Directors' Report to Shareholders

Power Financial reported solid earnings in 2016 in the face of a number of external challenges. Weak equity markets during the first half of the year and currency headwinds impacted results. Across the group, our companies are investing heavily to transform their business models to better serve the needs of their customers.

The financial services industry is going through a period of rapid change, driven by heightened client expectations, the rapid pace of technological development and growing regulatory expectations. In this environment, investing in the development of our people is essential, and remains a key focus across the group. Our companies are investing in change, secure in the belief that by continuing to put the interests of our clients at the centre of our decision making, we will build upon our leading franchises and add to the 30 million individuals whose needs we already serve.

Great-West Lifeco is investing strategically to drive future growth and productivity while maintaining a strong risk and expense discipline to deliver long-term value to its customers and shareholders. The company's net earnings attributable to common shareholders were down four per cent in 2016 compared to 2015. While net earnings in the Canadian and European segments finished the year higher than in 2015, currency movement – particularly the weakening of the British pound – had a negative impact on earnings, coupled with lower earnings in the U.S. segment.

Great-West Lifeco's operations in Canada were reorganized around individual and group customers to provide even greater client focus. In the United States, work is ongoing in streamlining back office processes to support Empower Retirement's growth, cost savings, and enhancements to customer experience. Investment in digital opportunities will remain a focal point to grow the company's market-leading U.K. group risk business.

At IGM Financial, investment, change and momentum are evident across the company. In 2016, Jeff Carney was appointed President and CEO of IGM Financial and Investors Group and Barry McInerney was named President and CEO of Mackenzie. Investors Group announced significant changes to its pricing structure and its advisor recruiting strategy, while Mackenzie continued to bring innovation and product excellence to the Canadian market through a much-enhanced distribution organization. Strong sales momentum was experienced at both companies in the latter part of 2016 and into the new year's RRSP season. IGM also invested in various leading fintech companies and, early in 2017, announced a significant investment in China in addition to Power Corporation's own additional investment. Earnings were affected by lower equity levels in early 2016 and ongoing investments in technology and transformation.

As in the previous four years, 2016 was characterized by portfolio changes at Pargesa. A total of €1.6 billion was invested, primarily in existing shareholdings, and there were disposals of €2.5 billion. GBL continued in 2016 to increase its stake in adidas and, at December 31, 2016, held 7.5 per cent of adidas' capital, representing a market value of €2.4 billion. GBL also continued during the year to gradually reduce its stake in Total. This disposal had a significant impact on Total's contribution to Pargesa's earnings. However, the proceeds from the sale will be used over time to make investments that will gradually contribute to earnings.

Rapid Change in Financial Services

Many of the initiatives taken in 2016, and those that will continue to unfold during the course of 2017, were in direct response to several waves of change that are impacting the financial services industry around the globe.

The first wave of change is on the customer front. Customers are demanding greater transparency regarding what they are paying and the value they are receiving. They also want to have access to information, be able to transact or seek advice at the time and by the means that best suit their needs. Digital delivery is a critical component of the service model which will permanently change the way we do business and how we, and the financial advisors we work with, interact with our customers.

The second change we are witnessing is the emergence of new business models based upon the applications of technology. This has most notably taken the form of what is known as fintech, which encompasses the approach and activities taken by companies such as Wealthsimple and Personal Capital Corporation. While the investments Power Financial and its subsidiaries have made in fintech to date have been relatively small in the context of our overall businesses and asset mix, they are significant in that they give us visibility and an early position in this quickly developing market.

The third wave of change is on the regulatory front. Following the financial crisis, regulators focused primarily on prudential factors – imposing stress tests, for example, to determine if a financial institution is and will remain solvent. Regulatory focus has now increasingly shifted to client outcomes. Such regulation is consistent with the client-first mindset of Power Financial's group companies. Positive client outcomes are the foundation of our companies' future success.

Seizing Business Opportunities

Consistent with past practices, our group invested in select markets and seized business opportunities in 2016.

Power Financial, in partnership with its subsidiaries IGM Financial and Great-West Lifeco, launched Portag3 Ventures. This new fund invests in promising Canadian fintech companies that have the potential for innovative change and global impact. Portag3 is committed to finding and supporting creative, ambitious entrepreneurs who will help reshape the Canadian fintech sector for the benefit of all consumers.

Power Financial and IGM Financial have also invested in Toronto-based Wealthsimple, Canada's largest and fastest-growing technology-driven investment manager. Since its launch, Wealthsimple has attracted 30,000 clients and has $1 billion in assets under administration.

Also in 2016, IGM Financial invested US$75 million in Personal Capital Corporation, a market-leading digital wealth advisor for mass-affluent investors, enabling the company to participate in the emerging digital wealth management industry in the United States.

In late 2016 and early 2017, Mackenzie entered into agreements to acquire a total 13.9 per cent interest in China AMC, one of China's first and largest fund companies, for a total investment of approximately $647 million. The ownership interest in China AMC will diversify Mackenzie's business outside of Canada, giving the company the opportunity to participate in a rapidly growing asset management industry in the world's second largest economy. This investment, coupled with Power Corporation's, will bring the Power group's combined interest in China AMC to 27.8 per cent.

Financial Results

Power Financial's net earnings attributable to common shareholders were $1,919 million or $2.69 per share for the year ended December 31, 2016, compared with $2,319 million or $3.25 per share in 2015.

Adjusted net earnings attributable to common shareholders were $2,105 million or $2.95 per share, compared with $2,241 million or $3.14 per share in 2015.

Other items represented a net charge of $186 million, compared with a net contribution of $78 million in 2015.

Dividends declared by Power Financial totalled $1.57 per common share, compared with $1.49 per share in 2015.

In March of 2017, the Board of Directors announced a 5.1 per cent increase in the quarterly dividend on the Corporation's common shares, from $0.3925 to $0.4125 per share.

Results of Group Companies

GREAT-WEST LIFECO

Great-West Lifeco's net earnings attributable to common shareholders were $2.6 billion or $2.668 per share in 2016, compared with $2.8 billion or $2.774 per share in 2015.

Great-West Lifeco reported return on equity of 13.8 per cent.

Consolidated assets under administration at December 31, 2016 were over $1.2 trillion, an increase of $36 billion from December 31, 2015.

In February of 2017, Great-West Lifeco announced a 6 per cent increase in its quarterly dividend, to $0.3670 per common share.

IGM FINANCIAL

IGM Financial's net earnings available to common shareholders were $771 million or $3.19 per share in 2016, compared with $772 million or $3.11 per share in 2015.

Return on average common equity based on operating earnings for the year ended December 31, 2016 was 16.3 per cent.

Total assets under management at December 31, 2016 were $141.8 billion, compared with $133.6 billion at December 31, 2015.

PARGESA

Pargesa reported a net loss of SF32 million in 2016, compared with net earnings of SF638 million in 2015. The loss in 2016 is mainly due to an impairment charge recorded on the LafargeHolcim investment as a result of a decline in the share price to €37.10 at June 30, 2016. At December 31, 2016, the share price of LafargeHolcim was €49.92.

Pargesa's adjusted net earnings in 2016 were SF321 million, compared with SF308 million in 2015.

At its annual general meeting, GBL is expected to propose that its dividend be increased by 2.4 per cent, to €2.93 per share. In addition, at its upcoming annual meeting in May, the board of directors of Pargesa is expected to propose a 2016 dividend of SF2.44 per bearer share, an increase of 2.5 per cent.

The Power Financial Group

Our group companies provide financial security and peace of mind to millions of people through various investment, retirement and insurance solutions. Such solutions are provided to our clients through one-on-one relationships with their financial advisors and through workplace programs.

Critical factors in meeting customer needs include product and service innovation, and the delivery of value to the customer. Financial strength and the ability to honour long-term commitments are likewise important.

Consistent with the long-time practices of the group, the principles of responsible management guide the actions of Power Financial and its portfolio companies. We have included a section later in this report that outlines our commitments under the Corporation's responsible management philosophy. Additional information on our corporate social responsibility policies, programs and performance is further detailed on www.PowerFinancialCSR.com.

Together with its subsidiaries, Power Financial is committed to creating long-term value for shareholders predicated on the success of our clients, our employees and our business partners, while contributing positively to the communities in which we operate.

Your Directors wish to express gratitude, on behalf of all shareholders, for the important contribution of the management and employees of our Corporation and its associated companies to the successful results achieved in 2016.

On behalf of the Board of Directors,

Signed,

R. Jeffrey Orr
President and
Chief Executive Officer

Signed,

Paul Desmarais, Jr., O.C., O.Q.
Executive Co-Chairman
of the Board

Signed,

André Desmarais, O.C., O.Q.
Executive Co-Chairman
of the Board

March 24, 2017