

Consolidated Financial Statements

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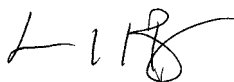
Management's Responsibility for Financial Reporting

The consolidated financial statements of IGM Financial Inc. and related financial information have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

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

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting of directors who are not officers or employees of the Company. This Committee reviews the consolidated financial statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the shareholders' auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting and the adequacy of the systems of internal control.



Murray J. Taylor
Co-President and Chief Executive Officer



Charles R. Sims
Co-President and Chief Executive Officer



Gregory D. Tretiak
Executive Vice-President, Finance

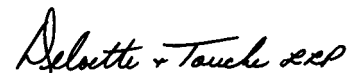
Auditors' Report

To the Shareholders, IGM Financial Inc.

We have audited the consolidated balance sheets of IGM Financial Inc. as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba
February 12, 2009

Consolidated Statements of Income

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

2008

2007

Fee and net investment income

Management	\$ 1,867,223	\$ 2,096,032
Administration	349,249	349,428
Distribution	286,044	255,501
Net investment income and other	202,172	194,146
Total fee and net investment income	2,704,688	2,895,107

Operating expenses

Commission expense	906,271	947,053
Non-commission expense	647,854	622,988
Interest expense	90,604	88,330
Total operating expenses	1,644,729	1,658,371

Proportionate share of affiliate's impairment charge, net of tax (Note 5)	60,346	–
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Income before income taxes, non-controlling interest and proportionate share of affiliate's gain	999,613	1,236,736
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Income taxes (Note 12)	292,551	354,682
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Income before non-controlling interest and proportionate share of affiliate's gain	707,062	882,054
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Non-controlling interest	1,266	2,919
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Net income before proportionate share of affiliate's gain	705,796	879,135
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Proportionate share of affiliate's gain (Note 5)	25,003	–
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Net income	\$ 730,799	\$ 879,135
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Average number of common shares (in thousands) (Note 22)

– Basic	263,323	264,604
– Diluted	264,808	267,303

Earnings per share (in dollars) (Note 22)

Excluding proportionate share of affiliate's gain		
– Basic	\$ 2.68	\$ 3.32
– Diluted	\$ 2.67	\$ 3.29

Including proportionate share of affiliate's gain		
– Basic	\$ 2.78	\$ 3.32
– Diluted	\$ 2.76	\$ 3.29

(See accompanying notes to consolidated financial statements.)

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)

2008

2007

Assets

Cash and cash equivalents	\$ 1,232,171	\$ 1,180,284
Securities (Note 2)	537,653	696,279
Loans (Note 3)	589,564	553,947
Investment in affiliate (Note 5)	574,442	560,683
Deferred selling commissions	940,603	989,784
Other assets (Note 6)	656,877	465,089
Intangible assets (Note 7)	1,110,370	1,028,731
Goodwill (Note 7)	2,592,317	2,383,798
	\$ 8,233,997	\$ 7,858,595

Liabilities

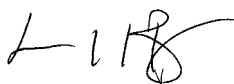
Deposits and certificates (Note 8)	\$ 958,999	\$ 856,895
Bankers' acceptances (Note 9)	286,615	-
Other liabilities (Note 10)	907,716	863,961
Future income taxes (Note 12)	371,746	414,756
Long-term debt (Note 13)	1,200,000	1,200,000
Preferred shares (Note 14)	360,000	360,000
	4,085,076	3,695,612

Shareholders' Equity

Common shares	1,511,110	1,504,290
Contributed surplus	29,115	22,175
Retained earnings	2,781,755	2,678,618
Accumulated other comprehensive loss	(173,059)	(42,100)
	4,148,921	4,162,983
	\$ 8,233,997	\$ 7,858,595

(See accompanying notes to consolidated financial statements.)

On behalf of the Board



Murray J. Taylor
Director



Donald F. Mazankowski
Director

Consolidated Statements of Changes in Shareholders' Equity

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

	2008	2007
Common shares <i>(Note 14)</i>		
Balance, beginning of year	\$ 1,504,290	\$ 1,493,954
Issued under stock option plan	22,996	18,229
Purchased for cancellation	(16,176)	(7,893)
Balance, end of year	1,511,110	1,504,290
Contributed surplus		
Balance, beginning of year	22,175	15,339
Stock options		
Current period expense	7,976	8,249
Exercised	(1,036)	(1,413)
Balance, end of year	29,115	22,175
Retained earnings		
Balance, beginning of year		
As previously reported	2,678,618	2,308,380
Reclassification to accumulated other comprehensive income <i>(Note 1)</i>	-	39,777
As restated	2,678,618	2,348,157
Net income	730,799	879,135
Common dividends	(526,139)	(469,545)
Common share cancellation excess and other <i>(Note 14)</i>	(101,523)	(79,129)
Balance, end of year	2,781,755	2,678,618
Accumulated other comprehensive income (loss) <i>(Note 16)</i>		
Balance, beginning of year	(42,100)	(39,777)
Change in accounting policy <i>(Note 1)</i>	-	46,339
Other comprehensive loss	(130,959)	(48,662)
Balance, end of year	(173,059)	(42,100)
Total Shareholders' Equity	\$ 4,148,921	\$ 4,162,983

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Comprehensive Income

For the years ended December 31 <i>(in thousands of dollars)</i>	2008	2007
Net income	\$ 730,799	\$ 879,135
Other comprehensive income (loss), net of tax <i>(Note 16)</i>		
Net unrealized gains (losses) on available for sale securities:		
Unrealized gains (losses)	(120,845)	1,273
Reclassification adjustment for (gains) losses included in net income	(9,520)	(64,313)
	(130,365)	(63,040)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	-	1,952
Reclassification adjustment for (gain) loss included in net income	-	33,083
	-	35,035
Other comprehensive loss (OCL) related to investment in affiliate and other	(594)	(20,657)
Other comprehensive income (loss)	(130,959)	(48,662)
Comprehensive income	\$ 599,840	\$ 830,473

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flows

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

2008

2007

Operating activities

Net income	\$ 730,799	\$ 879,135
Adjustments to determine net cash from operating activities		
Future income taxes	(29,290)	(31,690)
Commission amortization	319,305	332,184
Amortization of capital and intangible assets	31,603	25,699
Proportionate share of affiliate's impairment charge	60,346	–
Proportionate share of affiliate's gain	(25,003)	–
Changes in operating assets and liabilities and other	(228,806)	(84,616)
	858,954	1,120,712
Commissions paid	(270,124)	(347,898)
	588,830	772,814

Financing activities

Net increase in deposits and certificates	102,104	79,390
Increase in short-term borrowings	–	99,845
Net proceeds on bankers' acceptances	286,615	–
Issue of common shares	21,960	16,816
Common dividends paid	(513,205)	(453,300)
Common shares purchased for cancellation	(118,207)	(71,574)
	(220,733)	(328,823)

Investing activities

Acquisition of Saxon Financial Inc., less cash and cash equivalents acquired <i>(Note 26)</i>	(264,715)	–
Purchase of securities	(302,573)	(635,133)
Proceeds from the sale of securities	334,744	126,835
Net increase in loans	(1,491,559)	(1,347,710)
Proceeds from securitizations <i>(Note 4)</i>	1,441,370	1,286,900
Net additions to capital assets	(33,239)	(19,594)
Other	(238)	(473)
	(316,210)	(589,175)

Increase (decrease) in cash and cash equivalents	51,887	(145,184)
Cash and cash equivalents, beginning of year	1,180,284	1,325,468
Cash and cash equivalents, end of year	\$ 1,232,171	\$ 1,180,284

Cash	\$ 118,641	\$ 123,649
Cash equivalents	1,113,530	1,056,635
	\$ 1,232,171	\$ 1,180,284

Supplemental disclosure of cash flow information

Amount of interest paid during the year	\$ 129,581	\$ 131,901
Amount of income taxes paid during the year	\$ 414,612	\$ 392,396

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

DECEMBER 31, 2008 AND 2007 *(In thousands of dollars, except shares and per share amounts)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial Inc. (Company) have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. Key components of the financial statements requiring management to make estimates include goodwill, intangible assets, income taxes, deferred selling commissions and employee future benefits. Actual results may differ from such estimates.

Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

The equity method is used to account for the Company's investment in Great-West Lifeco Inc. (Lifeco), an affiliated company. Both companies are controlled by Power Financial Corporation.

Changes in accounting policies – financial instruments

On January 1, 2008, the Company adopted CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted CICA 3862, Financial Instruments – Disclosures and CICA 3863, Financial Instruments – Presentation, replacing CICA 3861. CICA 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA 3863 carries forward unchanged the presentation requirements of CICA 3861 with respect to financial instruments.

On January 1, 2007, the Company adopted four new accounting standards: CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3865, Hedges, CICA 1530, Comprehensive Income, and CICA 3251, Equity.

These standards require that all financial assets be classified in one of the following categories: available for sale, held to maturity, trading or loans and receivables. The standards require that all financial assets be carried at fair value in the Consolidated Balance Sheets, except loans and receivables including mortgages and securities classified as held to maturity, which are carried at amortized cost using the effective interest method. Financial liabilities must be classified as either trading, which are carried at fair value, or other than held for trading, which are carried at amortized cost using the effective interest method.

The Consolidated Statements of Comprehensive Income have been included in the Company's financial statements. The Consolidated Statements of Changes in Shareholders' Equity replaced the Consolidated Statements of Retained Earnings in the Company's financial statements. Unrealized gains and losses on financial assets classified as available for sale, the effective portion of changes in the fair value of cash flow hedging instruments and other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its affiliate, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

On January 1, 2007, the Company's securities portfolio and funds held in escrow were classified as available for sale. The loans portfolio was classified as loans and receivables and is carried at amortized cost. Long-term debt, preferred share liabilities, and deposits and certificates were classified as other than held for trading and are carried at amortized cost.

On January 1, 2007, transitional adjustments were recorded in the opening balance of Accumulated other comprehensive income to recognize the fair value of financial assets classified as available for sale and hedging instruments designated as cash flow hedges. The recognition of the fair value of available for sale securities increased Securities by \$95.7 million and increased funds held in escrow included in Other assets by \$3.5 million. The recognition of the fair value of derivatives designated as cash flow hedges increased Other liabilities by \$42.6 million. Accumulated other comprehensive income increased by \$46.3 million on an after tax basis. The foreign currency translation balance of \$39.8 million related to the Company's investment in its affiliate was reclassified from Retained earnings to Accumulated other comprehensive income. Prior periods were not restated except for the reclassification of the foreign currency translation balances. There was no impact to net income on transition as a result of implementation of the standards. The transitional provisions of the financial instruments standards required that prior periods not be restated with the exception of cumulative translation balances. This resulted in all derivative instruments, securities and funds held in escrow being recorded at fair value on the balance sheet beginning January 1, 2007.

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

Revenue recognition

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

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 Income.

Securities

Investment securities, which are recorded on a trade date basis, are classified as either available for sale or held for trading.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary mutual funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on securities designated as part of a fair value hedging relationship are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on securities not designated as part of a hedging relationship or on securities designated as part of a cash flow hedging relationship are recorded in Other comprehensive income until realized or until the securities are other than temporarily impaired, at which time they are recorded in the Consolidated Statements of Income.

Held for trading securities comprise National Housing Act Mortgage Backed Securities (NHA MBS). Unrealized and realized gains and losses on held for trading securities as well as interest income are recorded in Net investment income and other in the Consolidated Statements of Income.

Loans

Loans are classified as loans and receivables and are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans and is recorded in Net investment income and other in the Consolidated Statements of Income.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any accrued and unpaid interest income is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

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

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

Securizations

The Company periodically sells residential mortgages through Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts that in turn issue securities to investors. During the second quarter of 2008, the Company commenced utilization of the National Housing Act Mortgage Backed Securities program (NHA MBS). NHA MBS are sold to a trust that issues securities to investors through the Canada Mortgage Bond Program (CMB Program), which is sponsored by CMHC. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also sells NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of the Company's retained interests, quoted market prices are used if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are classified as held for trading and any realized or unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Income. The Company continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all sales of loans, the gains or losses and the servicing fee revenue are reported in Net investment income and other in the Consolidated Statements of Income. The retained interests in the securitized loans are recorded in Other assets and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

Deferred selling commissions

Commissions paid on the sale of certain mutual funds are deferred and amortized over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over a maximum amortization period of five years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2008, there were no indications of impairment to deferred selling commissions.

Capital assets

Capital assets, which are included in Other assets, are recorded at cost of \$344.5 million (2007 – \$311.5 million), less accumulated amortization of \$243.1 million (2007 – \$227.6 million). Buildings and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives, which range from 2 to 7 years for equipment and furnishings and 50 years for the building. Capital assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Goodwill and intangible assets

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. Goodwill impairment testing is a two step process. Goodwill is first allocated to reporting units and impairment is assessed by comparing the value of a reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying value, no further testing is performed. If the fair value of the reporting unit is less than its carrying value, a second test is performed to compare the fair value of goodwill to its carrying value to determine the amount of impairment loss, if any. Indefinite life intangible assets are tested for impairment by comparing their fair value to their carrying amounts. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing fair value, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data for comparable transactions. The Company has completed its annual impairment testing on goodwill, indefinite life intangible assets and finite life intangible assets and has determined that no impairment charge was necessary.

Employee future benefits

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

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2007 and the next required valuation will be completed based on a measurement date of December 31, 2010.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. The discount rate used to value liabilities is based on market rates at the measurement date. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return. The defined benefit pension plan is invested in proprietary equity, balanced and fixed income mutual funds.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, the expected return on plan assets and the amortization of actuarial gains or losses. Actuarial gains or losses with respect to the defined benefit pension plan and other post-retirement benefits are amortized over the expected average remaining service life of employees. Actuarial gains or losses with respect to the SERP are amortized over the expected remaining life of the members of the plan. These periods range from 9 to 18 years for the various benefit plans.

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

Stock-based compensation and other stock-based payments

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

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

Income taxes

The Company follows the liability method in accounting for income taxes whereby future 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. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

Preferred share liabilities

The preferred shares, which can be settled at the Company's option by issuing a variable number of its own equity instruments, are classified as other liabilities. Preferred dividends are recorded in Interest expense in the Consolidated Statements of Income.

Earnings per share

Basic earnings per share is determined by dividing Net income 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 method.

Derivative financial instruments

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

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

Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets and the changes in fair value are recorded in the Consolidated Statements of Income, except as described above for certain hedging derivatives.

The Company manages its exposure to market risk on its securities portfolio by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge must be designated as a cash flow hedge, fair value hedge, or a hedge of a net investment in self-sustaining foreign operations. 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 Income. 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 Income when the hedged transaction impacts earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge must be recorded in the Consolidated Statements of Income.

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

The Company also enters into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. These swap agreements require the periodic exchange of net contractual payments without the exchange of the notional principal amounts on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Income.

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

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

Future accounting changes

On January 1, 2009, the Company will adopt CICA 3064, Goodwill and Intangible Assets. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. SECURITIES

	2008		2007	
	COST	FAIR VALUE	COST	FAIR VALUE
Common shares	\$ 404,928	\$ 261,769	\$ 614,102	\$ 626,719
Investments in proprietary mutual funds	33,360	28,518	26,981	29,269
Fixed income securities	229,969	231,289	40,291	40,291
NHA MBS	15,788	16,077	–	–
	\$ 684,045	\$ 537,653	\$ 681,374	\$ 696,279

Common shares are classified as available for sale. Unrealized gains and losses on securities not designated as part of a hedging relationship are recorded in Other comprehensive income until realized. As at December 31, 2008, net unrealized losses on common shares were \$143.2 million which was comprised of unrealized gains of \$0.6 million and unrealized losses of \$143.8 million. Unrealized gains and losses on common shares net of hedges were \$14.6 million and \$126.2 million respectively and are reported in Accumulated other comprehensive income. Common shares are measured periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. The majority of unrealized losses occurred during the latter part of 2008 reflecting the current market environment and resulting price fluctuations. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. The Company has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, the Company concluded that the gross unrealized losses were temporary.

Fixed income securities of \$231.3 million at December 31, 2008 are comprised primarily of Canadian chartered bank senior deposit notes and bankers' acceptances of \$191.7 million and \$35.3 million in non-bank-sponsored asset-backed commercial paper (ABCP). The Company's original investment in ABCP totalled \$50.2 million. The Company reduced the fair value of the ABCP to \$35.3 million by recording charges totalling \$9.9 million in 2007 and charges of \$2.5 million in each of the second and third quarters of 2008.

2. SECURITIES *(continued)*

On December 11, 2008, the Pan-Canadian Investors Committee (the Committee) announced that an agreement in principle had been reached among various key participants in the ABCP restructuring to make a number of significant changes to the restructuring plan. The Committee announced on December 24, 2008 that the governments of Canada and Quebec, with participation by Ontario and Alberta, together with certain participants in the restructuring, will provide additional margin facilities to support the proposed restructuring plan. The Superior Court of Ontario granted the Plan Implementation Order on January 12, 2009 and the Plan Implementation Certificate was certified by the Court on January 21, 2009, effectively closing the transaction.

The restructuring plan extends the maturity of the ABCP to provide for a maturity similar to that of the underlying assets. Trusts with ABCP supported in whole or in part by synthetic assets will pool their assets and note holders will receive senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term floating rate notes. Trusts with ABCP supported by assets that have an exposure to U.S. mortgages and sub-prime mortgages for which the credit quality is uncertain, will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets. Note holders with exposure to this asset class will receive IA Tracking long-term floating rate notes.

A significant portion of the Company's investment in ABCP was represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets. The Company's allocation of senior Class A-1 and Class A-2 long-term floating rate notes represent in excess of 75% of the Company's original investment in ABCP. The senior notes have been assigned a rating of A by the Dominion Bond Rating Service and have a legal maturity date of July 15, 2056, however the expected repayment date of the notes is January 22, 2017.

The Company's valuation of the ABCP was based on its assessment of the prevailing conditions at December 31, 2008. The estimated fair value reflects the allocation of the floating rate notes the Company received which have a duration of approximately 7 years. The Company estimated the fair value of the senior and subordinated notes by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information. The fair value of the IA Tracking long-term floating rate notes was estimated using observable market inputs from independent pricing sources or by discounted expected cash flows reflecting the Company's best available information, including reference to prevailing market yields on debt instruments in the Canadian market. As at December 31, 2008, an increase in the estimated discount rates of 100 basis points would reduce net income by \$2.5 million.

The Company received its replacement notes in January 2009. The allocation of the notes received by the Company was consistent with the details previously provided by the Committee in the Information Certificate. The closing of the restructuring transaction is not expected to have a significant financial impact on the Company's operations or financial condition.

3. LOANS

	TERM TO MATURITY			2008 TOTAL	2007 TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Residential mortgages	\$ 62,563	\$ 221,164	\$ 2,575	\$ 286,302	\$ 251,785
Commercial mortgages	32	685	–	717	891
	62,595	221,849	2,575	287,019	252,676
Investment loans	278,828	15,216	16,473	310,517	308,902
	\$ 341,423	\$ 237,065	\$ 19,048	597,536	561,578
Less: General allowance				7,972	7,631
				\$ 589,564	\$ 553,947
Impaired loans included above				\$ 498	\$ 1,159
Less: General allowance				7,972	7,631
				\$ (7,474)	\$ (6,472)
The change in the allowance for credit losses is as follows:					
Balance, beginning of year				\$ 7,631	\$ 7,728
Write-offs				(218)	(144)
Recoveries				55	105
Provision for credit losses				504	(58)
Balance, end of year				\$ 7,972	\$ 7,631

4. SECURITIZATIONS

The Company securitizes residential mortgages through CMHC or Canadian bank sponsored securitization trusts. During the second quarter of 2008, the Company began issuing NHA MBS which are sold to a trust that issues securities to investors through the CMHC-sponsored CMB Program. Pre-tax gains (losses) on the sale of mortgages are reported in Net investment income and other in the Consolidated Statements of Income. Securitization activities for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Residential mortgages securitized	\$ 1,451,201	\$ 1,298,549
Net cash proceeds	1,441,370	1,286,900
Fair value of retained interests	63,779	25,691
Pre-tax gain on sales	35,772	4,504

4. SECURITIZATIONS *(continued)*

The Company's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related CMHC or Canadian bank sponsored securitization trusts (CP conduits) and NHA MBS holders (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for CMHC or Canadian bank sponsored securitization trusts transactions completed during 2008 and 2007 were as follows:

	2008	2007
Weighted-average		
Remaining service life (in years)	4.5	4.3
Excess spread	1.09%	0.51%
Prepayment rate	15.00%	15.00%
Discount rate	4.14%	5.11%
Servicing fees	0.25%	0.25%
Expected credit losses	0.01%	0.01%

At December 31, 2008, the fair value of the total retained interests was \$216.5 million (2007 – \$48.0 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported on the Company's Consolidated Balance Sheets, the securitized loans serviced by the Company, as well as cash flows related to securitization arrangements are as follows:

	2008	2007
Mortgages	\$ 3,225,928	\$ 2,469,280
Investment loans	306,811	318,412
	3,532,739	2,787,692
Less: Securitized loans serviced	2,943,175	2,233,745
Total on-balance sheet loans	\$ 589,564	\$ 553,947
Net cash proceeds	\$ 1,441,370	\$ 1,286,900
Cash flows received on retained interests	\$ 32,518	\$ 12,661

5. INVESTMENT IN AFFILIATE

	2008	2007
Carrying value, beginning of year	\$ 560,683	\$ 549,237
Proportionate share of earnings	90,423	87,069
Dilution gain	4,241	–
Proportionate share of affiliate's impairment charge	(60,346)	–
Proportionate share of affiliate's gain	25,003	–
Dividends	(45,345)	(40,055)
Proportionate share of accumulated other comprehensive loss and other adjustments	(217)	(35,568)
Carrying value, end of year	\$ 574,442	\$ 560,683
Share of equity, end of year	\$ 440,820	\$ 419,621
Fair value, end of year	\$ 781,821	\$ 1,340,696

The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Consolidated Statements of Income.

On December 30, 2008, Lifeco issued common shares by way of private placement with proceeds of \$1.0 billion, in which the Company did not participate. The Company currently holds 37,787,388 (2007 – 37,787,388) shares of Lifeco, which represents an equity interest of 4.0% (2007 – 4.2%). As a result of the common shares issued by Lifeco, a dilution gain of \$4.2 million (net of \$7.2 million of goodwill disposed) was recognized in the fourth quarter of 2008 and is recorded in Net investment income and other in the Consolidated Statements of Income.

In the fourth quarter of 2008, Putnam LLC, a subsidiary of Lifeco in the United States division, recorded a non-cash impairment charge on indefinite life intangibles and goodwill. In addition, Lifeco wrote-off a future tax asset related to the intangible and goodwill impairment charge and recorded restructuring costs associated with Putnam LLC. The Company's proportionate share of the after-tax impairment charge and related expenses was \$60.3 million.

In the second quarter of 2008, Lifeco recorded an after-tax gain on the sale of its healthcare business, Great-West Healthcare. Lifeco reported the gain in Net income from discontinued operations in the Summary of Consolidated Operations included in Lifeco's interim Consolidated Financial Statements. The Company's proportionate share of the after-tax gain on the sale was \$25.0 million.

6. OTHER ASSETS

	2008	2007
Accounts and other receivables	\$ 248,306	\$ 205,405
Derivative instruments (Note 20)	169,527	14,897
Capital assets	101,360	83,865
Deferred and prepaid expenses	55,615	56,375
Accrued benefit asset (Note 11)	46,738	45,524
Funds held in escrow	32,842	54,119
Other	2,489	4,904
	\$ 656,877	\$ 465,089

7. GOODWILL AND INTANGIBLE ASSETS

During 2008, Mackenzie Financial Corporation (Mackenzie), a subsidiary of IGM Financial Inc., acquired Saxon Financial Inc. and its subsidiaries. During the fourth quarter, Mackenzie completed an evaluation of the fair value of assets acquired and liabilities assumed (Note 26). The amount assigned to intangible assets represents the fair value of mutual fund management and institutional contracts acquired. The management contracts have indefinite useful lives and are not subject to amortization. The institutional contracts are amortized on a straight-line basis over a useful life not to exceed 15 years.

During 2007, Mackenzie finalized the purchase price allocation of its 2006 acquisition of the assets of Cundill Investment Research Ltd. and related entities. The purchase price was allocated to indefinite-life and finite-life intangible assets and goodwill.

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

2008				
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,347,781	\$ 957,339	\$ 78,678	\$ 2,383,798
Acquired during the year	–	201,651	–	201,651
Goodwill adjustment	–	7,852	(984)	6,868
Balance, end of year	\$ 1,347,781	\$ 1,166,842	\$ 77,694	\$ 2,592,317

2007				
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,347,781	\$ 943,550	\$ 81,383	\$ 2,372,714
Acquired during the year	–	–	393	393
Allocation of goodwill acquired in 2006	–	13,789	–	13,789
Goodwill adjustment	–	–	(3,098)	(3,098)
Balance, end of year	\$ 1,347,781	\$ 957,339	\$ 78,678	\$ 2,383,798

The components of other intangible assets are as follows:

2008					
	FINITE-LIFE		INDEFINITE-LIFE		
	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL	TOTAL
Cost	\$ 56,595	\$ 695,759	\$ 285,177	\$ 980,936	\$ 1,037,531
Acquired during the year	48,311	39,200	–	39,200	87,511
Accumulated amortization	(14,672)	–	–	–	(14,672)
Carrying value	\$ 90,234	\$ 734,959	\$ 285,177	\$ 1,020,136	\$ 1,110,370

7. GOODWILL AND INTANGIBLE ASSETS *(continued)*

2007

	FINITE-LIFE		INDEFINITE-LIFE			TOTAL	TOTAL
	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS		MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL		
Cost	\$ 27,092	\$ 608,987	\$ 268,368	\$ 877,355	\$ 904,447		
Acquired during the year	5,877	48	–	48	5,925		
Allocation of assets acquired in 2006	23,626	86,725	16,809	103,534	127,160		
Accumulated amortization	(8,801)	–	–	–	(8,801)		
Carrying value	\$ 47,794	\$ 695,760	\$ 285,177	\$ 980,937	\$ 1,028,731		

8. DEPOSITS AND CERTIFICATES

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents and loans amounting to \$959.0 million (2007 – \$856.9 million) related to deposits and certificates.

	DEMAND	TERM TO MATURITY			2008 TOTAL	2007 TOTAL
		1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Deposits	\$ 726,983	\$ 112,251	\$ 113,013	\$ 1,862	\$ 954,109	\$ 851,181
Certificates	–	253	1,680	2,957	4,890	5,714
	\$ 726,983	\$ 112,504	\$ 114,693	\$ 4,819	\$ 958,999	\$ 856,895

9. BANKERS' ACCEPTANCES

A Schedule I Canadian chartered bank has provided the Company with a non-revolving bridge credit facility related to the acquisition of Saxon Financial Inc. The balance of the credit facility is due on October 27, 2009. The Company has the option to extend the maturity date to April 2010. Interest rates on the credit facility fluctuate with Canadian bankers' acceptances.

10. OTHER LIABILITIES

	2008	2007
Accounts payable and accrued liabilities	\$ 362,647	\$ 358,928
Derivative instruments <i>(Note 20)</i>	141,764	23,516
Dividends payable	134,462	121,529
Short-term borrowings	99,967	99,845
Taxes payable	71,676	169,738
Interest payable	20,840	13,254
Accrued benefit liabilities <i>(Note 11)</i>	62,469	57,501
Deferred revenue	13,891	19,650
	\$ 907,716	\$ 863,961

11. EMPLOYEE FUTURE BENEFITS

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

	2008			2007		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	\$ 207,702	\$ -	\$ -	\$ 207,231	\$ -	\$ -
Employee contributions	3,522	-	-	3,168	-	-
Benefits paid	(7,927)	-	-	(8,028)	-	-
Actual return on plan assets	(51,238)	-	-	5,331	-	-
Balance, end of year	152,059	-	-	207,702	-	-
Accrued benefit obligation						
Balance, beginning of year	157,111	17,803	47,503	154,493	18,088	42,341
Benefits paid	(7,927)	(947)	(826)	(8,028)	(894)	(770)
Current service cost	6,722	-	2,345	6,616	76	2,166
Employee contributions	3,522	-	-	3,168	-	-
Interest cost	8,816	974	2,728	8,235	928	2,391
Actuarial losses (gains)	(40,721)	(3,098)	(13,748)	(7,373)	(395)	1,375
Balance, end of year	127,523	14,732	38,002	157,111	17,803	47,503
Funded status – plan surplus (deficit)						
	24,536	(14,732)	(38,002)	50,591	(17,803)	(47,503)
Unamortized net actuarial losses (gains)						
	22,202	(2,089)	(7,646)	(5,067)	1,300	6,505
Accrued benefit asset (liability)						
	\$ 46,738	\$ (16,821)	\$ (45,648)	\$ 45,524	\$ (16,503)	\$ (40,998)

The asset allocation by asset category of the funds invested for the defined benefit pension plan is equity securities 76% (2007 – 56%), fixed income securities 22% (2007 – 42%) and cash equivalents 2% (2007 – 2%).

11. EMPLOYEE FUTURE BENEFITS *(continued)*

	2008			2007		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Benefit (income) expense was determined as follows:						
Current service cost	\$ 6,722	\$ –	\$ 2,345	\$ 6,616	\$ 76	\$ 2,166
Interest cost on accrued benefit obligation	8,816	974	2,728	8,235	928	2,391
Expected return on plan assets	(14,385)	–	–	(14,336)	–	–
Amortization of net actuarial (gains) losses	(2,366)	291	403	(2,781)	313	304
	\$ (1,213)	\$ 1,265	\$ 5,476	\$ (2,266)	\$ 1,317	\$ 4,861
Significant weighted-average actuarial assumptions:						
Discount rate	7.50%	7.44%	7.51%	5.57%	5.62%	5.53%
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	3.96%	2.75%	N/A	4.40%	2.75%	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	7.00%	N/A	N/A	8.00%

(1) Trending to 5.00% in 2010 and remaining at that rate thereafter.

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-retirement benefit obligation of \$7.6 million as at December 31, 2008 and an increase in the 2008 other post-retirement benefit expense of \$1.3 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of \$6.0 million as at December 31, 2008 and a decrease in the 2008 other post-retirement benefit expense of \$1.0 million.

In addition, the Company maintains a group RSP available only to certain employees. In 2008, the Company's contributions were \$5.7 million (2007 – \$5.6 million). The contributions are expensed as paid.

12. INCOME TAXES

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

	2008	2007
Income taxes at Canadian federal and provincial statutory rates	32.37%	35.18%
Effect of:		
Dividend income	(0.50)	(0.31)
Net capital gains and losses	(0.35)	(0.52)
Proportionate share of affiliate's earnings <i>(Note 5)</i>	(3.08)	(2.49)
Proportionate share of affiliate's impairment charge <i>(Note 5)</i>	1.96	–
Preferred dividends paid	0.69	0.60
Impact of rate changes on future income taxes related to indefinite life intangible assets	–	(1.23)
Other items	(1.82)	(2.55)
Effective income tax rate	29.27%	28.68%
Components of income tax expense are:		
Current income taxes	\$ 321,841	\$ 386,372
Future income taxes	(29,290)	(31,690)
	\$ 292,551	\$ 354,682

Future income taxes consist of the following taxable temporary differences:

	2008	2007
Future income tax assets		
Accrued benefit liabilities	\$ 16,949	\$ 16,032
Non-capital loss carry forwards	11,253	10,707
Other	63,437	40,946
	91,639	67,685
Future income tax liabilities		
Deferred selling commissions	283,434	313,257
Intangible assets	156,568	142,424
Accrued benefit asset	12,738	12,734
Other	10,645	14,026
	463,385	482,441
Future income taxes	\$ 371,746	\$ 414,756

As at December 31, 2008, the Company has non-capital losses of \$42.2 million (2007 – \$52.7 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2009 – \$1.2 million; 2013 – \$0.9 million, and 2014 – \$40.1 million.

13. LONG-TERM DEBT

	RATE	MATURITY	2008	2007
Debtures in Series ⁽¹⁾				
1997	6.65%	December 13, 2027	\$ 125,000	\$ 125,000
2001	6.75%	May 9, 2011	450,000	450,000
2001	7.45%	May 9, 2031	150,000	150,000
2002	7.00%	December 31, 2032	175,000	175,000
2003	6.58%	March 7, 2018	150,000	150,000
2003	7.11%	March 7, 2033	150,000	150,000
			\$ 1,200,000	\$ 1,200,000

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

Interest expense relating to long-term debt was \$83.1 million (2007 – \$83.1 million).

There are no principal payments due in each of the next five years except \$450.0 million due in 2011.

14. SHARE CAPITAL

Authorized

Unlimited number of:

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

Issued and outstanding

	2008		2007	
	SHARES	STATED VALUE	SHARES	STATED VALUE
First preferred shares, Series A	14,400,000	\$ 360,000	14,400,000	\$ 360,000
Common shares				
Balance, beginning of year	264,192,998	\$ 1,504,290	264,865,938	\$ 1,493,954
Issued under Stock Option Plan (Note 18)	996,424	22,996	717,660	18,229
Purchased for cancellation	(2,824,800)	(16,176)	(1,390,600)	(7,893)
Balance, end of year	262,364,622	\$ 1,511,110	264,192,998	\$ 1,504,290

14. SHARE CAPITAL *(continued)*

Preferred share liabilities

The preferred shares are entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly. Such shares are redeemable by the Company on or after June 30, 2009 in cash, at \$26.00 per share if redeemed prior to June 30, 2010, \$25.67 if redeemed on or after June 30, 2010, but prior to June 30, 2011, \$25.33 if redeemed on or after June 30, 2011, but prior to June 30, 2012 and \$25.00 if redeemed on or after June 30, 2012. On or after June 30, 2009, the Company may convert each preferred share into that number of common shares determined by dividing the then applicable redemption price by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time. On or after June 30, 2013, subject to the right of the Company to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25.00 by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time.

Normal course issuer bid

The Company commenced a normal course issuer bid, effective for one year, on March 22, 2008. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at March 14, 2008. As at December 31, 2008, 2,824,800 shares were purchased at a cost of \$118.2 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On March 22, 2007, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.3 million or 5% of its common shares outstanding as at March 14, 2007. As at December 31, 2007, 1,390,600 shares were purchased at a cost of \$71.6 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

15. 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, preferred shares and shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include trust companies, securities dealers and mutual fund dealers. The Company's subsidiaries have complied with all regulatory capital requirements.

Capital management activities for the year ended December 31, 2008 included: the repurchase of 2,824,800 common shares at a cost of \$118.2 million under the normal course issuer bid (Note 14); and the declaration of preferred share dividends of \$20.7 million and common share dividends of \$526.1 million. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity. Long-term debt of \$1.2 billion and preferred shares of \$360 million remain unchanged.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	NET UNREALIZED GAINS (LOSSES), NET OF TAX			TOTAL
	AVAILABLE FOR SALE SECURITIES	CASH FLOW HEDGES	OCL RELATED TO INVESTMENT IN AFFILIATE AND OTHER	
2008				
Balance, beginning of year	\$ 18,334	\$ –	\$ (60,434)	\$ (42,100)
Other comprehensive income (loss)	(130,365)	–	(594)	(130,959)
Balance, end of year	\$ (112,031)	\$ –	\$ (61,028)	\$ (173,059)
2007				
Balance, beginning of year	\$ –	\$ –	\$ (39,777)	\$ (39,777)
Change in accounting policy (Note 1)	81,374	(35,035)	–	46,339
Other comprehensive income (loss)	(63,040)	35,035	(20,657)	(48,662)
Balance, end of year	\$ 18,334	\$ –	\$ (60,434)	\$ (42,100)

17. INCOME TAXES ON COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

	2008	2007
Net unrealized gains (losses) on available for sale securities	\$ 21,027	\$ 14,341
Net unrealized gains (losses) on cash flow hedges	–	(7,519)
Total income taxes	\$ 21,027	\$ 6,822

18. STOCK-BASED COMPENSATION

Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2008, 15,540,406 (2007 – 16,536,830) common shares were reserved for issuance under the Plan.

During 2008, the Company granted 1,164,866 options to employees (2007 – 1,565,820). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of time vesting options granted during the year ended December 31, 2008 has been estimated at \$5.30 per option (2007 – \$8.64) using the Black-Scholes option pricing model. The weighted-average fair value of performance based options granted during the year ended December 31, 2008 has been estimated at \$1.62 per option (2007 – \$4.63) using a barrier option pricing model. The assumptions used in these valuation models include: (i) risk-free interest rate of 3.27% (2007 – 3.97%), (ii) expected option life of six years (2007 – six years), (iii) expected volatility of 20.00% (2007 – 20.00%) and (iv) expected dividend yield of 4.53% (2007 – 3.36%).

The Company recorded compensation expense related to its stock option program of \$7.3 million (2007 – \$7.6 million).

18. STOCK-BASED COMPENSATION *(continued)*

	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	9,085,730	\$ 33.47	8,494,870	\$ 29.66
Granted	1,164,866	43.18	1,565,820	50.91
Exercised	(996,424)	22.04	(717,660)	23.43
Forfeited	(324,493)	45.23	(257,300)	41.90
Balance, end of year	8,929,679	\$ 35.59	9,085,730	\$ 33.47
Exercisable, end of year	4,657,554	\$ 28.30	4,768,705	\$ 25.50

Options outstanding at December 31, 2008	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2009	21.21 – 24.27	113,126	113,126
	2010	17.00	22,000	22,000
	2011	19.83 – 22.78	1,722,798	1,722,798
	2012	27.81	61,100	56,600
	2013	25.66 – 28.66	942,832	942,832
	2014	33.52 – 35.77	1,264,111	773,711
	2015	37.09 – 37.78	1,649,917	726,979
	2016	46.68	688,186	191,126
	2017	50.60 – 50.92	1,336,256	103,367
	2018	42.09 – 44.60	1,129,353	5,015
			8,929,679	4,657,554

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 \$11.0 million (2007 – \$9.9 million).

18. STOCK-BASED COMPENSATION *(continued)*

Deferred share unit plan

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the “value of deferred share unit”). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2008, the fair value of the deferred share units outstanding was \$6.3 million (2007 – \$7.3 million). Any differences between the change in fair value of the deferred share unit plan and the change in fair value of the total return swap utilized as an economic hedge for the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

19. RISK MANAGEMENT

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

Liquidity risk related to financial instruments

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

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

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. The payment of commissions continue to be fully funded through ongoing cash flow from operations.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short Term Income Fund or Investors Group’s intermediary operations. During the second quarter of 2008, the Company was approved by CMHC as an issuer of National Housing Act Mortgage Backed Securities (NHA MBS) and as a seller into the Canada Mortgage Bond Program (CMB Program). All mortgages are sold on a fully-serviced basis. This issuer and seller status provides the Company with additional funding sources for residential mortgages (Note 4). The Company’s continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by the investment and conduct review committees of their respective Boards of Directors. As at December 31, 2008, liquidity for the trust subsidiaries was in compliance with these policies.

19. RISK MANAGEMENT *(continued)*

Liquidity risk related to financial instruments *(continued)*

The Company's contractual maturities were as follows:

As at December 31, 2008 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	\$ 727.0	\$ 112.5	\$ 114.7	\$ 4.8	\$ 959.0
Bankers' acceptances	–	–	286.6	–	286.6
Other liabilities	–	108.1	133.6	–	241.7
Long-term debt	–	–	450.0	750.0	1,200.0
Preferred shares	–	–	360.0	–	360.0
Operating leases ⁽¹⁾	–	42.4	110.2	96.1	248.7
Total contractual obligations	\$ 727.0	\$ 263.0	\$ 1,455.1	\$ 850.9	\$ 3,296.0

(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, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. The Company increased its operating lines of credit with various Schedule I Canadian chartered banks to \$475 million as at December 31, 2008 from \$260 million as at December 31, 2007. The operating lines of credit as at December 31, 2008 consist of committed lines of \$300 million (2007 – nil) and uncommitted lines of \$175 million (2007 – \$260 million). As at December 31, 2008, the Company had utilized \$100.0 million of its uncommitted operating lines of credit, unchanged from December 31, 2007. Interest expense related to the lines of credit is based on bankers' acceptance rates.

In connection with the acquisition of Saxon Financial Inc. (Note 26) on September 25, 2008, the Company maintains a non-revolving bridge credit facility with a Schedule I chartered bank totalling \$287 million. At December 31, 2008, the Company had utilized \$287.0 million. The credit facility is due October 27, 2009 but may, at the Company's option, be extended to April 2010.

The Company can access the domestic debt and equity markets to raise capital, however, its ability to access capital markets to raise funds is dependent on market conditions which have been adversely affected by the current conditions.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund the Company's liquidity needs. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2007.

Credit risk related to financial instruments

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

At December 31, 2008, cash and cash equivalents of \$1.23 billion consisted of cash balances of \$118.6 million on deposit with Canadian chartered banks and cash equivalents of \$1.11 billion. Cash equivalents consist of Government of Canada treasury bills totalling \$436.3 million, provincial government and government guaranteed commercial paper of \$161.2 million and bankers' acceptances issued by Canadian chartered banks of \$516.1 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 mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

19. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

Fixed income securities at December 31, 2008 include \$191.7 million of Canadian chartered bank senior deposit notes and bankers' acceptances. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. Fixed income securities also include non-bank-sponsored ABCP, which totalled \$35.3 million net of impairment charges and represents the maximum exposure to credit risk at December 31, 2008 (Note 2).

The Company regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2008 mortgages and investment loans totalled \$287.0 million and \$310.5 million, respectively. The allowance for credit losses of \$8.0 million at December 31, 2008 exceeded impaired mortgages and investment loans by \$7.5 million. As at December 31, 2008, the mortgage portfolios were geographically diverse, 100% residential and 64% insured. The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were \$0.5 million at December 31, 2008, unchanged from December 31, 2007 levels. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2008.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2007.

The Company regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank sponsored (Schedule I chartered banks) securitization trusts. The maximum exposure to credit risk attributable to securitized mortgage loans is equal to the fair value of the retained interests in the securitized loans, which was \$216.5 million at December 31, 2008 compared to \$48.0 million in 2007. Retained interests include:

- Cash reserve accounts and rights to future excess spread which totalled \$80.0 million at December 31, 2008. This portion of the retained interest is subordinated to the interests of the related CMHC or Canadian bank sponsored securitization trusts and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Securitized mortgage loans serviced totalled \$2.94 billion at December 31, 2008 compared to \$2.23 billion in 2007. Uninsured non-performing loans over 90 days in these portfolios was nil at December 31, 2008 compared to \$0.2 million at December 31, 2007. The Company's exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2008.
- Fair value of interest rate swaps entered into by the Company with bank-sponsored securitization trusts. The outstanding notional amount of these interest rate swaps was \$3.3 billion at December 31, 2008 compared to \$2.2 billion in 2007. The fair value of the interest rate swaps was \$136.5 million and the exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled \$153.6 million at December 31, 2008 compared to nil at December 31, 2007. Counterparties are all bank-sponsored securitization trusts and, as a result, management has determined that credit risk related to these interest rate swaps was not significant at December 31, 2008.

The Company also regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are either exchange traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks.

19. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

The outstanding notional amount of derivative contracts, excluding interest rate swaps negotiated with bank-sponsored securitization trusts discussed above was \$2.7 billion at December 31, 2008 compared to \$2.2 billion at December 31, 2007. The increase in the notional amount related primarily to interest rate swaps utilized in the Company's mortgage banking operations. The exposure to credit risk, which is limited to the fair value of those instruments which were in a gain position, increased to \$39.4 million at December 31, 2008 from \$15.9 million at December 31, 2007 primarily due to the increase in the notional amount of interest rate swaps and to changes in interest rates during 2008. This does not give effect to any netting agreements or collateral arrangements. The Company's exposure to credit risk attributable to derivative contracts which were in a gain position increased significantly in 2008. In all cases, counterparties for derivatives are Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk is not significant at December 31, 2008. Management of credit risk has not changed materially since December 31, 2007.

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 interest rates, foreign exchange 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.

The Company is exposed to interest rate risk on its loan portfolio 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 liability management is to control interest rate risk by actively managing its interest rate exposure. As at December 31, 2008, the total gap between one-year deposit assets and liabilities was within the Company's stated guidelines. The Company utilizes interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking and intermediary operations. As part of the securitization transactions with bank-sponsored securitization trusts the Company enters into interest rate swaps with the trusts which transfers the interest rate risk to the Company. The Company is also exposed to relative movements in short-term borrowing costs. Under securitization transactions with bank-sponsored securitization trusts the Company is exposed to ABCP rates. Changes in the relationship between ABCP rates and one-month BA rates may result in fluctuations in the value of these interest rate swaps. As part of the securitization transactions under the CMB Program, the Company enters into interest rate swaps with Schedule 1 chartered bank counterparties that transfer the interest rate risk including reinvestment risk to the Company. To manage interest rate and reinvestment risks, the Company enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates. As at December 31, 2008, the impact of a 100-basis point change in interest rates to Net income would have been \$3.0 million.

The Company is exposed to equity price risk on its securities holdings and on the related derivative financial instruments. The Company adheres to an Investment Policy that outlines the objectives, constraints and parameters relating to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Company. The Company manages its exposure to equity price risk on a portion of its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. Management regularly reviews the Company's investments to ensure all activities are in adherence to the Investment Policy. Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. A significant portion of unrealized losses occurred during the latter part of 2008 reflecting the current market environment and resulting price fluctuations. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. The Company has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, the Company concluded that the gross unrealized losses were temporary.

19. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments *(continued)*

The Company's securities holdings are classified as available for sale, therefore unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized. As at December 31, 2008, the impact of a 10% decrease in equity prices would have been a \$21.4 million unrealized loss recorded in Other comprehensive income.

The Company's exposure to and management of interest rate risk and equity price risk has not changed materially since December 31, 2007.

Market risk related to assets under management

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

Changes in assets under management directly impact earnings as discussed more fully in the Investors Group and Mackenzie Segment Operating Results in the Company's Management Discussion and Analysis contained in the 2008 Annual Report to Shareholders.

20. 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 also 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 sales are contractual agreements to sell a financial instrument on a future date at a specified price.

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

The following table summarizes the Company's derivative financial instruments at December 31:

2008	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
Swaps	\$ 953,211	\$ 4,559,460	\$ 404,277	\$ 5,916,948	\$ 160,003	\$ 136,541	\$ 141,174
Options purchased	42,632	–	–	42,632	20,456	20,456	–
Options written	29,988	–	–	29,988	–	–	590
Forward contracts	17,382	8,612	–	25,994	12,530	12,530	–
	\$ 1,043,213	\$ 4,568,072	\$ 404,277	\$ 6,015,562	\$ 192,989	\$ 169,527	\$ 141,764
2007							
Swaps	\$ 820,211	\$ 3,198,521	\$ 146,205	\$ 4,164,937	\$ 1,042	\$ 21	\$ 18,948
Options purchased	72,493	36,218	–	108,711	14,337	14,337	–
Options written	78,123	24,208	–	102,331	–	–	4,568
Forward contracts	13,302	–	–	13,302	539	539	–
	\$ 984,129	\$ 3,258,947	\$ 146,205	\$ 4,389,281	\$ 15,918	\$ 14,897	\$ 23,516

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act, and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2008		2007	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 1,232,171	\$ 1,232,171	\$ 1,180,284	\$ 1,180,284
Securities	537,653	537,653	696,279	696,279
Loans	589,564	591,708	553,947	550,956
Other financial assets	281,148	281,148	259,524	259,524
Derivative assets	169,527	169,527	14,897	14,897
Total financial assets	\$ 2,810,063	\$ 2,812,207	\$ 2,704,931	\$ 2,701,940
Liabilities				
Deposits and certificates	\$ 958,999	\$ 964,200	\$ 856,895	\$ 856,999
Bankers' acceptances	286,615	286,615	–	–
Other financial liabilities	689,592	689,592	763,294	763,294
Derivative liabilities	141,764	141,764	23,516	23,516
Preferred share liabilities	360,000	366,480	360,000	391,536
Long-term debt	1,200,000	1,206,193	1,200,000	1,353,036
Total financial liabilities	\$ 3,636,970	\$ 3,654,844	\$ 3,203,705	\$ 3,388,381

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, other financial assets, and other financial liabilities.

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

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

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

Preferred share liabilities are valued using quoted prices from active markets.

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

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

22. EARNINGS PER COMMON SHARE

	2008	2007
Earnings		
Net income before proportionate share of affiliate's gain	\$ 705,796	\$ 879,135
Proportionate share of affiliate's gain	25,003	–
Net income	\$ 730,799	\$ 879,135
Number of common shares (in thousands)		
Average number of common shares outstanding	263,323	264,604
Add: Potential exercise of outstanding stock options	1,485	2,699
Average number of common shares outstanding – Diluted basis	264,808	267,303
Earnings per common share (in dollars)		
Excluding proportionate share of affiliate's gain		
– Basic	\$ 2.68	\$ 3.32
– Diluted	\$ 2.67	\$ 3.29
Including proportionate share of affiliate's gain		
– Basic	\$ 2.78	\$ 3.32
– Diluted	\$ 2.76	\$ 3.29

In certain circumstances, the preferred shares referred to in Note 14 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

23. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Two class actions related to alleged market timing trading activity in mutual funds of the companies are continuing. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of 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: 2009 – \$42.4 million; 2010 – \$37.6 million; 2011 – \$29.4 million; 2012 – \$24.3 million; and 2013 and thereafter – \$115.0 million.

Guarantees

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

24. RELATED PARTY TRANSACTIONS

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

During 2008 and 2007, 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 \$39.7 million in distribution fees (2007 – \$31.8 million). The Company received \$13.0 million (2007 – \$14.2 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid \$34.1 million (2007 – \$30.9 million) to London Life related to the distribution of certain mutual funds of the Company.

During 2008, the Company sold residential mortgage loans to Great-West and London Life for \$143.4 million (2007 – \$153.7 million).

25. SEGMENTED INFORMATION

Investors Group and Mackenzie earn fee-based revenues in the conduct of their core business activities which are primarily related to the distribution, management and administration of their mutual funds. Fee revenues are also derived from the provision of brokerage services. Intermediary revenues are derived primarily from the assets funded by deposit and certificate products and from mortgage banking and servicing activities. In addition, Investors Group earns fee revenue from the distribution of insurance products and equity income from its investment in Lifeco (Note 5).

Corporate and Other includes Investment Planning Counsel, net investment income on unallocated investments, and interest expense on corporate debt.

The results of the reportable segments reflect the Company's internal financial reporting systems.

	2008			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 1,077,738	\$ 749,992	\$ 39,493	\$ 1,867,223
Administration	210,693	136,144	2,412	349,249
Distribution	149,517	34,255	102,272	286,044
Net investment income and other	151,144	22,758	28,270	202,172
	1,589,092	943,149	172,447	2,704,688
Operating expenses				
Commissions	473,424	338,793	94,054	906,271
Non-commission	317,473	289,616	40,765	647,854
	790,897	628,409	134,819	1,554,125
Earnings before undernoted	\$ 798,195	\$ 314,740	\$ 37,628	1,150,563
Interest expense				90,604
				1,059,959
Proportionate share of affiliate's impairment charge, net of tax				60,346
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain				999,613
Income taxes				292,551
Income before non-controlling interest and proportionate share of affiliate's gain				707,062
Non-controlling interest				1,266
Net income before proportionate share of affiliate's gain				705,796
Proportionate share of affiliate's gain				25,003
Net income				\$ 730,799
Identifiable assets	\$ 1,773,835	\$ 2,613,357	\$ 1,254,488	\$ 5,641,680
Goodwill	1,347,781	1,166,842	77,694	2,592,317
Total assets	\$ 3,121,616	\$ 3,780,199	\$ 1,332,182	\$ 8,233,997

25. SEGMENTED INFORMATION *(continued)*

2007

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 1,176,732	\$ 873,795	\$ 45,505	\$ 2,096,032
Administration	208,551	139,228	1,649	349,428
Distribution	127,097	30,348	98,056	255,501
Net investment income and other	126,201	19,962	47,983	194,146
	1,638,581	1,063,333	193,193	2,895,107
Operating expenses				
Commissions	460,060	395,307	91,686	947,053
Non-commission	293,598	292,890	36,500	622,988
	753,658	688,197	128,186	1,570,041
Earnings before undernoted	\$ 884,923	\$ 375,136	\$ 65,007	1,325,066
Interest expense				88,330
Income before income taxes and non-controlling interest				1,236,736
Income taxes				354,682
Income before non-controlling interest				882,054
Non-controlling interest				2,919
Net income				\$ 879,135
Identifiable assets	\$ 1,556,402	\$ 2,519,443	\$ 1,398,952	\$ 5,474,797
Goodwill	1,347,781	957,339	78,678	2,383,798
Total assets	\$ 2,904,183	\$ 3,476,782	\$ 1,477,630	\$ 7,858,595

26. ACQUISITION OF SAXON FINANCIAL INC.

On September 25, 2008, Mackenzie acquired 95.3% of the issued and outstanding shares of Saxon Financial Inc. (Saxon), a Canadian investment management company. The acquisition was by way of a take over bid. Mackenzie acquired the remaining Saxon common shares during the fourth quarter of 2008 under the compulsory acquisition provisions of the Business Corporations Act (Ontario). Total cash consideration was \$289.7 million including transaction and other related costs.

The acquisition has been accounted for by the purchase method and the results of Saxon's operations have been included in the Consolidated Financial Statements from the date of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Fair value of assets acquired	
Cash and cash equivalents	\$ 24,968
Securities	11,438
Management contracts	39,200
Institutional contracts	47,700
Other assets	7,142
	<hr/>
	130,448
Less fair value of liabilities assumed	
Other liabilities	35,252
Future income tax liability	7,164
	<hr/>
	42,416
Fair value of net assets acquired	88,032
Goodwill	201,651
	<hr/>
Total purchase consideration	\$ 289,683

Included in Other liabilities are restructuring costs of \$18.0 million related to the acquisition.