	$ 4,063.3	$ 3,436.5
Net sales	(260.9)	(157.5)	(1,004.5)	(1,245.9)	(15.9)	55.5	(1,314.3)	(1,373.1)
Change in total assets under management								
Net sales	$ (260.9)	$ (157.5)	$ (1,004.5)	$ (1,245.9)	$ (15.9)	$ 55.5	$ (1,314.3)	$ (1,373.1)
Market and income	1,263.3	1,390.4	1,474.2	1,981.7	56.7	82.0	2,729.0	3,343.1
Net change in assets	1,002.4	1,232.9	469.7	735.8	40.8	137.5	1,414.7	1,970.0
Beginning assets	59,592.1	56,502.4	61,007.7	60,916.2	2,908.8	2,674.0	119,278.8	116,742.8
Ending assets	$ 60,594.5	$ 57,735.3	$ 61,477.4	$ 61,652.0	$ 2,949.6	$ 2,811.5	$120,693.5	$118,712.8

(1) Total Gross Sales and Net Sales excluded $295 million and $33 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($64 million and $25 million in 2011).

Total assets under management excluded $4.3 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($3.5 billion at December 31, 2011).

TABLE 5: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2012 VS. 2011

TWELVE MONTHS ENDED ($ millions)	INVESTORS GROUP 2012 DEC. 31	INVESTORS GROUP 2011 DEC. 31	MACKENZIE 2012 DEC. 31	MACKENZIE 2011 DEC. 31	INVESTMENT PLANNING COUNSEL 2012 DEC. 31	INVESTMENT PLANNING COUNSEL 2011 DEC. 31	CONSOLIDATED[1] 2012 DEC. 31	CONSOLIDATED[1] 2011 DEC. 31
Mutual funds								
Gross sales – money market	$ 657.7	$ 717.6	$ 382.6	$ 493.6	$ 62.2	$ 70.7	$ 1,102.5	$ 1,281.9
Gross sales – long term	5,120.0	5,303.2	5,107.0	5,151.0	338.8	472.7	10,540.4	10,924.3
Total mutual fund gross sales	$ 5,777.7	$ 6,020.8	$ 5,489.6	$ 5,644.6	$ 401.0	$ 543.4	$ 11,642.9	$ 12,206.2
Net sales – money market	$ (73.0)	$ (21.4)	$ (99.1)	$ (122.8)	$ 44.4	$ 51.2	$ (127.7)	$ (93.0)
Net sales – long term	(650.7)	60.6	(1,874.7)	(1,425.0)	(68.8)	173.1	(2,614.8)	(1,193.7)
Total mutual fund net sales	$ (723.7)	$ 39.2	$ (1,973.8)	$ (1,547.8)	$ (24.4)	$ 224.3	$ (2,742.5)	$ (1,286.7)
Sub-advisory, institutional and other accounts								
Gross sales	$ -	$ -	$ 4,479.3	$ 4,657.9	$ -	$ -	$ 3,049.8	$ 4,197.5
Net sales	-	-	(2,264.0)	(951.2)	-	-	(2,874.5)	(1,237.2)
Combined								
Gross sales	$ 5,777.7	$ 6,020.8	$ 9,968.9	$ 10,302.5	$ 401.0	$ 543.4	$ 14,692.7	$ 16,403.7
Net sales	(723.7)	39.2	(4,237.8)	(2,499.0)	(24.4)	224.3	(5,617.0)	(2,523.9)
Change in total assets under management								
Net sales	$ (723.7)	$ 39.2	$ (4,237.8)	$ (2,499.0)	$ (24.4)	$ 224.3	$ (5,617.0)	$ (2,523.9)
Market and income	3,582.9	(4,089.2)	4,063.2	(4,195.3)	162.5	(100.9)	7,597.7	(8,246.8)
Net change in assets	2,859.2	(4,050.0)	(174.6)	(6,694.3)	138.1	123.4	1,980.7	(10,770.7)
Beginning assets	57,735.3	61,785.3	61,652.0	68,346.3	2,811.5	2,688.1	118,712.8	129,483.5
Ending assets	$ 60,594.5	$ 57,735.3	$ 61,477.4	$ 61,652.0	$ 2,949.6	$ 2,811.5	$120,693.5	$118,712.8

(1) Total Gross Sales and Net Sales excluded $1.5 billion and $631 million respectively in accounts sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($463 million and $288 million in 2011).

Total assets under management excluded $4.3 billion of assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel ($3.5 billion at December 31, 2011).

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 6.

Net Earnings and Earnings per Share – Except as noted in the reconciliation in Table 6, variations in net earnings and total revenues result primarily from changes in average daily mutual fund assets under management. Mutual fund assets under management increased in 2010 as global market conditions improved overall despite increased volatility primarily during the second and third quarters. In 2011, mutual fund assets under management increased in the first quarter, but declined in the second half of the year due to declining domestic and international markets. Average daily mutual fund assets under management increased in 2011 compared with 2010 as shown in Table 6. Total mutual fund assets under management increased to $103.9 billion at December 31, 2012 compared to $99.7 billion at the end of 2011. The increase occurred primarily in the first quarter of 2012, partly offset by a decline in mutual fund asset levels in the second quarter of 2012. Changes in the Company's total mutual fund assets under management during 2012 and 2011 were consistent with changes in mutual fund assets experienced by the Canadian mutual fund industry. Average mutual fund assets under management for the year ended December 31, 2012 were $102.0 billion

TABLE 6: SELECTED ANNUAL INFORMATION

	2012	2011	2010
Consolidated Statements of Earnings *($ millions)*			
Revenues			
Fee income	$ 2,424.5	$ 2,571.1	$ 2,467.8
Net investment income and other	158.5	156.4	149.1
	2,583.0	2,727.5	2,616.9
Expenses	1,614.9	1,635.2	1,571.6
	968.1	1,092.3	1,045.3
Proportionate share of affiliate's provision	(5.6)	5.0	(8.2)
Non-recurring items related to transition to IFRS	-	-	(29.3)
Earnings before income taxes	962.5	1,097.3	1,007.8
Income taxes	191.6	250.5	268.8
Net earnings from continuing operations	770.9	846.8	739.0
Net earnings from discontinued operations	-	62.6	1.8
Net earnings	770.9	909.4	740.8
Perpetual preferred share dividends	8.8	8.8	10.1
Net earnings available to common shareholders	$ 762.1	$ 900.6	$ 730.7
Reconciliation of Non-IFRS Financial Measures(1) *($ millions)*			
Operating earnings available to common shareholders – non-IFRS measure	$ 749.7	$ 833.0	$ 758.9
Other items:			
Reduction in income tax estimates related to certain tax filings	24.4	-	-
Proportionate share of affiliate's provision	(5.6)	5.0	(8.2)
Non-cash income tax charge	(6.4)	-	-
Net earnings from discontinued operations	-	62.6	1.8
Non-recurring items related to transition to IFRS, net of tax	-	-	(21.8)
Net earnings available to common shareholders - IFRS	$ 762.1	$ 900.6	$ 730.7
Earnings per share *($)*			
Operating earnings available to common shareholders(1)			
– Basic	$ 2.94	$ 3.23	$ 2.90
– Diluted	2.94	3.22	2.89
Net earnings available to common shareholders			
– Basic	2.99	3.49	2.79
– Diluted	2.99	3.48	2.78
Dividends per share *($)*			
Common	$ 2.15	$ 2.10	$ 2.05
Preferred, Series B	1.48	1.48	1.68
Average daily mutual fund assets *($ millions)*	$ 101,972	$ 105,692	$ 101,350
Total mutual fund assets under management *($ millions)*	$ 103,915	$ 99,685	$ 107,925
Total assets under management *($ millions)*	$ 120,694	$ 118,713	$ 129,484
Total corporate assets *($ millions)*	$ 11,973	$ 11,160	$ 12,237
Total long-term debt *($ millions)*	$ 1,325	$ 1,325	$ 1,775
Outstanding common shares *(thousands)*	252,099	256,658	259,718

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

compared to $105.7 billion in 2011, primarily due to higher average mutual fund assets in the first half of 2011. The impact on earnings and revenues of changes in average daily mutual fund assets under management and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2012 were $120.7 billion and included mutual fund assets under management totalling $103.9 billion. Net earnings in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

Dividends per Common Share – Annual dividends per common share were $2.15 in 2012, an increase of 2.4% from 2011. Annual dividends per common share increased by 2.4% in 2011 and did not increase in 2010.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 7 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Quarterly operating earnings available to common shareholders are primarily dependent on the level of mutual fund assets under management. Average daily mutual fund assets under management are shown in Table 7. Average daily mutual fund assets under management remained relatively constant in the first half of 2011 and decreased in both the third and fourth quarters of 2011 as a result of declining domestic and international markets. Average daily mutual fund assets increased in the first quarter of 2012, decreased in the second quarter of 2012 and increased in the fourth quarter of 2012, consistent with overall market movements.

TABLE 7: SUMMARY OF QUARTERLY RESULTS

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated statements of earnings *($ millions)*								
Revenues								
Management fees	434.7	431.5	443.5	456.6	444.2	464.6	491.8	492.1
Administration fees	84.5	83.3	84.0	85.3	84.3	85.2	87.9	87.5
Distribution fees	80.2	75.2	80.5	85.2	79.8	80.8	83.5	89.4
Net investment income and other	38.9	44.0	29.6	46.0	36.4	43.2	34.4	42.4
	638.3	634.0	637.6	673.1	644.7	673.8	697.6	711.4
Expenses								
Commission	213.4	209.8	213.7	221.4	214.0	218.6	228.7	233.6
Non-commission	162.8	161.4	170.1	170.1	155.4	156.0	164.1	162.0
Interest	23.2	23.2	22.9	22.9	23.2	23.2	26.1	30.3
	399.4	394.4	406.7	414.4	392.6	397.8	418.9	425.9
Earnings before undernoted	238.9	239.6	230.9	258.7	252.1	276.0	278.7	285.5
Proportionate share of affiliate's provision	(5.6)	-	-	-	5.0	-	-	-
Earnings before income taxes	233.3	239.6	230.9	258.7	257.1	276.0	278.7	285.5
Income taxes	28.2	50.5	56.1	56.8	53.9	60.8	63.7	72.1
Net earnings from continuing operations	205.1	189.1	174.8	201.9	203.2	215.2	215.0	213.4
Net earnings from discontinued operations	-	-	-	-	29.6	31.0	1.1	0.9
Net earnings	205.1	189.1	174.8	201.9	232.8	246.2	216.1	214.3
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	202.9	186.9	172.6	199.7	230.6	244.0	213.9	212.1
Reconciliation of Non-IFRS financial measures(1) *($ millions)*								
Operating earnings available to common shareholders – non-IFRS measure	184.1	186.9	179.0	199.7	196.0	213.0	212.8	211.2
Other items:								
Reduction in income tax estimates related to certain tax filings	24.4	-	-	-	-	-	-	-
Proportionate share of affiliate's provision	(5.6)	-	-	-	5.0	-	-	-
Non-cash income tax charge	-	-	(6.4)	-	-	-	-	-
Net earnings from discontinued operations	-	-	-	-	29.6	31.0	1.1	0.9
Net earnings available to common shareholders - IFRS	202.9	186.9	172.6	199.7	230.6	244.0	213.9	212.1
Earnings per share *(¢)*								
Operating earnings available to common shareholders(1)								
– Basic	73	73	70	78	76	83	83	82
– Diluted	73	73	70	78	76	82	82	81
Net earnings available to common shareholders								
– Basic	80	73	67	78	90	95	83	82
– Diluted	80	73	67	78	89	94	82	81
Average daily mutual fund assets *($ billions)*	102.4	101.0	100.9	103.6	99.6	103.5	109.9	110.0
Total mutual fund assets under management *($ billions)*	103.9	102.2	$100.2	105.1	99.7	97.7	108.6	111.7
Total assets under management *($ billions)*	120.7	119.3	118.0	124.1	118.7	116.7	130.2	134.1

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

Investors Group
Review of the Business

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

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

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

Additional revenue is derived from net investment income and other income, based primarily from origination and management of our mortgage business.

Revenues depend largely on the level and composition of mutual fund assets under management. The comprehensive approach to financial planning, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in a mutual fund redemption rate lower than the industry average.

INVESTORS GROUP STRATEGY

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

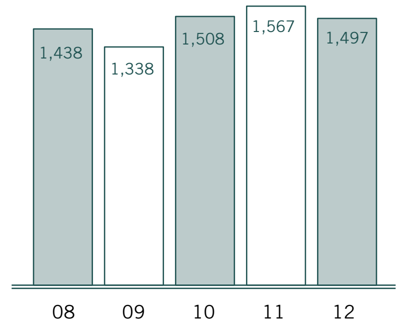
- Growing our distribution network by expanding the number of region offices, attracting new Consultants to our industry and supporting existing Consultants in their growth and development.
- Emphasizing the delivery of financial planning advice, products and services through our exclusive network of Consultants.
- Providing an effective level of administrative support to our Consultants and clients, including active communication during all economic cycles.
- Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
- Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to clients and Consultants and result in increased efficiency and improved control over expenditures.

CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants based in region offices across Canada. Two new region offices were opened in 2012 in Calgary, Alberta and Ancaster, Ontario which expanded the network to 108 region offices.

Fee Income – Investors Group

For the financial year *($ millions)*



At December 31, 2012, Investors Group had 4,518 Consultants, compared with 4,608 at the end of 2011. Although there were increases in the total Consultant network in each of the second and third quarters, slower recruiting occurred in the first and fourth quarters of the year.

The number of Consultants with more than four years of Investors Group experience continued to increase throughout the year to 2,748 at December 31, 2012 compared to 2,705 at December 31, 2011.

Consultant Development

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. This process is continually reviewed in our efforts to select the most appropriate candidates as new Consultants to improve their likelihood of success in the future.

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

In 2012 we continued to deliver additional phases of a multi-year initiative to enhance our Consultant technology platform, bringing together Consultants' contact management and portfolio information for greater efficiency and productivity. These efforts include ongoing upgrades to the financial planning software used by Consultants.

Field Management Development
As part of our continued emphasis on growth and development of our field management and Consultant network, Investors Group is increasing the training opportunities for field leaders to improve recruiting and training effectiveness.

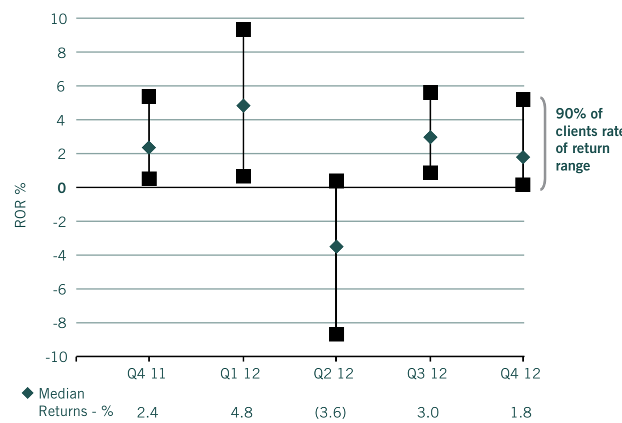
ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided from both the Company's Quebec General Office located in Montreal for Consultants and clients residing in Quebec and from the Company's head office in Winnipeg, Manitoba for Consultants and clients in the rest of Canada. The Quebec General Office has over 200 employees and operating units for most functions supporting both the approximately 800 Consultants throughout Quebec and the 19 Quebec region offices. Mutual fund assets under management in Quebec were approximately $10 billion as at December 31, 2012.

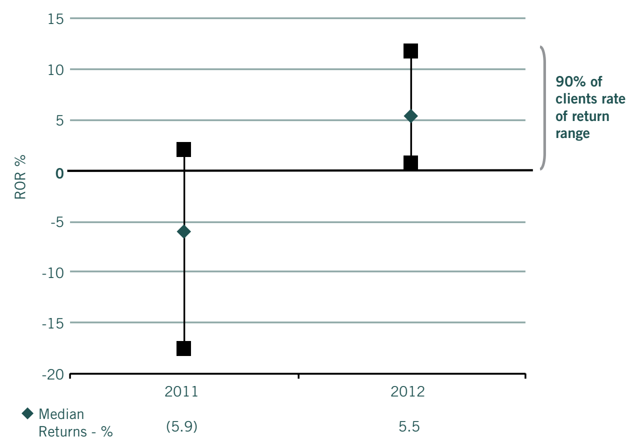
Regular communication with our clients includes quarterly reporting of their Investors Group mutual fund holdings and the change in asset values of these holdings during the quarter. Individual clients experience different returns as a result of their net cash flow and fund holdings in each quarter as illustrated on the accompanying chart. This chart reflects in-quarter client median rates of return for the five most recent quarters and also illustrates upper and lower range of rates of return around the median for 90% of Investors Group clients.

In-Quarter Client Rate of Return (ROR) Experience



For the three months ending December 31, 2012, the client median rate of return was approximately 1.8% and 95% of clients experienced positive returns.

Annual Client Rate of Return (ROR) Experience



For the twelve months ending December 31, 2012, the client median rate of return was approximately 5.5% compared to (5.9)% during 2011. In addition, more than 95% of clients experienced positive returns in 2012.

TABLE 8: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

THREE MONTHS ENDED ($ millions)	2012 DEC. 31	2012 SEP. 30	2011 DEC. 31	% CHANGE 2012 SEP. 30	% CHANGE 2011 DEC. 31
Sales	$ 1,417.6	$ 1,219.9	$ 1,284.9	16.2 %	10.3 %
Redemptions	1,678.5	1,533.8	1,442.4	9.4	16.4
Net redemptions	(260.9)	(313.9)	(157.5)	16.9	(65.7)
Market and income	1,263.3	1,788.1	1,390.4	(29.3)	(9.1)
Net change in assets	1,002.4	1,474.2	1,232.9	(32.0)	(18.7)
Beginning assets	59,592.1	58,117.9	56,502.4	2.5	5.5
Ending assets	$ 60,594.5	$ 59,592.1	$ 57,735.3	1.7 %	5.0 %
Average daily assets	$ 59,756.1	$ 58,742.1	$ 57,525.7	1.7 %	3.9 %

TWELVE MONTHS ENDED ($ millions)	2012 DEC. 31	2011 DEC. 31	% CHANGE
Sales	$ 5,777.7	$ 6,020.8	(4.0)%
Redemptions	6,501.4	5,981.6	8.7
Net sales (redemptions)	(723.7)	39.2	N/M
Market and income	3,582.9	(4,089.2)	187.6
Net change in assets	2,859.2	(4,050.0)	170.6
Beginning assets	57,735.3	61,785.3	(6.6)
Ending assets	$ 60,594.5	$ 57,735.3	5.0 %
Average daily assets	$ 59,189.0	$ 60,672.6	(2.4)%

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

ASSETS UNDER MANAGEMENT

The level of mutual fund assets under management is influenced by three factors: sales, redemptions and net asset values of our funds. Changes in assets under management for the periods under review are reflected in Table 8.

Change in Mutual Fund Assets Under Management – 2012 vs. 2011

Investors Group's mutual fund assets under management were $60.6 billion at December 31, 2012, an increase of 5.0% from $57.7 billion at December 31, 2011. Average daily mutual fund assets were $59.8 billion in the fourth quarter of 2012, up 3.9% from $57.5 billion in the fourth quarter of 2011. Average daily mutual fund assets were $59.2 billion for the twelve months ended December 31, 2012, down 2.4% from $60.7 billion for the comparative period in 2011.

For the quarter ended December 31, 2012, sales of Investors Group mutual funds through its Consultant network were $1.4 billion, an increase of 10.3% from the comparative period in 2011. Mutual fund redemptions totalled $1.7 billion, an increase of 16.4% from 2011. Investors Group's twelve month trailing redemption rate for long-term funds was 10.0% at December 31, 2012 compared to 8.8% at December 31, 2011, and remains well below the most recently available corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.4% at September 30, 2012.

Over the last several years a growing component of the redemptions included in Investors Group's long-term redemption rate has related to the Cornerstone funds and transfers to Investors Group Series of Guaranteed Investment Funds (GIFs). The Cornerstone funds are income portfolio funds which invest between 30% and

50% of their assets in Investors Premium Money Market Fund. These funds are used by our clients as a substitute for money market funds which have higher redemption activity and, together with the transfers to GIFs, account for 0.5% of our long-term redemption rate at December 31, 2012. Excluding such items the long-term redemption rate would have been 9.5%.

Net redemptions of Investors Group mutual funds for the fourth quarter of 2012 were $261 million compared with net redemptions of $158 million in 2011. Sales of long-term funds were $1.3 billion for the fourth quarter of 2012, compared with $1.1 billion in 2011, an increase of 13.9%. Net redemptions of long-term funds for the fourth quarter of 2012 were $217 million compared to net redemptions of $145 million in 2011. During the fourth quarter, market and income resulted in an increase of $1.3 billion in mutual fund assets compared to an increase of $1.4 billion in the fourth quarter of 2011.

For the year ended December 31, 2012, sales of Investors Group mutual funds through its Consultant network were $5.8 billion, a decrease of 4.0% from 2011. Mutual fund redemptions totalled $6.5 billion, an increase of 8.7% from 2011. Net redemptions of Investors Group mutual funds were $724 million compared with net sales of $39 million in 2011. Sales of long-term funds for the twelve month period in 2012 were $5.1 billion, compared with $5.3 billion in 2011, a decrease of 3.5%. Net redemptions of long-term funds were $651 million compared to net sales of $61 million in 2011. During 2012, market and income resulted in an increase of $3.6 billion in mutual fund assets compared to a decrease of $4.1 billion in 2011.

Change in Mutual Fund Assets Under Management – Q4 2012 vs. Q3 2012

Investors Group's mutual fund assets under management were $60.6 billion at December 31, 2012, an increase of 1.7% from $59.6 billion at September 30, 2012. Average daily mutual fund assets were $59.8 billion in the fourth quarter of 2012 compared to $58.7 billion in the third quarter of 2012, an increase of 1.7%.

For the fourth quarter of 2012, sales of Investors Group mutual funds through its Consultant network were $1.4 billion, an increase of 16.2% from the third quarter of 2012. Mutual fund redemptions, which totalled $1.7 billion for the fourth quarter, increased 9.4% from the previous quarter. Net redemptions of Investors Group mutual funds for the current quarter were $261 million compared with net redemptions of $314 million in the previous quarter. Sales of long-term funds were $1.3 billion for the current quarter, compared with $1.1 billion in the previous quarter.

Net redemptions of long-term funds for the current quarter were $217 million compared to net redemptions of $275 million in the previous quarter.

PRODUCTS AND SERVICES

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

PFP – Personal Financial Planner

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

The Company continues to upgrade the PFP toolset. In the fourth quarter of 2012, several enhancements were introduced to the PFP software. The financial assessment tool was enhanced to provide greater flexibility and improved reporting capabilities. At the same time, the more advanced detailed planning tool was introduced in an online format allowing for rapid development of more complex planning scenarios. The new tool also provides enhanced planning for business owners.

Symphony Strategic Investment Planning™ Program

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

Charitable Giving Program

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

Mutual Funds

Investors Group had $60.6 billion in mutual fund assets under management at December 31, 2012 in 155 mutual funds covering a broad range of investment mandates. This compared with $57.7 billion in 2011, an increase of 5.0%.

Clients can diversify their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

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

Fund Performance

At December 31, 2012, 44% of Investors Group mutual funds (Investors, partner and portfolio funds) had a rating of three stars or better from the Morningstar† fund ranking service and 16% had a rating of four or five stars. This compared to the Morningstar† universe of 65% for three stars or better and 27% for four and five star funds at December 31, 2012. Morningstar Ratings† are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Pricing and Product Enhancements

On May 18, 2012, Investors Group announced a number of changes in the pricing of its mutual funds and product enhancements designed to expand its services to clients.

Investors Group reduced the fees of many of its mutual funds when their prospectuses renewed on June 30, 2012. The reductions in management fees range from .05% to .40% per annum of the asset value of the selected funds. In addition, reductions were made to certain administration and distribution fees. These changes impact approximately two-thirds of Investors Group's funds and over two-thirds of its managed assets. Lower fees will attract lower GST/HST, resulting in greater reductions to Management Expense Ratios (MERs).

In the third quarter of 2012, Investors Group began implementing additional investment solutions for clients with household account balances in excess of $500,000. These additions will provide Investors Group Consultants with a greater number of solutions to enhance client value.

These changes build on Investors Group's strong client relationships with more competitive pricing and improved flexibility.

Additions to Mutual Fund Product Offering

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

On January 14, 2013, Investors Group announced the launch of a new balanced fund to its product offering. IG Mackenzie Sentinel Strategic Income Fund will seek income with the potential for long-term capital growth by investing primarily in fixed income investments and/or securities that pay equity income. The new mandate will pursue a flexible approach to investing in fixed income and/or equity asset classes with no geographic restriction.

Managed Asset and Multi-Manager Investment Programs

Investors Group Corporate Class Inc.™ is a broad tax advantaged fund structure which features the ability to switch on a fee-free basis among 57 funds within the group of funds with no immediate tax consequences. These funds include 31 funds advised by I.G. Investment Management, 21 funds sub-advised by external investment advisors and five Corporate Class portfolios. At the end of 2012, the Corporate Class funds totalled $4.0 billion in assets compared with $3.8 billion in 2011.

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

- **Allegro Portfolios™**: The seven Allegro Portfolios provide a single-step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. Fund assets were $3.2 billion as of December 31, 2012 compared with $3.1 billion in the previous year.
- **Allegro Corporate Class Portfolios™**: The five portfolio classes offer clients a single-step, tax efficient approach for their investments. The series T option further benefits investors with monthly tax-

deferred distributions in the form of return of capital. These diversified portfolios have something to offer for each category of the risk/return spectrum. Fund assets were $462 million as of December 31, 2012 compared with $392 million in the previous year.

- **Alto Portfolios™**: The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The eleven portfolios include Investors Group funds and funds sub-advised by Mackenzie. Assets in the portfolios were $3.6 billion as of December 31, 2012 compared with $3.1 billion in the previous year.
- **Investors Group Portfolios**: These funds have assets of $9.1 billion as at December 31, 2012, compared with $8.7 billion in the previous year. The program is comprised of ten funds which invest in sixteen underlying Investors Group funds to provide a high level of diversification.
- ***iProfile*™**: This is a unique portfolio management program that is available for households with assets over $250,000. *i*Profile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of global money management firms such as I.G. Investment Management, AMI Partners Inc., JPMorgan Asset Management (Canada) Inc., Jarislowsky, Fraser Limited, Philadelphia International Investment Advisors LP, and Waddell & Reed. This program had $461 million in assets as at December 31, 2012 compared with $431 million in 2011.

Segregated Funds

Investors Group has offered segregated funds since 2001 and introduced the Investors Group Series of Guaranteed Investment Funds (GIFs) in November 2009. GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and 6 individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by Investors Group. At December 31, 2012, total segregated fund assets were $1.3 billion compared to $1.1 billion at December 31, 2011.

Insurance

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

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

Sales of insurance products were $71 million for the year ended December 31, 2012, an increase of 11.2% over $64 million for the comparative period in 2011. The average number of policies sold by each insurance-licensed Consultant was 10.1 in 2012, compared to 9.4 in 2011. Distribution of insurance products is enhanced through Investors Group's insurance specialists, located throughout Canada, who assist Consultants with the selection of insurance solutions.

Securities Operations

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

In 2012, we continued to enhance our services to accommodate individual stocks and bonds owned by our clients within their financial plan. This involved further development of our systems and the addition of a number of securities specialists who work alongside our Consultants and are licensed to advise on individual securities. In addition, more of our Consultants completed the transition of their registration to the Investment Industry Regulatory Organization of Canada (IIROC). These Consultants remain within our region offices and continue to operate in our established business model which has a managed asset focus delivered within a financial planning context.

Mortgage Operations

Investors Group is a national mortgage lender that offers a full suite of competitively positioned residential mortgage options to new and existing Investors Group clients. Short and long term, variable and fixed rate mortgages with competitive pricing and features are offered to clients as part of a comprehensive financial plan. Investors Group mortgage planning specialists are located throughout each province in Canada, and work with our clients and their Consultants as permitted by the regulations to develop mortgage strategies that meet the individual needs and goals of each client. At December 31, 2012, there were 92 individuals in the mortgage specialist network compared to 74 at December 31, 2011.

Mortgage originations were $2.0 billion for the twelve months ended December 31, 2012 compared to $1.4 billion in 2011, an increase of 45.1%. At December 31, 2012, mortgages serviced by Investors Group related to its mortgage banking operations totalled $7.3 billion compared to $6.3 billion at December 31, 2011.

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

Solutions Banking†

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

Additional Products and Services

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

Investors Group's earnings before interest and taxes are presented in Table 9.

2012 VS. 2011

Fee Income

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

Investors Group earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were $266.6 million in the fourth quarter of 2012, a decrease of $6.4 million or 2.3% from $273.0 million in 2011. For the twelve months ended December 31, 2012, management fees were $1,086.1 million, a decrease of $66.2 million or 5.7% from $1,152.3 million in 2011.

The net decrease in management fees in the fourth quarter was primarily due to the decrease in the management fee rate to 177.5 basis points of average daily mutual fund assets in 2012 from 188.4 basis points in 2011. The management fee rate changes relate to the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this

TABLE 9: OPERATING RESULTS – INVESTORS GROUP

THREE MONTHS ENDED ($ millions)	2012 Dec. 31	2012 Sep. 30	2011 Dec. 31	% CHANGE 2012 Sep. 30	% CHANGE 2011 Dec. 31
Revenues					
Management fees	$ 266.6	$ 263.7	$ 273.0	1.1 %	(2.3)%
Administration fees	55.8	54.5	54.3	2.4	2.8
Distribution fees	49.1	43.7	46.4	12.4	5.8
	371.5	361.9	373.7	2.7	(0.6)
Net investment income and other	13.5	16.2	16.3	(16.7)	(17.2)
	385.0	378.1	390.0	1.8	(1.3)
Expenses					
Commission	71.4	67.1	67.8	6.4	5.3
Asset retention bonus and premium	51.8	52.5	52.3	(1.3)	(1.0)
Non-commission	93.4	90.4	87.8	3.3	6.4
	216.6	210.0	207.9	3.1	4.2
Earnings before interest and taxes	$ 168.4	$ 168.1	$ 182.1	0.2 %	(7.5)%

TWELVE MONTHS ENDED ($ millions)	2012 Dec. 31	2011 Dec. 31	% CHANGE
Revenues			
Management fees	$ 1,086.1	$ 1,152.3	(5.7)%
Administration fees	220.2	226.0	(2.6)
Distribution fees	190.8	188.2	1.4
	1,497.1	1,566.5	(4.4)
Net investment income and other	61.6	70.2	(12.3)
	1,558.7	1,636.7	(4.8)
Expenses			
Commission	277.9	270.3	2.8
Asset retention bonus and premium	210.6	219.2	(3.9)
Non-commission	373.0	352.0	6.0
	861.5	841.5	2.4
Earnings before interest and taxes	$ 697.2	$ 795.2	(12.3)%

MD&A. This decrease was offset in part by an increase in average daily mutual fund assets of 3.9% for the quarter, as shown in Table 8.

The decrease in management fees in the twelve month period was primarily due to the decrease in the management fee rate to 183.5 basis points of average daily mutual fund assets in 2012 from 189.9 basis points in 2011 and the decrease in average daily mutual fund assets of 2.4% for the twelve month period, as shown in Table 8.

Management fee income and average management fee rates for all of the periods under review also reflected the effect of Investors Group having waived a portion of the investment management fees on its money market funds to ensure that these funds maintained a positive yield. For the three and twelve month periods in 2012, these waivers totalled $1.0 million and $3.8 million, respectively, compared to $1.2 million and $4.3 million in the prior year.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled $55.8 million in the current quarter compared to $54.3 million a year ago, an increase of 2.8%. Administration fees were $220.2 million for the twelve month period ended December 31, 2012 compared to $226.0 million in 2011, a decrease of 2.6%. Fee income in both periods under review was impacted by the change in average daily mutual funds assets under administration. In addition, both periods reflected a decrease due to pricing changes made during the third quarter of 2012.

Distribution fees are primarily earned from:

- Redemption fees on mutual funds sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking†.

Distribution fee income of $49.1 million for the fourth quarter of 2012 increased by $2.7 million from $46.4 million in 2011. For the twelve month period, distribution fee income of $190.8 million increased by $2.6 million from $188.2 million in 2011. The increases for both periods under review were primarily due to increases in distribution fee income from insurance products and to increases in redemption fees. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions. These increases were offset by the impact of pricing changes in portfolio fund distribution fees made during the third quarter of 2012, as well as due to decreases in distribution fee income from banking products.

Net Investment Income and Other

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

Net investment income and other was $13.5 million in the fourth quarter of 2012, a decrease of $2.8 million from $16.3 million in 2011. For the twelve months ended December 31, 2012, net investment income and other totalled $61.6 million, a decrease of $8.6 million from $70.2 million in 2011.

Net investment income related to Investors Group's mortgage banking operations totalled $12.9 million for the fourth quarter of 2012 compared to $16.6 million in 2011, a decrease of $3.7 million. Net investment income related to Investors Group's mortgage banking operations totalled $60.4 million for the twelve months ended December 31, 2012 compared to $69.6 million in 2011, a decrease of $9.2 million. A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 10. The changes in mortgage banking income were due to:

- *Net interest income on securitized loans* – which decreased by $2.6 million and $12.6 million for the three and twelve month periods ended December 31, 2012 to $11.7 million and $49.2 million, respectively, compared to 2011. The decrease resulted from a decline in the proportion of certain of the securitized loans in the ABCP programs, which currently have a higher interest income margin than loans securitized in the CMB Program.
- *Gains realized on the sale of residential mortgages* – which decreased by $0.2 million and increased by $2.2 million for the three and twelve month periods ended December 31, 2012 to $4.3 million and $19.0 million, respectively, compared to 2011. The decrease in gains during the three month period was due to lower margins on sales and the increase for the twelve month period was due to higher volumes on mortgage sales to institutional investors and certain Investors Group managed mutual funds.

TABLE 10 : MORTGAGE BANKING OPERATIONS – INVESTORS GROUP

($ millions)	2012 Dec. 31	2012 Sep. 30	2011 Dec. 31	% CHANGE 2012 Sep. 30	% CHANGE 2011 Dec. 31
AS AT					
Mortgages serviced	$ 7,330	$ 7,082	$ 6,269	3.5 %	16.9 %
Mortgage warehouse(1)	$ 238	$ 356	$ 284	(33.1) %	(16.2) %
THREE MONTHS ENDED					
Average mortgages serviced					
CMB/MBS Programs	$ 3,068	$ 2,845	$ 2,638	7.8 %	16.3 %
Bank-sponsored ABCP programs	1,264	1,364	1,011	(7.3)	25.0
Securitizations	4,332	4,209	3,649	2.9	18.7
Other	2,866	2,756	2,579	4.0	11.1
	$ 7,198	$ 6,965	$ 6,228	3.3 %	15.6 %
Mortgage originations(2)	$ 396	$ 466	$ 328	(15.0) %	20.7 %
Mortgage sales to:(3)					
Securitizations	$ 572	$ 455	$ 534	25.7 %	7.1 %
Other(4)	263	281	180	(6.4)	46.1
	$ 835	$ 736	$ 714	13.5 %	16.9 %
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	$ 36.9	$ 36.7	$ 36.4	0.5 %	1.4 %
Interest expense	25.2	25.0	22.1	0.8	14.0
Net interest income	11.7	11.7	14.3	-	(18.2)
Gains on sales(5)	4.3	5.1	4.5	(15.7)	(4.4)
Fair value adjustments and other income	(3.1)	(0.7)	(2.2)	N/M	(40.9)
	$ 12.9	$ 16.1	$ 16.6	(19.9) %	(22.3) %

TWELVE MONTHS ENDED ($ millions)	2012 Dec. 31	2011 Dec. 31	% CHANGE
Average mortgages serviced			
CMB/MBS Programs	$ 2,815	$ 2,389	17.8 %
Bank-sponsored ABCP programs	1,219	1,084	12.5
Securitizations	4,034	3,473	16.2
Other	2,758	2,529	9.1
	$ 6,792	$ 6,002	13.2 %
Mortgage originations(2)	$ 2,044	$ 1,409	45.1 %
Mortgage sales to:(3)			
Securitizations	$ 2,297	$ 1,405	63.5 %
Other(4)	986	791	24.7
	$ 3,283	$ 2,196	49.5 %
Total mortgage banking income			
Net interest income on securitized loans			
Interest income	$ 145.4	$ 146.1	(0.5) %
Interest expense	96.2	84.3	14.1
Net interest income	49.2	61.8	(20.4)
Gains on sales(5)	19.0	16.8	13.1
Fair value adjustments and other income	(7.8)	(9.0)	13.3
	$ 60.4	$ 69.6	(13.2) %

(1) Warehouse activities include mortgage fundings, mortgage renewals and mortgage refinances.
(2) Excludes renewals and refinances.
(3) Represents principal amounts sold.
(4)(5) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

- *Fair value adjustments and other income* – which decreased by $0.9 million and increased by $1.2 million for the three and twelve month periods ended December 31, 2012 to negative $3.1 million and negative $7.8 million, respectively, compared to 2011. The decrease in the three month period related primarily to increases in portfolio insurance costs largely as a result of higher volume of loans insured. The increase over the twelve month period resulted from favourable fair value adjustments to interest rate swaps utilized for hedging purposes and the impact of prepayment penalties related to higher renewal and refinance activity over the period. This increase was partially offset by higher issuance costs associated with higher origination volumes.

Expenses

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Commissions paid on the sale of mutual funds are deferred and amortized over a maximum period of seven years. Commission expense was $71.4 million for the fourth quarter of 2012, an increase of $3.6 million from $67.8 million in 2011. For the twelve month period, commission expense increased by $7.6 million to $277.9 million compared with $270.3 million in 2011. The increase in both periods was primarily due to increases in the distribution of other financial services and products, offset in part by a decrease in mutual fund commission amortization.

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

- Asset retention bonus, which is based on the value of certain assets under management, decreased by $0.3 million and $7.1 million for the three and twelve month periods ended December 31, 2012 to $43.7 million and $178.6 million, respectively, compared to 2011. For the three months ended December 31, 2012, the decrease was due to Investors Group Consultant compensation changes, offset in part by the increase in average daily mutual fund assets. For the twelve month period, the decrease was due to both the compensation changes and a decrease in average assets under management.
- Asset retention premium, which is a deferred component of compensation designed to promote Consultant retention, is based on assets under management at each year-end. Asset retention premium expense decreased by $0.2 million and $1.5 million in the three and twelve month periods to $8.1 million and $32.0 million, respectively, compared to 2011.

Non-commission expenses incurred by Investors Group primarily related to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual funds under management. Non-commission expenses were $93.4 million for the fourth quarter of 2012 compared to $87.8 million in 2011, an increase of $5.6 million or 6.4%. For the twelve month period, non-commission expenses were $373.0 million compared to $352.0 million in 2011, an increase of $21.0 million or 6.0%.

Q4 2012 VS. Q3 2012

Fee Income

Management fee income increased by $2.9 million or 1.1% to $266.6 million in the fourth quarter of 2012 compared with the third quarter of 2012. The increase in management fee income was primarily due to the increase in average daily mutual fund assets of 1.7% as shown in Table 8. This increase was offset in part by the decrease in the management fee rate to 177.5 basis points of average daily mutual fund assets from 178.6 basis points in the prior quarter. The management fee rate changes relate to the pricing and product enhancements as discussed in the Investors Group Review of the Business section of this MD&A.

Money market fund waivers totalled $1.0 million in the fourth quarter of 2012 compared to $0.9 million in the third quarter of 2012.

Administration fees increased to $55.8 million in the fourth quarter of 2012 from $54.5 million in the third quarter of 2012. The net increase resulted primarily from the increase in average daily mutual fund assets compared with the third quarter of 2012.

Distribution fee income of $49.1 million in the fourth quarter of 2012 increased by $5.4 million from $43.7 million in the third quarter due to an increase in redemption fee income of $2.0 million and an increase in distribution fee income from insurance products of $3.7 million.

Net Investment Income and Other

Net investment income and other was $13.5 million in the fourth quarter of 2012 compared to $16.2 million in the previous quarter, a decrease of $2.7 million primarily related to Investors Group's mortgage banking operations.

Net investment income related to Investors Group's mortgage banking operations totalled $12.9 million in the fourth quarter, a decrease of $3.2 million from $16.1 million in the previous quarter as shown in Table 10. The changes in mortgage banking income related primarily to fair value adjustments and other income which decreased from negative $0.7 million relative to the previous quarter to negative $3.1 million. The decrease resulted largely from a $1.6 million increase in portfolio insurance costs during the quarter as a result of higher volume of loans insured.

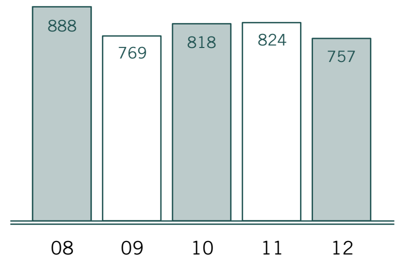
Expenses

Commission expense in the current quarter was $71.4 million compared with $67.1 million in the previous quarter. This increase was primarily due to increases in the distribution of other financial services and products as well as higher redemptions on mutual funds sold with a deferred sales charge resulting in higher write-offs of the unamortized balance of deferred selling commissions. The asset retention bonus and premium expense decreased by $0.7 million to $51.8 million in the fourth quarter of 2012.

Non-commission expenses were $93.4 million in the current quarter, an increase of $3.0 million or 3.3% from $90.4 million in the third quarter of 2012.

Mackenzie
Review of the Business

Fee Income – Mackenzie(1)
For the financial year *($ millions)*



(1) Excludes discontinued operations

Mackenzie's core business is the provision of investment management and related services offered through diversified investment solutions, distributed through multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on the experience and perspective gained through 45 years in the investment management business.

Mackenzie earns revenue primarily from:

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

Mackenzie's largest component of revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts.

MACKENZIE STRATEGY

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

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

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our sales model focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party investment programs offered by banks, insurance companies and other investment companies. Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants and from responses to requests for proposals.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, broad product shelf, competitively priced products and its focus on client experience and investment excellence. Mackenzie is working on a number of initiatives in this regard, including the recent opening of an office in the United States that will distribute investment services to institutions and the incorporation and staffing of an investment management office in Singapore. The Singapore entity will commence operations once it has obtained registration with the Monetary Authority of Singapore.

Sale of Mackenzie Subsidiaries

- On July 31, 2012, Mackenzie completed the sale of 100% of the common shares of Winfund Software Corp. (Winfund).
- On November 16, 2011, Mackenzie completed the sale of 100% of the common shares of M.R.S. Trust Company and M.R.S. Inc (MRS). The Mackenzie Review of Segment Operating Results in this MD&A excludes the results of operations of MRS, which have been classified as discontinued operations.

The strategic decision to sell Winfund and MRS allows Mackenzie to stay focused on its core competencies of investment management, distribution and client servicing.

ASSETS UNDER MANAGEMENT

The changes in assets under management are summarized in Table 11.

The change in Mackenzie's assets under management is determined by: (1) the increase or decrease in the market value of the securities held in the portfolios of investments; (2) the level of sales as compared to the level of redemptions; and (3) acquisitions.

TABLE 11: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

THREE MONTHS ENDED ($ millions)	2012 DEC. 31	2012 SEP. 30	2011 DEC. 31	% CHANGE 2012 SEP. 30	% CHANGE 2011 DEC. 31
Sales	$ 2,842.0	$ 2,448.1	$ 2,087.7	16.1 %	36.1 %
Redemptions	3,846.5	3,457.6	3,333.6	11.2	15.4
Net redemptions	(1,004.5)	(1,009.5)	(1,245.9)	0.5	19.4
Market and income	1,474.2	1,365.3	1,981.7	8.0	(25.6)
Net change in assets	469.7	355.8	735.8	32.0	(36.2)
Beginning assets	61,007.7	60,651.9	60,916.2	0.6	0.2
Ending assets	$ 61,477.4	$ 61,007.7	$ 61,652.0	0.8 %	(0.3) %
Consists of:					
Mutual funds	$ 40,394.4	$ 39,727.9	$ 39,140.7	1.7 %	3.2 %
Sub-advisory, institutional and other accounts	21,083.0	21,279.8	22,511.3	(0.9)	(6.3)
	$ 61,477.4	$ 61,007.7	$ 61,652.0	0.8 %	(0.3) %
Daily average mutual fund assets	$ 39,746.0	$ 39,424.5	$ 39,317.4	0.8 %	1.1 %
Monthly average total assets(1)	$ 60,905.6	$ 60,385.3	$ 62,160.7	0.9 %	(2.0) %

TWELVE MONTHS ENDED ($ millions)	2012 DEC. 31	2011 DEC. 31	% CHANGE
Sales	$ 9,968.9	$ 10,302.5	(3.2)%
Redemptions	14,206.7	12,801.5	11.0
Net redemptions	(4,237.8)	(2,499.0)	(69.6)
Market and income	4,063.2	(4,195.3)	196.9
Net change in assets	(174.6)	(6,694.3)	97.4
Beginning assets	61,652.0	68,346.3	(9.8)
Ending assets	$ 61,477.4	$ 61,652.0	(0.3)%
Daily average mutual fund assets	$ 39,902.1	$ 42,243.7	(5.5)%
Monthly average total assets(1)	$ 61,650.1	$ 66,753.3	(7.6)%

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

Change in Assets under Management – 2012 vs. 2011

Mackenzie's total assets under management at December 31, 2012 were $61.5 billion, a decrease of 0.3% from $61.7 billion at December 31, 2011. Mackenzie's mutual fund assets under management were $40.4 billion at December 31, 2012, an increase of 3.2% from $39.1 billion at December 31, 2011. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2012 were $21.1 billion, a decrease of 6.3% from $22.5 billion last year.

In the three months ended December 31, 2012, Mackenzie's gross sales were $2.8 billion, an increase of 36.1% from $2.1 billion in the comparative period last year. Redemptions in the current period were $3.8 billion, an increase of 15.4% from $3.3 billion last year. Net redemptions for the three months ended December 31, 2012 were $1.0 billion, as compared to net redemptions of $1.2 billion last year. During the current quarter, market and income resulted in assets increasing by $1.5 billion as compared to an increase of $2.0 billion last year.

Mackenzie's gross sales and redemption activity was impacted in the current quarter by rebalance transactions in its strategic alliance channel. These transactions resulted in gross sales of $556 million and redemptions of $620 million.

During the year ended December 31, 2012, Mackenzie's gross sales were $10.0 billion, a decrease of 3.2% from $10.3 billion in the comparative period last year. Redemptions in the current year were $14.2 billion, an increase of 11.0% from $12.8 billion last year. Net redemptions for the year ended December 31, 2012 were $4.2 billion, as compared to net redemptions of $2.5 billion last year. During the period, market and income resulted in assets increasing by $4.1 billion as compared to a decrease of $4.2 billion last year.

Redemptions of long-term funds in the three and twelve month periods ended December 31, 2012 were $2.3 billion and $7.0 billion respectively, as compared to $1.5 billion and $6.6 billion in the comparative periods last year. As at December 31, 2012, Mackenzie's twelve-month trailing redemption rate for long-term funds was 17.9%, as compared to 15.8% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions during the fourth quarter of 2012, was 16.3%. The most recently available corresponding average twelve-month trailing redemption rate for long-term funds for all other members of IFIC was approximately 14.8% at September 30, 2012. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Change in Assets under Management – Q4 2012 vs. Q3 2012

Mackenzie's total assets under management at December 31, 2012 were $61.5 billion, an increase of 0.8% from $61.0 billion at September 30, 2012 as summarized in Table 11. Mackenzie's mutual fund assets under management increased 1.7% to $40.4 billion in the quarter and Mackenzie's sub-advisory, institutional and other accounts decreased 0.9% to $21.1 billion at December 31, 2012.

Redemptions of long-term mutual fund assets in the current quarter were $2.3 billion as compared to $1.4 billion in the quarter ended September 30, 2012. Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2012 was 23.2% as compared to 14.8% in the third quarter of 2012. Excluding rebalance transactions during the current quarter, Mackenzie's annualized quarterly redemption rate for long-term funds for the quarter ended December 31, 2012 was 16.9%.

INVESTMENT MANAGEMENT

Mackenzie's assets under management are diversified by investment objective as set out in Table 12. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2012, 63% of Mackenzie mutual funds were rated in the top two performance quartiles for the one year time frame, 56% for the three year time frame and 57% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar† fund ranking service. At December 31, 2012, 83% of Mackenzie mutual fund assets measured by Morningstar† had a rating of three stars or better and 48% had a rating of four or five stars. This compared to the Morningstar† universe of 79% for three stars or better and 43% for four and five star funds at December 31, 2012.

TABLE 12: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

($ millions)	2012		2011	
Equity				
Domestic	$ 14,220.0	23.1 %	$ 17,148.6	27.8 %
Foreign	18,037.7	29.4	18,404.9	29.9
	32,257.7	52.5	35,553.5	57.7
Balanced				
Domestic	9,497.2	15.5	9,265.7	15.0
Foreign	2,365.4	3.8	1,518.1	2.5
	11,862.6	19.3	10,783.8	17.5
Fixed Income				
Domestic	14,905.9	24.2	12,552.7	20.4
Foreign	104.6	0.2	112.1	0.1
	15,010.5	24.4	12,664.8	20.5
Money Market				
Domestic	2,327.1	3.8	2,626.9	4.3
Foreign	19.5	-	23.0	-
	2,346.6	3.8	2,649.9	4.3
Total	$ 61,477.4	100.0 %	$ 61,652.0	100.0 %
Consists of:				
Mutual funds	$ 40,394.4	65.7 %	$ 39,140.7	63.5 %
Sub-advisory, institutional and other accounts	21,083.0	34.3	22,511.3	36.5
	$ 61,477.4	100.0 %	$ 61,652.0	100.0 %

PRODUCTS

Mackenzie's diversified suite of investment products is designed to meet the needs and goals of investors. Mackenzie continues to adjust its product shelf by providing enhanced investment solutions for financial advisors to offer their investment clients. Initiatives undertaken in 2012 included the following:

- Launched Mackenzie's One-Step Dollar Cost Averaging to provide investors with a systematic means of investing in the financial markets and staying invested over time.
- Launched the Flexible Payment Service (FPS) designed for investors who are drawing cash from their investments. Mackenzie's FPS allows investors to customize the amount of cash they receive by choosing monthly payments, either at a percentage rate or a specific dollar amount.
- Reorganized the following funds:
  - Mackenzie Saxon U.S. Equity Fund was merged into Mackenzie Universal American Growth Class (Unhedged Class).
  - Mackenzie Ivy American Class was merged into Mackenzie Universal U.S. Blue Chip Class.
  - Mackenzie Universal Canadian Value Class was merged into Mackenzie Cundill Canadian Security Class.
  - Mackenzie Saxon Explorer Class was merged into Mackenzie Universal North American Growth Class.
  - Mackenzie Universal U.S. Dividend Income Fund and Mackenzie Universal U.S. Growth Leaders Class were merged into Mackenzie Universal U.S. Blue Chip Class.

- Split the Unhedged Class and the Hedged Class of Mackenzie Ivy Foreign Equity Class and the Mackenzie Universal American Growth Class into separate funds to create a more efficient structure for the administration of currency hedging for the Hedged Class version of these funds.
- Changed the investment objectives of Symmetry Equity Portfolio Class, Symmetry Fixed Income Portfolio Class and Symmetry Fixed Income Portfolio. These changes allow these funds to invest primarily in securities of other Mackenzie mutual funds, resulting in greater flexibility for the Symmetry portfolio managers to manage the risk-return profile of these funds.
- Launched the Mackenzie Global Large Cap Quality Growth Pooled Fund, an institutional pool to be sold to pension funds and registered charities in Canada.
- Launched the Mackenzie Global Tactical Fund, a global investment solution with the ability to invest anywhere, in any class, at any time. The fund is subadvised by Waddell & Reed Investment Management Company.
- Introduced a low volatility component exclusively for Mackenzie's Symmetry Portfolios to help investors manage risk, grow capital and smooth out returns.
- Launched the Symmetry Conservative Income Portfolio and its corporate class version. This portfolio has a target allocation of 20% equities and 80% fixed income, a strategy that manages to a risk level between Symmetry Fixed Income Portfolio and Symmetry Conservative Portfolio.

Mackenzie's earnings before interest and taxes are presented in Table 13.

2012 VS. 2011

Revenues

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

Mackenzie also offers certain series of its mutual funds with management fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. Mackenzie does not pay commissions on these non-retail series of its mutual funds. At December 31, 2012, there were $10.4 billion or 25.7% of mutual fund assets in these series of funds, as compared to $10.4 billion or 26.2% at September 30, 2012 and $9.9 billion or 25.3% at December 31, 2011.

TABLE 13: OPERATING RESULTS – MACKENZIE(1)

THREE MONTHS ENDED ($ millions)	2012 Dec. 31	2012 Sep. 30	2011 Dec. 31	% CHANGE 2012 Sep. 30	% CHANGE 2011 Dec. 31
Revenues					
Management fees	$ 156.5	$ 156.3	$ 159.9	0.1 %	(2.1) %
Administration fees	26.1	25.9	27.4	0.8	(4.7)
Distribution fees	3.6	4.1	4.9	(12.2)	(26.5)
	186.2	186.3	192.2	(0.1)	(3.1)
Net investment income and other	0.4	2.1	0.2	(81.0)	100.0
	186.6	188.4	192.4	(1.0)	(3.0)
Expenses					
Commission	18.6	19.5	22.5	(4.6)	(17.3)
Trailing commission	44.6	43.9	43.9	1.6	1.6
Non-commission	61.1	60.4	57.1	1.2	7.0
	124.3	123.8	123.5	0.4	0.6
Earnings before interest and taxes	$ 62.3	$ 64.6	$ 68.9	(3.6)%	(9.6) %

TWELVE MONTHS ENDED ($ millions)	2012 Dec. 31	2011 Dec. 31	% CHANGE
Revenues			
Management fees	$ 634.2	$ 695.3	(8.8)%
Administration fees	105.8	108.3	(2.3)
Distribution fees	16.9	20.2	(16.3)
	756.9	823.8	(8.1)
Net investment income and other	2.5	2.4	4.2
	759.4	826.2	(8.1)
Expenses			
Commission	80.6	94.6	(14.8)
Trailing commission	179.0	191.3	(6.4)
Non-commission	248.7	239.7	3.8
	508.3	525.6	(3.3)
Earnings before interest and taxes	$ 251.1	$ 300.6	(16.5)%

(1) Excludes the operating results of Discontinued Operations

Management fees were $156.5 million for the three months ended December 31, 2012, a decrease of $3.4 million or 2.1% from $159.9 million last year. For the twelve months ended December 31, 2012, management fees were $634.2 million, a decrease of $61.1 million or 8.8% from $695.3 million in 2011. The change in management fees was consistent with the decrease in Mackenzie's average total assets under management combined with the change in mix of assets under management.

Average total assets under management were $60.9 billion in the three month period ended December 31, 2012 compared to $62.2 billion in 2011, a decrease of 2.0%. Average total assets under management for the twelve month period ended December 31, 2012 were $61.7 billion compared to $66.8 billion in 2011, a decrease of 7.6%.

Mackenzie's average management fee rate was 102.2 basis points in the three month period ended December 31, 2012 compared to 102.1 basis points in 2011. For the twelve months ended December 31, 2012, Mackenzie's average management fee was 102.9 basis points compared to 104.2 basis points in 2011. Factors contributing to the decrease in the average management fee rate in the twelve month period ended December 31, 2012 as compared to 2011 are as follows:

- Changes in the relative proportion of Mackenzie's institutional accounts and non-retail mutual funds, as these assets have lower management fees.
- Changes in the relative proportion of equity and fixed income assets under management, due to market and income as well as net cash flows, as accounts with fixed income mandates have lower management fees.

Mackenzie earns administration fees primarily from providing services to its mutual funds. Administration fees were $26.1 million for the three months ended December 31, 2012, as compared to $27.4 million in 2011. Administration fees were $105.8 million for the twelve months ended December 31, 2012, as compared to $108.3 million in 2011.

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

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

Due to the level of mutual fund assets, Mackenzie continued to receive an operating expense adjustment in the current period. The operating expense adjustments in the three months ended December 31, 2012 were $5.0 million and in the twelve months ended December 31, 2012 were $18.5 million as compared to $4.7 million and $12.1 million, respectively, in 2011.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended December 31, 2012 was $3.6 million, a decrease of $1.3 million from $4.9 million last year. Distribution fee income in the twelve months ended December 31, 2012 was $16.9 million, a decrease of $3.3 million from $20.2 million last year.

Expenses

Mackenzie's expenses were $124.3 million for the three months ended December 31, 2012, an increase of $0.8 million or 0.6% from $123.5 million last year. Expenses for the twelve months ended December 31, 2012 were $508.3 million, a decrease of $17.3 million or 3.3% from $525.6 million in 2011.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. The expense for deferred selling commissions consists of the amortization of the asset over its useful life and the reduction of the unamortized deferred selling commission asset associated with redemptions. Mackenzie amortizes selling commissions over a maximum period of three years from the date of original purchase of the applicable low load assets and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge assets. Commission expenses were $18.6 million in the three months ended December 31, 2012, as compared to $22.5 million last year. Commission expense in the twelve months ended December 31, 2012 was $80.6 million compared to $94.6 million in 2011. These declines are consistent with the lower amount of deferred sales commissions paid in recent years combined with the accelerated amortization of deferred sales commissions associated with redemptions.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were $44.6 million in the three months ended December 31, 2012, an increase of $0.7 million or 1.6% from $43.9 million last year. Trailing commissions in the twelve months ended December 31, 2012 were $179.0 million, a decrease of $12.3 million or 6.4% from $191.3 million in the comparative period last year. The change in trailing commissions was consistent with the period over period movement in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 44.6 basis points in the three months ended December 31, 2012 and 44.9 basis points in the twelve months ended December 31, 2012 as compared to 44.3 basis points and 45.3 basis points, respectively, last year.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were $61.1 million in the three months ended December 31, 2012, an increase of $4.0 million or 7.0% from $57.1 million last year. Non-commission expenses in the twelve months ended December 31, 2012 were $248.7 million, an increase of $9.0 million or 3.8% from $239.7 million in the comparative period last year. Mackenzie actively manages its non-commission expenses to enhance its future operating capabilities while at the same time investing in revenue generating initiatives to further grow its business.

Q4 2012 VS. Q3 2012

Revenues

Management fees were $156.5 million for the current quarter, an increase of $0.2 million or 0.1% from $156.3 million in the third quarter of 2012. Factors contributing to the net increase in management fees are as follows:

- Average total assets under management were $60.9 billion in the current quarter compared to $60.4 billion in the quarter ended September 30, 2012, an increase of 0.9%.
- Mackenzie's average management fee rate was 102.2 basis points in the current quarter as compared to 102.9 basis points in the third quarter of 2012.

Administration fees were $26.1 million in the current quarter, an increase of $0.2 million or 0.8% from $25.9 million in the prior quarter. Included in administration fees for the current quarter were fund operating expense adjustments of $5.0 million as compared to $4.9 million in the third quarter of 2012.

Expenses

Mackenzie's expenses were $124.3 million for the current quarter, an increase of $0.5 million or 0.4% from $123.8 million in the third quarter of 2012.

Commission expense, which represents the amortization of selling commissions, was $18.6 million in the quarter ended December 31, 2012, as compared to $19.5 million in the third quarter of 2012. Trailing commissions were $44.6 million in the current quarter, an increase of $0.7 million or 1.6% from $43.9 million in the third quarter of 2012.

Non-commission expenses were $61.1 million in the current quarter, an increase of $0.7 million or 1.2% from $60.4 million in the third quarter of 2012.

Corporate and Other
Review of Segment Operating Results

The Corporate and Other segment includes net investment income not allocated to the Investors Group or Mackenzie segments, the Company's proportionate share of earnings of its affiliate, Great-West Lifeco Inc. (Lifeco), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

Corporate and other earnings before interest and taxes are presented in Table 14.

2012 VS. 2011

Net investment income and other totalled $25.0 million in the fourth quarter of 2012, an increase of $5.1 million compared with 2011. Net investment income and other totalled $94.4 million for the twelve months ended December 31, 2012, an increase of $10.6 million compared with 2011. The increase in the twelve month period was primarily due to the 2012 reversal of a charge that was recorded in the fourth quarter of 2009 related to a non-retail mutual fund product. The increase in the three and twelve month periods was also due in part to the increase of $2.7 million and $3.4 million, respectively, in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were $2.1 million higher in the fourth quarter of 2012 compared to the same period in 2011 and $2.0 million higher in the twelve months ended December 31, 2012 compared with 2011.

Q4 2012 VS. Q3 2012

Net investment income and other totalled $25.0 million in the fourth quarter of 2012, a decrease of $0.7 million from the previous quarter due to the third quarter of 2012 reversal of a charge that was recorded in the fourth quarter of 2009 related to a non-retail mutual fund product. This was partly offset by an increase in the Company's proportionate share of Lifeco's earnings as discussed in the Consolidated Financial Position section of this MD&A.

Earnings before interest and taxes related to Investment Planning Counsel were $2.1 million higher in the fourth quarter of 2012 compared with the previous quarter.

TABLE 14: OPERATING RESULTS – CORPORATE AND OTHER

				% CHANGE	
THREE MONTHS ENDED *($ millions)*	2012 DEC. 31	2012 SEP. 30	2011 DEC. 31	2012 SEP. 30	2011 DEC. 31
Revenues					
Fee income	$ 41.7	$ 41.8	$ 42.4	(0.2)%	(1.7) %
Net investment income and other	25.0	25.7	19.9	(2.7)	25.6
	66.7	67.5	62.3	(1.2)	7.1
Expenses					
Commission	27.0	26.8	27.5	0.7	(1.8)
Non-commission	8.3	10.6	10.5	(21.7)	(21.0)
	35.3	37.4	38.0	(5.6)	(7.1)
Earnings before interest and taxes	$ 31.4	$ 30.1	$ 24.3	4.3 %	29.2 %

TWELVE MONTHS ENDED *($ millions)*	2012 DEC. 31	2011 DEC. 31	% CHANGE
Revenues			
Fee income	$ 170.5	$ 180.8	(5.7)%
Net investment income and other	94.4	83.8	12.6
	264.9	264.6	0.1
Expenses			
Commission	110.2	119.5	(7.8)
Non-commission	42.7	45.8	(6.8)
	152.9	165.3	(7.5)
Earnings before interest and taxes	$ 112.0	$ 99.3	12.8 %

IGM Financial Inc.
Consolidated Financial Position

IGM Financial's total assets were $12.0 billion at December 31, 2012, compared to $11.2 billion at December 31, 2011.

SECURITIES

The composition of the Company's securities holdings is detailed in Table 15.

Available for Sale (AFS) Securities

Securities classified as available for sale include equity securities and investments in proprietary investment funds. 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, at which time they are recorded in the Consolidated Statements of Earnings and any subsequent losses are also recorded in net earnings.

Fair Value Through Profit or Loss Securities

Securities classified as fair value through profit or loss include equity securities, Canada Mortgage Bonds, which are discussed below, and fixed income securities which were comprised of the restructured notes of the master asset vehicle (MAV) conduits. Unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Canada Mortgage Bonds were initially purchased in 2009 as part of the Company's ongoing interest rate risk management activities related to its participation in the Canada Mortgage Bond Program (CMB Program). The Canada Mortgage Bonds are financed through repurchase agreements, which represent short-term funding transactions where the Company sells securities that it owns and commits to repurchase these securities at a specified price on a specified date in the future.

Canada Mortgage Bonds had a fair value of $225.5 million at December 31, 2012. The obligation to repurchase the securities is recorded at amortized cost and had a carrying value of $225.4 million. The interest expense related to these obligations is recorded in Net investment income and other in the Consolidated Statements of Earnings.

The restructured notes of the MAV conduits were disposed of in the fourth quarter of 2012.

LOANS

The composition of the Company's loans is detailed in Table 16.

Loans consisted of residential mortgages and represented 41.1% of total assets at December 31, 2012 compared to 36.6% at December 31, 2011. Loans are comprised of:

- Sold to securitization programs – these loans are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. 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.
- Intermediary operations – these loans are held by the Company to earn interest in the Company's deposit operations.
- Mortgage banking operations – these loans are held by the Company pending sale or securitization.

TABLE 15: SECURITIES

	December 31, 2012		December 31, 2011	
($ millions)	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Equity securities	$ -	$ -	$ 4.9	$ 4.9
Proprietary investment funds	35.4	36.7	30.7	31.1
	35.4	36.7	35.6	36.0
Fair value through profit or loss				
Equity securities	6.0	6.1	-	-
Canada Mortgage Bonds	220.4	225.5	220.5	227.2
Fixed income securities	-	-	30.8	29.2
	226.4	231.6	251.3	256.4
	$ 261.8	$ 268.3	$ 286.9	$ 292.4

Residential mortgages originated by Investors Group are funded primarily through sales to third parties on a fully serviced basis, including CMHC or Canadian bank sponsored securitization programs. Investors Group services $9.3 billion of residential mortgages, including $2.0 billion originated by subsidiaries of Great-West Lifeco Inc.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by Investors Group mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the CMB Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost; and (ii) interest income and interest expense, utilizing the effective interest rate method, are recorded over the term of the mortgages.

In the fourth quarter of 2012, the Company securitized loans through its mortgage banking operations with cash proceeds of $567 million compared to $529 million in 2011. The fair value of the Company's retained interest was $69.1 million at December 31, 2012 compared to $24.3 million at December 31, 2011. The retained interest includes cash reserve accounts of $23.7 million, which are reflected on the balance sheet, and rights to future excess spread of $101.6 million, which are not reflected on the balance sheet. The retained interest also includes the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. This component of the swap is recorded on the balance sheet and had a negative fair value of $56.2 million at December 31, 2012. Additional information related to the Company's securitization activities can be found in the Financial Instruments section of this MD&A and in Note 7 of the Consolidated Financial Statements.

TABLE 16: LOANS

($ millions)	December 31, 2012	December 31, 2011
Loans and receivables		
Sold to securitization programs	$ 4,639.0	$ 3,763.3
Intermediary operations	35.1	31.3
	4,674.1	3,794.6
Less: Collective allowance	0.7	0.8
	4,673.4	3,793.8
Held for trading		
Mortgage banking operations	248.8	292.1
	$ 4,922.2	$ 4,085.9

TABLE 17: INVESTMENT IN AFFILIATE

($ millions)	THREE MONTHS ENDED DECEMBER 31 2012	2011	TWELVE MONTHS ENDED DECEMBER 31 2012	2011
Carrying value, beginning of period	$ 624.7	$ 579.0	$ 612.5	$ 580.5
Proportionate share of earnings	21.3	18.6	77.9	74.5
Proportionate share of changes in affiliate's litigation provision(1)	(5.6)	5.0	(5.6)	5.0
Dividends received	(11.6)	(11.6)	(46.5)	(46.5)
Proportionate share of other comprehensive income (loss) and other adjustments	(7.7)	21.5	(17.2)	(1.0)
Carrying value, end of period	$ 621.1	$ 612.5	$ 621.1	$ 612.5
Fair value, end of period	$ 918.6	$ 769.0	$ 918.6	$ 769.0

(1) Refer to the Summary of Consolidated Operating Results in this MD&A.

INVESTMENT IN AFFILIATE

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

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence over Lifeco. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment. Changes in the carrying value for the three and twelve month periods ended December 31, 2012 compared with the same periods in 2011 are shown in Table 17.

Consolidated Liquidity and Capital Resources

LIQUIDITY

Cash and cash equivalents totalled $1.06 billion at December 31, 2012 compared with $1.05 billion at December 31, 2011. Cash and cash equivalents related to the Company's deposit operations were $11.9 million at December 31, 2012 compared with $14.0 million at December 31, 2011, as shown in Table 18.

Working capital totalled $1,036.2 million at December 31, 2012 compared with $979.7 million at December 31, 2011. Working capital excludes the Company's deposit operations.

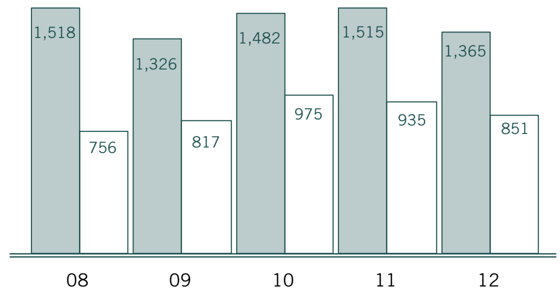
Working capital is utilized to:

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

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $1.36 billion in 2012 compared to $1.52 billion in 2011. EBITDA for each period under review excludes the impact of amortization of deferred selling commissions which totalled $266.2 million in 2012 compared to $281.6 million in 2011. As well as being an important alternative measure of performance, EBITDA is a common measure utilized by investment analysts and credit rating agencies in reviewing asset management companies.

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

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
For the financial year *($ millions)*



EBITDA
2008 excluded proportionate share of affiliate's impairment charge and affiliate's gain.
2009 excluded a non-cash charge on AFS equity securities, a premium paid on the redemption of preferred shares and earnings on discontinued operations.
2010 excluded non-recurring items related to transition to IFRS, the proportionate share of an affiliate's incremental litigation provision and earnings on discontinued operations.
2011 excluded earnings on discontinued operations and the proportionate share of the benefit related to the changes in an affiliate's litigation provisions.
2012 excluded the proportionate share of the charge related to the changes in an affiliate's litigation provisions.

TABLE 18: DEPOSIT OPERATIONS – FINANCIAL POSITION

As at December 31 *($ millions)*	2012	2011
Assets		
Cash and cash equivalents	$ 11.9	$ 14.0
Accounts and other receivables	136.6	122.3
Loans	27.5	28.0
Total assets	$ 176.0	$ 164.3
Liabilities and shareholder's equity		
Deposit liabilities	$ 163.2	$ 150.7
Other liabilities	1.0	1.0
Shareholder's equity	11.8	12.6
Total liabilities and shareholder's equity	$ 176.0	$ 164.3

Cash Flows

Table 19 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2012. Cash and cash equivalents from continuing operations increased by $6.7 million in 2012 compared to a decrease of $233.4 million in 2011.

Operating activities from continuing operations, before payment of commissions, generated $921.2 million during the year ended December 31, 2012, as compared to $1.01 billion in 2011. Cash commissions paid were $211.6 million in 2012 compared to $237.7 million in 2011. Net cash flows from operating activities, net of commissions paid, were $709.6 million in 2012 as compared to $776.6 million in 2011.

Financing activities from continuing operations during the year ended December 31, 2012 compared to 2011 primarily related to:

- A net increase of $12.5 million in deposits and certificates in 2012 compared to a net decrease of $3.6 million in 2011.
- Net payment of $1.8 million in 2012 arising from obligations related to assets sold under repurchase agreements compared to a net payment of $408.0 million in 2011. The net payment in 2011 included the settlement of $427.6 million in obligations related to the sale of $425.6 million in Canada Mortgage Bonds which are reported in Investing activities.
- A net increase of $873.5 million in 2012 arising from obligations to securitization entities compared to a net increase of $318.6 million in 2011.
- Proceeds received on the issuance of common shares of $24.5 million in 2012 compared with $35.1 million in 2011.
- The purchase of 5,347,900 common shares in 2012 under IGM Financial's normal course issuer bid at a cost of $214.9 million compared with the purchase of 4,185,000 common shares at a cost of $185.8 million in 2011.
- The payment of perpetual preferred share dividends which totalled $8.8 million in 2012, unchanged from 2011.
- The payment of regular common share dividends which totalled $549.0 million in 2012 compared to $536.2 million in 2011.

Financing activities during 2011 also included the repayment on maturity of the $450.0 million 2001 Series 6.75% debentures.

Investing activities from continuing operations during the year ended December 31, 2012 compared to 2011 primarily related to:

- The purchases of securities totalling $57.9 million and sales of securities with proceeds of $90.2 million in 2012 compared to $17.1 million and $446.9 million, respectively, in 2011. Proceeds in 2011 included sales of $425.6 million of Canada Mortgage Bonds.
- A net increase in loans of $825.4 million in 2012 compared to a net increase of $370.4 million in 2011 primarily related to residential mortgages in the Company's mortgage banking operations.

Investing activities during 2011 also included the proceeds from the sale of MRS of $198.7 million.

TABLE 19: CASH FLOWS

($ millions)	2012	2011	% CHANGE
Operating activities – continuing operations			
Before payment of commissions	$ 921.2	$ 1,014.3	(9.2) %
Commissions paid	(211.6)	(237.7)	11.0
Net of commissions paid	709.6	776.6	(8.6)
Financing activities – continuing operations	135.8	(1,238.7)	111.0
Investing activities – continuing operations	(838.7)	228.7	N/M
Increase (decrease) in cash and cash equivalents from continuing operations	6.7	(233.4)	102.9
Decrease in cash and cash equivalents from discontinued operations	-	(287.8)	100.0
Cash and cash equivalents from continuing and discontinued operations, beginning of year	1,052.4	1,573.6	(33.1)
Cash and cash equivalents, end of year	$ 1,059.1	$ 1,052.4	0.6 %

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled $5.8 billion at December 31, 2012, unchanged from December 31, 2011. The Company regularly assesses its capital management practices in response to changing economic conditions.

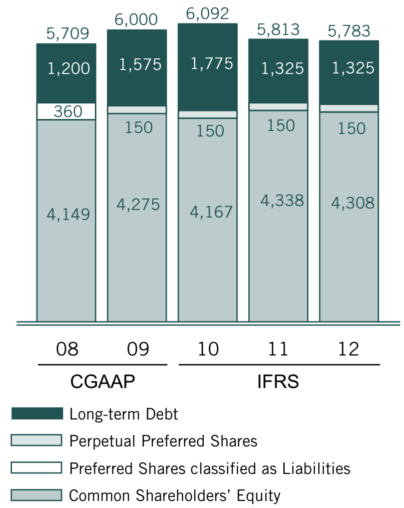
The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual 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 (refer to Note 17 to the Consolidated Financial Statements). 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 $8.8 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.

Capital
As at December 31 *($ millions)*



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.

The current rating by Standard & Poor's (S&P) of the Company's senior debt and liabilities is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

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

According to S&P, the “Stable” rating outlook means that S&P considers that the rating is unlikely to change over the intermediate term.

The A (High) rating assigned to IGM Financial’s senior unsecured debentures by DBRS is the third highest of the ten rating categories for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and protection of interest and principal is considered substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable. A reference to “high” or “low” reflects the relative strength within the rating category, while the absence of either a “high” or “low” designation indicates the rating is placed in the middle of the category.

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

FINANCIAL INSTRUMENTS

Table 20 presents the carrying value and the fair value of financial instruments.

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, 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.

See Note 23 to the Consolidated Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the twelve months ended December 31, 2012.

TABLE 20: FINANCIAL INSTRUMENTS

	DECEMBER 31, 2012		DECEMBER 31, 2011	
($ millions)	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	$ 1,059.1	$ 1,059.1	$ 1,052.4	$ 1,052.4
Securities	268.3	268.3	292.5	292.5
Accounts and other receivables	307.9	307.9	282.0	282.0
Loans	4,922.2	4,969.2	4,085.9	4,144.3
Derivative financial instruments	63.3	63.3	88.1	88.1
Other financial assets	1.3	1.3	6.3	6.3
Total financial assets	$ 6,622.1	$ 6,669.1	$ 5,807.2	$ 5,865.6
Liabilities				
Accounts payable and accrued liabilities	$ 282.3	$ 282.3	$ 300.1	$ 300.1
Repurchase agreements	225.4	225.4	227.3	227.3
Derivative financial instruments	70.8	70.8	111.4	111.4
Deposits and certificates	163.2	164.8	150.7	152.0
Other financial liabilities	199.0	199.0	221.3	221.3
Obligations to securitization entities	4,700.9	4,786.7	3,827.4	3,930.4
Long-term debt	1,325.0	1,628.9	1,325.0	1,586.7
Total financial liabilities	$ 6,966.6	$ 7,357.9	$ 6,163.2	$ 6,529.2

Risk Management

The Company is exposed to a variety of risks that are inherent in its business activities. The Company's ability to manage these risks is key to its ongoing success and includes emphasizing a strong risk management culture and effective risk management approach. The Company's risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return.

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the company and its subsidiaries, with clearly identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Executive Committee of the Board. Additional oversight is provided by an independent Risk Management Department, corporate and sales compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Executive Committee is responsible for the oversight of enterprise risk management, by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.
- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by: i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.
- The Audit Committee has specific risk oversight responsibilities as it oversees financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Compensation Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest and recommends to the Board a code of business conduct and ethics.

The executive Risk Management Committee is comprised of the Co-Presidents and Chief Executive Officers, the Chief Financial Officer, and the General Counsel and Chief Compliance Officer. The committee is responsible for providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the respective operating companies, being Investors Group, Mackenzie and Investment Planning Counsel, have overall responsibility for overseeing risk management of their respective companies.

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks , ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

The Risk Management Department provides oversight, analysis and reporting on the level of risks relative to the established risk appetite to the Risk Management Committee. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders. A Technical Review Committee of senior business leaders supports the Risk Management Department by performing critical reviews of risk assessments developed by business units and support functions. Other independent oversight accountabilities reside with the Company's corporate and sales compliance groups which are responsible for ensuring compliance with policies, laws and regulations, and with a financial risk management function which is independent from the Treasury Department and is responsible for independently assessing financial risk management processes and exposures and monitoring compliance with the Investment Policy and other relevant policies.

The Internal Audit Department provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

FINANCIAL INSTRUMENTS RISK

The Company actively manages risks that arise as a result of holding financial instruments which include liquidity and funding risk, credit risk and market risk.

Liquidity and Funding Risk

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.
- Oversight of liquidity management by Committees of the Board of Directors.

As part of ongoing liquidity management during 2012 and 2011, the Company:

- Entered into $200 million committed line of credit to provide financing to the Company's mortgage operations.
- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Repaid the $450.0 million 2001 Series 6.75% debentures at maturity on May 9, 2011.

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 NHA MBS and are approved sellers into the 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 obligations are reflected in Table 21.

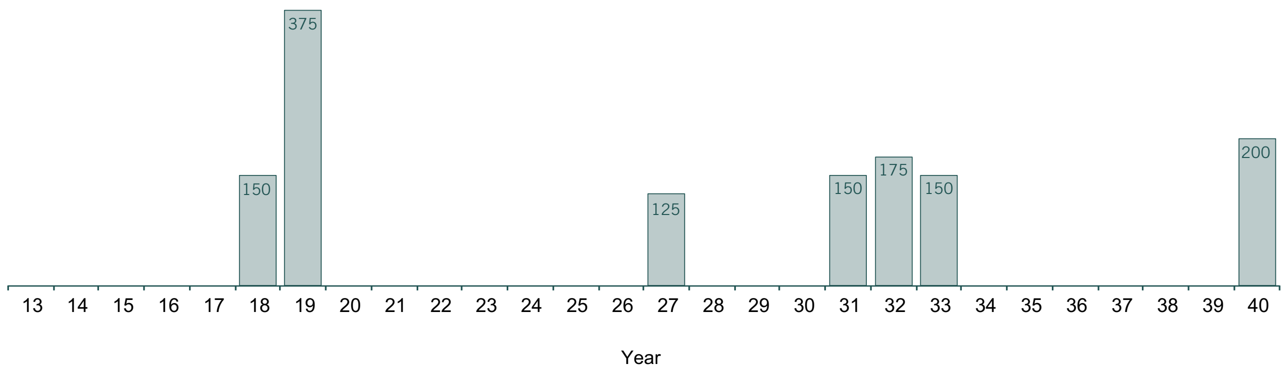
TABLE 21: CONTRACTUAL OBLIGATIONS

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(1)	-	52.9	152.3	78.5	283.7
Total contractual obligations	$ 136.1	$ 1,099.9	$ 4,087.5	$ 1,445.5	$ 6,769.0

(1) Includes office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

Long-Term Debt Maturity Schedule

($ millions)



The maturity schedule for long-term debt of $1,325 million, with no debt repayment due until 2018, is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

In addition to IGM Financial'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 the capital markets most recently in December 2010; however, its ability to access capital markets to raise funds in future is dependent on market conditions.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2011.

Credit Risk

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.

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.

  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.

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 primarily consist 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 IGM Financial 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.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 7 and 22 to the Consolidated Financial Statements.

Market Risk

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

Interest Rate Risk

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

The objective of the Company's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 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' acceptances 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.
- 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. 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 on its equity securities which are classified as fair value through profit or loss, as shown in Table 15. 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. The Company hedges this risk through the use of forward agreements and total return swaps.

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At December 31, 2012, IGM Financial's total assets under management were $120.7 billion compared to $118.7 billion at December 31, 2011.

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

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

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

Redemption rates for long-term funds are summarized in Table 22 and are discussed in the Investors Group and Mackenzie Segment Operating Results sections of this MD&A.

IGM Financial provides Consultants, independent financial advisors, and strategic alliance and institutional clients with a high level of service and support and a broad range of investment products based on asset classes, countries or regions, and investment management styles which, in turn, should result in maintaining strong client relationships and lower rates of redemptions. The Company's subsidiaries also continually review product pricing to ensure competitiveness in the marketplace in relation to the nature and quality of services provided. During the third quarter of 2012, Investors Group implemented pricing and product enhancements related to its mutual fund offering as previously discussed in the Investors Group Review of the Business section in this MD&A.

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

TABLE 22: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at December 31	2012	2011
IGM Financial Inc.		
Investors Group	10.0 %	8.8 %
Mackenzie	17.9 %	15.8 %
Counsel	14.3 %	10.9 %

OTHER RISK FACTORS

Distribution Risk

Investors Group Consultant network – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the Investors Group Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through an independent retail financial advisor network. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

The Regulatory Environment

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to securities markets, the provision of financial products and services, including fund management, distribution, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are increasing. The Company and its subsidiaries are subject to regulatory reviews as part of the normal ongoing process of oversight by the various regulators.

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

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

Contingencies

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

Acquisition Risk

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

Model Risk

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

Outlook

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held $3.0 trillion in discretionary financial assets with financial institutions at December 31, 2011 (source: Investors Economics). The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Over 60% ($1.8 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the $1.2 trillion held outside of a financial advisory relationship, over 70% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 35% of Canadian discretionary financial assets or $1.0 trillion resided in investment funds at December 31, 2011, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 75% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With $104 billion in mutual fund assets under management, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 53% of total industry long-term mutual fund assets at September 30, 2012.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 84% of industry long-term mutual fund assets and 84% of total mutual fund assets under management at September 30, 2012. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

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

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

Broad and Diversified Distribution

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

Broad Product Capabilities

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

Enduring Relationships

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

Benefits of Being Part of the Power Financial Group of Companies

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

Critical Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, deferred selling commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below.

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.

  The Company's investment securities which are classified as available for sale are comprised of equity securities held for long-term investment and investments in proprietary mutual funds. Unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized or until there is objective evidence of impairment, at which time they are recorded in the Consolidated Statements of Earnings. Management regularly reviews the investment securities classified as available for sale to assess whether there is objective evidence of impairment. The Company considers such factors as the nature of the investment and the length of time and the extent to which the fair value has been below cost. A significant change in this assessment may result in unrealized losses being recognized in net earnings. During 2012, the Company assessed the measurement of the available for sale securities and determined there was no impairment in the value of these securities.
- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 11 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and 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). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

  These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

  The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2012 financial information and determined there was no impairment in the value of those assets.
- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current

year and income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 15 to the Consolidated Financial Statements.

- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2012, there were no indications of impairment to deferred selling commissions.
- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is "probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.
- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

  Due to the long-term nature of these plans, the calculation of benefit obligations depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. The benefit expense on the Company's funded defined benefit pension plan is determined using an expected rate of return on assets. In determining the expected long-term rate of return, the Company considers the historical returns and the future expectations for returns for each asset class as well as the investment policy of the plan. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

  During 2012, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Pension plan assets increased to $213.9 million at December 31, 2012 from $207.1 million at December 31, 2011. The increase in plan assets was due to market performance of $12.7 million compared to an estimated rate of return of $14.3 million based on the Company's expected long-term rate of return assumption. The resulting actuarial loss of $1.6 million was recorded in Other comprehensive income in 2012. Bond yields decreased in 2012 thereby impacting the discount rate used to measure the Company's various defined benefit plan obligations. The discount rate utilized to value the defined benefit plan obligation at December 31, 2012 was 4.45% compared to 5.35% at December 31, 2011 and resulted in actuarial losses of $47.8 million which were recorded in Other comprehensive income in 2012. The total pension obligation was $306.4 million at December 31, 2012 compared to $240.9 million at December 31, 2011. As a result of these changes, the defined benefit pension plan had a funding deficit of $92.5 million at December 31, 2012 compared to a funding deficit of $33.8 million at the end of 2011. The unfunded SERPs and other post-employment benefits plans had accrued benefit obligations of $46.9 million and $42.0 million, respectively, at December 31, 2012 compared to $42.0 million and $34.6 million in 2011.

A change of 0.25% in the discount rate utilized in 2012 would result in a change of $11.3 million in the accrued pension obligation, $10.5 million in other comprehensive income, and $0.8 million in pension expense. A change of 0.25% in the long-term rate of return on assets assumed for 2012 would result in a change of $0.5 million in other comprehensive income. Additional information regarding the Company's accounting for pensions and other post-retirement benefits is included in Notes 2 and 14 of the Consolidated Financial Statements.

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 to the Consolidated Financial Statements).

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.

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 Other comprehensive income (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 net earnings 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.

Other

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

IFRS Standard	Expected date of issuance
IFRS 9: Financial Instruments	
Classification and Measurement	Q3 2013 – Final Standard
Impairment	Q1 2013 – Exposure Draft
Hedge Accounting – General Hedge Accounting	Q1 2013 – Final Standard
Hedge Accounting – Macro Hedge Accounting	Q1 2013 – Discussion Paper
Leases	Q1 2013 – Exposure Draft
Revenue Recognition	Q1 2013 – Final Standard

Source: IASB website at www.iasb.org

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the Co-Presidents and Chief Executive Officers and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2012, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal Control – Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on their evaluations as of December 31, 2012, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During the fourth quarter of 2012, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

TRANSACTIONS WITH RELATED PARTIES

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

- During 2012 and 2011, the Company provided to and received from Great-West Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributed insurance products under a distribution agreement with Great-West Life and Canada Life and received $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 Life, 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.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2012, the Company sold residential mortgage loans to Great-West Life and London Life for $231.7 million compared to $201.7 million in 2011.

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.

For further information on transactions involving related parties, see Notes 9 and 26 to the Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2012 totalled 252,098,907. Outstanding stock options as at December 31, 2012 totalled 8,115,461, of which 3,570,846 were exercisable. As at February 6, 2013, outstanding common shares totalled 251,937,335 and outstanding stock options totalled 8,022,105, of which 3,493,771 were exercisable.

Perpetual preferred shares of $150 million were outstanding as at December 31, 2012, unchanged at February 6, 2013.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of IGM Financial Inc. have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the information presented, including selecting appropriate accounting principles and making judgments and estimates. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in this Annual Report is consistent with that in the Consolidated Financial Statements for comparable periods.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance of the reliability of financial information and the safeguarding of all assets controlled by the Company. These controls and supporting procedures include quality standards in hiring and training employees, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated extensively by the internal auditor and are subject to scrutiny by the external auditors.

Ultimate responsibility for the Consolidated Financial Statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting entirely of independent directors. This Committee reviews the Consolidated Financial Statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the external auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the external auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte LLP, independent auditors appointed by the shareholders, have examined the Consolidated Financial Statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related findings.

Murray J. Taylor
Co-President and Chief Executive Officer

Charles R. Sims, FCA
Co-President and Chief Executive Officer

Kevin E. Regan, FCA
Executive Vice-President and Chief Financial Officer

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.

Deloitte LLP

Chartered Accountants
February 8, 2013
Winnipeg, Manitoba

Consolidated Statements of Earnings

For the years ended December 31 *(in thousands of Canadian dollars, except shares and per share amounts)*	2012	2011
Revenues		
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 *(Note 9)*	**72,322**	79,489
	2,577,507	2,732,452
Expenses		
Commission	**858,248**	894,860
Non-commission *(Note 4)*	**664,483**	637,487
Interest	**92,188**	102,807
	1,614,919	1,635,154
Earnings before income taxes and discontinued operations	**962,588**	1,097,298
Income taxes *(Note 15)*	**191,604**	250,497
Net earnings from continuing operations	**770,984**	846,801
Net earnings from discontinued operations *(Note 3)*	**-**	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
Average number of common shares *(in thousands) (Note 24)*		
– Basic	**254,853**	258,151
– Diluted	**255,277**	259,075
Earnings per share *(in dollars) (Note 24)*		
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
Net earnings	**$ 770,984**	$ 909,445
Other comprehensive income (loss), net of tax		
Employee benefits		
Net actuarial gains (losses), *net of tax of $15,825 and $11,293*	**(42,781)**	(30,548)
Available for sale securities		
Net unrealized gains (losses), *net of tax of $(33) and $188*	**312**	(1,788)
Reclassification of realized (gains) losses to net earnings, *net of tax of $(201) and $1,555*	**327**	(3,488)
	639	(5,276)
Investment in affiliate and other		
Other comprehensive income (loss), *net of tax of $49 and $57*	**(16,013)**	816
	(58,155)	(35,008)
Comprehensive income	**$ 712,829**	$ 874,437

(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
	$ 11,973,394	$ 11,160,071
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
	7,515,784	6,671,596
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)
	4,457,610	4,488,475
	$ 11,973,394	$ 11,160,071

(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

(in thousands of Canadian dollars)	SHARE CAPITAL: PERPETUAL PREFERRED SHARES *(Note 17)*	SHARE CAPITAL: COMMON SHARES *(Note 17)*	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) *(Note 20)*	TOTAL SHAREHOLDERS' EQUITY
2012						
Balance, beginning of year	**$ 150,000**	**$ 1,578,270**	**$ 35,842**	**$ 2,726,285**	**$ (1,922)**	**$ 4,488,475**
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)**
Total comprehensive income (loss)	**-**	**-**	**-**	**728,203**	**(15,374)**	**712,829**
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 *(Note 17)*	**-**	**-**	**-**	**(183,276)**	**-**	**(183,276)**
Balance, end of year	**$ 150,000**	**$ 1,572,573**	**$ 36,468**	**$ 2,715,865**	**$ (17,296)**	**$ 4,457,610**
2011						
Balance, beginning of year	$ 150,000	$ 1,567,725	$ 37,785	$ 2,559,238	$ 2,538	$ 4,317,286
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)
Total comprehensive income (loss)	-	-	-	878,897	(4,460)	874,437
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 *(Note 17)*	-	-	-	(161,998)	-	(161,998)
Balance, end of year	$ 150,000	$ 1,578,270	$ 35,842	$ 2,726,285	$ (1,922)	$ 4,488,475

(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
Operating activities – continuing operations		
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
Financing activities – continuing operations		
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)
Investing activities – continuing operations		
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 *(Note 3)*	**-**	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
Cash and cash equivalents, end of year	**$ 1,059,090**	$ 1,052,423
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				
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	2012 TOTAL	2011 TOTAL
Loans and receivables					
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
Held for trading				**248,795**	292,109
				$ 4,922,169	$ 4,085,929

	2012	2011
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			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
2012						
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**
2011						
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.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2012 TOTAL	2011 TOTAL
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 *(Note 14)*	**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
Fair value of plan assets						
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	-	-
Accrued benefit obligation						
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
Funded status - plan surplus (deficit)	**(92,538)**	**(46,880)**	**(41,959)**	(33,729)	(41,969)	(34,566)
Unamortized past service cost	**-**	**2,007**	**(6,260)**	-	2,482	(7,323)
Accrued benefit asset (liability)	**$ (92,538)**	**$ (44,873)**	**$ (48,219)**	$ (33,729)	$ (39,487)	$ (41,889)
Actuarial assumptions to calculate benefit obligation						
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(1)	**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
Income taxes recognized in net earnings				
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
Deferred income taxes recovery in retained earnings	**$**	**(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 *(Note 9)*	**(2.17)**	(1.92)
Tax loss consolidation *(Note 26)*	**(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 *(Note 9)*	**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
			$ 1,325,000	$ 1,325,000

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	**$ 45.63**	$ 46.70
Risk-free interest rate	**1.80 %**	3.02 %
Expected option life	**6 years**	6 years
Expected volatility	**22.00 %**	22.00 %
Expected dividend yield	**4.71 %**	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	**8,414,392**	**$ 39.64**	8,958,494	$ 37.59
Granted	**1,120,855**	**45.63**	876,820	46.70
Exercised	**(788,319)**	**29.48**	(1,125,981)	28.34
Forfeited	**(631,467)**	**39.66**	(294,941)	41.44
Balance, end of year	**8,115,461**	**$ 41.45**	8,414,392	$ 39.64
Exercisable, end of year	**3,570,846**	**$ 40.34**	3,737,122	$ 37.90

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

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		
2012	AVAILABLE FOR SALE SECURITIES	INVESTMENT IN AFFILIATE AND OTHER	TOTAL
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)**
2011			
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(1)	-	52.9	152.3	78.5	283.7
Total contractual obligations	$ 136.1	$ 1,099.9	$ 4,087.5	$ 1,445.5	$ 6,769.0

(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' acceptances 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:

	NOTIONAL AMOUNT					FAIR VALUE	
2012	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	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**
	$ 815,709	**$ 1,950,659**	**$ 400,177**	**$ 3,166,545**	**$ 63,299**	**$ 63,299**	**$ 70,783**
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
	$ 617,138	$ 1,925,127	$ 407,862	$ 2,950,127	$ 88,092	$ 88,092	$ 111,424

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
Assets				
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
Total financial assets	**$ 6,622,103**	**$ 6,669,122**	$ 5,807,158	$ 5,865,576
Liabilities				
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
Total financial liabilities	**$ 6,966,611**	**$ 7,357,956**	$ 6,163,154	$ 6,529,233

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
Assets				
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**
Liabilities				
Derivative financial instruments	**$ -**	**$ 14,343**	**$ 56,440**	**$ 70,783**
Financial liabilities	**-**	**-**	**20,931**	**20,931**
	$ -	**$ 14,343**	**$ 77,371**	**$ 91,714**
2011				
Assets				
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
Liabilities				
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(1)	PURCHASES AND ISSUANCES	SETTLEMENTS	BALANCE DECEMBER 31
Assets					
Securities					
– Held for trading	**$ 29,177**	**$ 6,300**	**$ 799**	**$ 35,436**	**$ 840**
Liabilities					
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**
2011					
Assets					
Securities					
– Held for trading	$ 27,601	$ 2,060	$ -	$ 484	$ 29,177
Liabilities					
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
Earnings		
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
Number of common shares *(in thousands)*		
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
Earnings per common share *(in dollars)*		
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)*

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
				2012
Revenues				
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
	1,558,739	759,423	264,905	2,583,067
Expenses				
Commission	488,510	259,570	110,168	858,248
Non-commission	373,060	248,733	42,690	664,483
	861,570	508,303	152,858	1,522,731
Earnings before undernoted	$ 697,169	$ 251,120	$ 112,047	1,060,336
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				$ 762,134
Identifiable assets	$ 6,194,857	$ 1,310,160	$ 1,829,423	$ 9,334,440
Goodwill	1,347,781	1,168,580	122,593	2,638,954
Total assets	$ 7,542,638	$ 2,478,740	$ 1,952,016	$11,973,394

27. SEGMENTED INFORMATION *(continued)*

				2011
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
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
Expenses				
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
Identifiable assets	$ 5,341,041	$ 1,318,428	$ 1,860,079	$ 8,519,548
Goodwill	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

Quarterly Review

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 *($ thousands, except per share amounts)*	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Revenues								
Management	$ 434,691	$ 431,502	$ 443,537	$ 456,618	$ 444,177	$ 464,649	$ 491,787	$ 492,115
Administration	84,571	83,347	83,973	85,264	84,347	85,116	87,924	87,500
Distribution	80,198	75,160	80,534	85,179	79,785	80,759	83,556	89,361
Net investment income and other	17,540	23,903	12,837	26,331	17,791	22,370	16,293	25,433
Proportionate share of affiliate's earnings	15,749	20,150	16,726	19,697	23,536	20,862	18,111	16,980
	632,749	634,062	637,607	673,089	649,636	673,756	697,671	711,389
Expenses								
Commission	213,387	209,758	213,719	221,384	214,027	218,504	228,679	233,650
Non–commission	162,822	161,461	170,109	170,091	155,358	156,032	164,133	161,964
Interest	23,202	23,163	22,912	22,911	23,199	23,198	26,139	30,271
	399,411	394,382	406,740	414,386	392,584	397,734	418,951	425,885
Earnings before income taxes and discontinued operations	233,338	239,680	230,867	258,703	257,052	276,022	278,720	285,504
Income taxes	28,198	50,540	56,027	56,839	53,902	60,775	63,693	72,127
Net earnings from continuing operations	205,140	189,140	174,840	201,864	203,150	215,247	215,027	213,377
Net earnings from discontinued operations	–	–	–	–	29,626	30,995	1,055	968
Net earnings	205,140	189,140	174,840	201,864	232,776	246,242	216,082	214,345
Perpetual preferred share dividends	2,212	2,213	2,212	2,213	2,212	2,213	2,212	2,213
Net earnings available to common shareholders	$ 202,928	$ 186,927	$ 172,628	$ 199,651	$ 230,564	$ 244,029	$ 213,870	$ 212,132
Reconciliation of Non–IFRS Financial Measures[1]								
Operating earnings available to common shareholders – non IFRS measure	$ 184,083	$ 186,927	$ 179,064	$ 199,651	$ 195,978	$ 213,034	$ 212,815	$ 211,164
Reduction in income tax estimates related to certain tax filings	24,405	–	–	–	–	–	–	–
Proportionate share of affiliate's provision	(5,560)	–	–	–	4,960	–	–	–
Non-cash income tax charge	–	–	(6,436)	–	–	–	–	–
Net earnings from discontinued operations	–	–	–	–	29,626	30,995	1,055	968
Net earnings available to common shareholders – IFRS	$ 202,928	$ 186,927	$ 172,628	$ 199,651	$ 230,564	$ 244,029	$ 213,870	$ 212,132
Diluted earnings per share *(¢)*								
Net earnings	80	73	67	78	89	94	82	81
Operating earnings[1]	73	73	70	78	76	82	82	81
Dividends per share *(¢)*	53.75	53.75	53.75	53.75	53.75	53.75	51.25	51.25

STATISTICAL DATA *($ millions)*

	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Mutual funds								
Investors Group								
Sales	$ 1,418	$ 1,220	$ 1,306	$ 1,834	$ 1,285	$ 1,285	$ 1,405	$ 2,046
Redemption rate (%) – total	11.0	10.7	10.4	10.1	9.8	9.7	9.6	9.6
– long-term funds	10.0	9.7	9.4	9.1	8.8	8.7	8.5	8.4
Net sales (redemptions)	(261)	(314)	(324)	175	(158)	(162)	(145)	504
Assets under management	60,595	59,592	58,118	60,628	57,735	56,502	62,158	64,049
Mackenzie								
Sales	1,850	1,076	1,092	1,472	1,089	1,236	1,358	1,962
Redemption rate (%) – total	18.7	16.9	17.3	17.2	16.9	17.4	17.1	17.9
– long-term funds	17.9	16.1	16.4	16.2	15.8	16.2	15.9	16.5
Net sales (redemptions)	(543)	(464)	(458)	(509)	(584)	(576)	(345)	(43)
Assets under management	40,394	39,728	39,217	41,535	39,141	38,527	43,601	44,824
Investment Planning Counsel								
Sales	98	76	87	140	128	113	134	168
Redemption rate (%) – total	14.7	13.4	12.8	11.7	11.5	11.9	12.1	12.8
– long-term funds	14.3	12.9	12.2	11.2	10.9	11.3	11.5	12.2
Net sales (redemptions)	(16)	(14)	(25)	31	56	44	52	73
Assets under management	2,950	2,909	2,849	2,957	2,811	2,674	2,845	2,834
Combined mutual fund assets under management[2]	103,915	102,215	100,180	105,116	99,685	97,702	108,603	111,706
Total assets under management[2]	120,694	119,279	117,961	124,146	118,713	116,743	130,159	134,081
Corporate assets	11,973	11,709	11,639	11,312	11,160	11,412	11,226	12,156
Consultants – Investors Group	4,518	4,543	4,526	4,522	4,608	4,595	4,592	4,586

(1) Refer to page 17 of the MD&A for an explanation of the Company's use of non-IFRS financial measures.
(2) Adjusted for inter-segment assets.

Ten Year Review

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

	IFRS			CGAAP		CAGR[1] 5 YEAR	CGAAP					CAGR[1] 10 YEAR
($ thousands, except per share amounts)	2012	2011	2010	2009	2008	%	2007	2006	2005	2004	2003	%
Fee income	2,424,574	2,571,076	2,467,813	2,227,028	2,502,516	*(2.1)*	2,700,961	2,392,298	2,164,472	1,955,740	1,714,373	*2.9*
Net investment income and other	152,933	161,376	140,874	62,945	165,563	*(4.4)*	191,227	210,236	181,677	162,180	159,808	*1.9*
	2,577,507	2,732,452	2,608,687	2,289,973	2,668,079	*(2.3)*	2,892,188	2,602,534	2,346,149	2,117,920	1,874,181	*2.9*
Expenses	1,614,919	1,635,154	1,600,831	1,517,343	1,644,729	*(0.5)*	1,658,371	1,494,613	1,372,222	1,256,555	1,050,722	*3.6*
	962,588	1,097,298	1,007,856	772,630	1,023,350	*(4.8)*	1,233,817	1,107,921	973,927	861,365	823,459	*1.8*
Dilution gain	–	–	–	–	–		–	–	–	–	14,820	
Income before undernoted	962,588	1,097,298	1,007,856	772,630	1,023,350	*(4.8)*	1,233,817	1,107,921	973,927	861,365	838,279	*1.8*
Income taxes	191,604	250,497	268,805	216,595	292,551	*(11.6)*	354,682	331,231	291,500	264,969	299,198	*(4.9)*
	770,984	846,801	739,051	556,035	730,799	*(2.6)*	879,135	776,690	682,427	596,396	539,081	*4.7*
Discontinued operations	–	62,644	1,753	3,057	–		–	–	–	–	–	
Net earnings	770,984	909,445	740,804	559,092	730,799	*(2.6)*	879,135	776,690	682,427	596,396	539,081	*4.6*
Perpetual preferred share dividends	8,850	8,850	10,105	–	–		–	–	–	–	–	
Net earnings available to common shareholders	762,134	900,595	730,699	559,092	730,799	*(2.8)*	879,135	776,690	682,427	596,396	539,081	*4.5*
Operating earnings available to common shareholders[2]	749,725	832,991	758,943	618,861	766,142	*(2.8)*	863,867	763,042	682,427	615,577	533,563	*4.3*
Diluted earnings per share *($)*												
Net earnings	2.99	3.48	2.78	2.12	2.76	*(1.9)*	3.29	2.90	2.56	2.24	2.03	*4.9*
Operating earnings[2]	2.94	3.22	2.89	2.34	2.89	*(1.9)*	3.23	2.85	2.56	2.31	2.01	*4.7*
Dividends per share *($)*	2.15	2.10	2.05	2.05	2.00	*3.8*	1.78	1.54	1.34	1.15	0.99	*9.6*
Return on average common equity (ROE) *(%)*												
Net earnings	17.6	21.3	17.6	13.3	17.3		21.9	21.4	20.0	19.1	19.1	
Operating earnings[2]	17.3	19.7	18.2	14.7	18.2		21.5	21.1	20.0	19.8	18.9	
Average shares outstanding *(thousands)*												
– Basic	254,853	258,151	261,855	263,217	263,323		264,604	264,724	264,573	264,431	263,915	
– Diluted	255,277	259,075	262,867	264,324	264,808		267,303	267,395	266,609	266,010	265,174	
Share price *(closing $)*	41.60	44.23	43.46	42.41	35.45	*(3.6)*	50.03	49.10	46.12	36.64	31.05	*4.5*

Includes Investment Planning Counsel from date of acquisition (May 10, 2004).

(1) Compound annual growth rate.

(2) Non-IFRS or non-GAAP Financial Measures – Excludes other items as follows:

2012 – A favourable change in income tax provision estimates of $24.4 million related to certain tax filings, an after–tax charge of $5.6 million representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s litigation provisions, and a non-cash income tax charge of $6.4 million resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets arising from prior business acquisitions.

2011 – Net earnings from discontinued operations of $62.6 million and an after-tax benefit of $5.0 million representing the Company's proportionate share of net changes in Great-West Lifeco Inc.'s (Lifeco) litigation provisions.

2010 – Net earnings from discontinued operations of $1.8 million, a non-recurring after-tax charge of $21.8 million related to the transition to IFRS, and an after-tax charge of $8.2 million representing the Company's proportionate share of Lifeco's incremental litigation provision.

2009 – Net earnings from discontinued operations, a non-cash charge on available for sale equity securities, net of tax, a non-cash income tax benefit and the premium paid on the redemption of Series A preferred shares.

2008 – Proportionate share of Lifeco's after-tax impairment charge and proportionate share of Lifeco's after-tax gain on the sale of its healthcare business, Great-West Healthcare.

2007 – Non–cash income tax benefit.

2006 – Non–cash income tax benefit.

2004 – Unitholder compensation.

2003 – Dilution gain, restructuring reversal and non-cash income tax charge.

Ten Year Review

STATISTICAL INFORMATION

For the years ended December 31

($ millions)	2012	2011	2010	2009	2008	CAGR(1) 5 YEAR %	2007	2006	2005	2004	2003	CAGR(1) 10 YEAR %
Mutual funds												
Investors Group												
Sales	5,778	6,021	5,748	5,042	5,946	*(4.4)*	7,229	6,190	5,488	4,722	4,021	*1.6*
Redemption rates *(%)*												
– total	11.0	9.8	9.4	9.0	9.4		8.4	9.0	10.0	10.6	12.8	
– long-term funds	10.0	8.8	8.3	7.4	7.9		7.3	7.9	8.7	9.1	10.7	
Net sales (redemptions)	(724)	39	253	404	625	*N/M*	2,158	1,345	778	218	(839)	*N/M*
Assets under management	60,595	57,735	61,785	57,655	47,491	*0.1*	60,194	58,216	50,701	44,510	40,904	*4.9*
Mackenzie(2)												
Sales	5,490	5,645	5,848	4,905	7,949	*(8.3)*	8,453	8,424	8,075	6,786	5,282	*(0.9)*
Redemption rates *(%)*												
– total	18.7	16.9	18.1	17.5	22.4		17.8	17.8	17.6	16.9	17.3	
– long-term funds	17.9	15.8	16.5	14.6	18.7		14.1	15.2	14.8	13.8	13.0	
Net sales (redemptions)	(1,974)	(1,548)	(1,519)	(1,566)	(1,553)	*N/M*	(89)	658	1,175	795	(69)	*N/M*
Assets under management	40,394	39,141	43,452	40,624	35,814	*(2.8)*	46,563	46,600	41,592	37,298	33,770	*2.7*
Investment Planning Counsel												
Sales	401	543	499	343	244	*2.0*	364	352	407	259		*N/A*
Redemption rates *(%)*												
– total	14.7	11.1	12.7	12.7	15.8		9.8	9.8	10.2	10.5		
– long-term funds	14.3	10.9	12.0	11.6	14.8		9.4	9.4	9.7	9.5		
Net sales (redemptions)	(24)	225	204	106	(80)	*N/M*	139	155	237	161		*N/A*
Assets under management	2,950	2,811	2,688	2,140	1,740	*5.4*	2,268	2,206	1,858	1,497		*N/A*
Combined mutual fund assets under management(3)	103,915	99,685	107,925	100,419	85,025	*(0.9)*	108,994	106,987	94,116	83,273	74,674	*4.3*
Total assets under management(3)	120,694	118,713	129,484	120,545	101,742	*(0.4)*	122,982	119,364	100,233	86,621	76,737	*5.6*
Corporate assets(4)	11,973	11,160	12,237	8,662	8,263	*N/M*	7,859	7,333	6,807	6,473	6,292	*N/M*
Consultants – Investors Group	4,518	4,608	4,686	4,633	4,479	*0.8*	4,331	3,917	3,668	3,496	3,223	*3.1*

(1) *Compound annual growth rate.*
(2) *For Canadian mutual fund operations only.*
(3) *Adjusted for inter-segment assets.*
(4) *2010 to 2012 reflect corporate assets under IFRS. 2003 to 2009 reflect corporate assets under CGAAP.*
N/A *Investment Planning Counsel was acquired May 10, 2004.*

Board of Directors and Executive Officers

AS AT DECEMBER 31, 2012

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Art Gallery of Ontario

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Deputy Chairman, President
and Co-Chief Executive Officer
Power Corporation of Canada
Co-Chairman
Power Financial Corporation

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Chairman and Co-Chief Executive Officer
Power Corporation of Canada
Co-Chairman
Power Financial Corporation

V. Peter Harder (1,3,4,5)
Senior Policy Advisor
Fraser Milner Casgrain LLP

Daniel Johnson, G.O.Q. (1,4)
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McCarthy Tétrault LLP

John McCallum (2,3,6,7)
Professor of Finance
University of Manitoba

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Great-West Lifeco Inc.

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Chairman of the Board
IGM Financial Inc.
President and Chief Executive Officer
Power Financial Corporation

Roy W. Piper (2,3,5,6,7)
Self-Employed Farmer

Michel Plessis-Bélair, FCA
Vice-Chairman
Power Corporation of Canada and
Power Financial Corporation

Henri-Paul Rousseau, Ph.D. (1,4)
Vice-Chairman
Power Corporation of Canada and
Power Financial Corporation

Susan Sherk (1,3,4,5,6)
Senior Human Environment Associate
AMEC Environment and Infrastructure

Charles R. Sims, FCA (1,4)
Co-President and Chief Executive Officer
IGM Financial Inc.
President and Chief Executive Officer
Mackenzie Financial Corporation

Murray J. Taylor (1,4)
Co-President and Chief Executive Officer
IGM Financial Inc.
President and Chief Executive Officer
Investors Group Inc.

Gregory D. Tretiak, FCA (1,4)
Executive Vice-President and
Chief Financial Officer
Power Corporation of Canada and
Power Financial Corporation

Gérard Veilleux, O.C., D.U. (3)
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Power Communications Inc.

Director Emeritus
The Honourable
Paul Desmarais, P.C., C.C., O.Q.

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Co-President and Chief Executive Officer

Murray J. Taylor
Co-President and Chief Executive Officer

Kevin E. Regan, FCA
Executive Vice-President and
Chief Financial Officer

Geoffrey D. Creighton
Senior Vice-President,
General Counsel and Secretary

Committees

1. Executive Committee
   Chair, R. Jeffrey Orr
2. Audit Committee
   Chair, John McCallum
3. Community Affairs Committee
   Chair, Susan Sherk
4. Investment Committee
   Chair, R. Jeffrey Orr
5. Compensation Committee
   Chair, R. Jeffrey Orr
6. Related Party and Conduct
   Review Committee
   Chair, John McCallum
7. Governance and Nominating Committee
   Chair, R. Jeffrey Orr

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Stock Exchange Listing
Toronto Stock Exchange
Shares of IGM Financial Inc. are listed on the Toronto Stock Exchange under the following listings:
Common Shares: IGM
First Preferred Shares, Series B:
IGM.PR.B

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For copies of the annual or quarterly reports, please contact the Corporate Secretary's office at (204) 956-8383 or visit our website at www.igmfinancial.com

Si vous préférez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire de Société financière IGM Inc.,
447 Portage Avenue,
Winnipeg (Manitoba) R3C 3B6

Annual Meeting
The Annual Meeting of IGM Financial Inc. will be held at The Metropolitan Entertainment Centre, 281 Donald Street, Winnipeg, Manitoba, Canada on Friday, May 3, 2013 at 10:30 a.m., Central Time.

Websites
Visit our websites at
www.igmfinancial.com
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