

DIRECTORS' REPORT TO SHAREHOLDERS

During 2010, Power Financial and its subsidiaries experienced higher sales, gains in market share and increased levels of profitability. The companies in the group benefited by having continued to invest in their distribution and product capabilities throughout the financial crisis and by the financial strength and stability they have demonstrated during these past several years.

Strengthening economic activity and stronger financial market levels helped drive higher revenues in 2010, which, coupled with the group's long-standing focus on cost containment and good investment quality, resulted in the increase in profitability.



R. JEFFREY ORR

President and
Chief Executive Officer,
Power Financial Corporation

The improvements in profitability and sales were experienced across most business units of Great-West Lifeco and IGM Financial. The companies in the Pargesa group also experienced improvements in their operating results following the difficult economic environment of the previous year.

While economic recovery and confidence continue to progress, a number of structural challenges remain for the global economy. Initiatives by financial regulators in developed nations to avoid future financial crises, although well intentioned and in many cases welcomed, have created their own uncertainty for financial services companies with respect to a number of issues such as required levels of capital in the future.

In this environment, the companies in the Power Financial group have been focused on growing sales and profitability within their given markets, while maintaining financial strength at all times. In this regard, a number of capital market issues were

undertaken in 2010 to extend and diversify debt maturities and ensure healthy liquidity levels across the group. Dividends paid in 2010 were also kept at the levels paid in 2009.

FINANCIAL RESULTS

Power Financial's operating earnings for the year ended December 31, 2010 were \$1,733 million or \$2.31 per share, compared with \$1,533 million or \$2.05 per share in the corresponding period in 2009. This represents an increase of 12.8 per cent on a per share basis.

The increase in operating earnings reflects primarily the increase in the contribution from the Corporation's subsidiaries, Great-West Lifeco and IGM Financial.

Other items for 2010 were a charge of \$149 million and consisted mainly of Power Financial's share of a litigation provision established by Lifeco in the third quarter. In 2009, other items were a charge of \$94 million and consisted essentially of the Corporation's share of non-recurring amounts recorded by IGM and Pargesa.

Net earnings including other items were \$1,584 million or \$2.10 per share for the year ended December 31, 2010, compared with \$1,439 million or \$1.92 per share in 2009.

Dividends paid by Power Financial Corporation totalled \$1.40 per common share in 2010, unchanged from 2009.



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GROUP COMPANIES' RESULTS

GREAT-WEST LIFECO

Great-West Lifeco experienced strong earnings and sales results in 2010 from all business segments despite the continued currency headwinds due to the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro during the year. Great-West Lifeco's capital base and liquidity position are strong, and the company is well positioned for continued growth.

Great-West Lifeco reported operating earnings attributable to common shareholders of \$1,861 million for 2010, compared with \$1,627 million for 2009, an increase of 14.4 per cent. This represents \$1.964 per common share for 2010, compared with \$1.722 per common share in 2009.

Operating earnings, a non-GAAP financial measure, exclude the impact of an incremental litigation provision established in the third quarter of 2010 in the amount of \$225 million after tax (\$204 million attributable to the common shareholders of Great-West Lifeco and \$21 million to its non-controlling interests).

Return on common shareholders' equity was 16.0 per cent based on operating earnings and 14.4 per cent on net earnings.

Premiums and deposits were \$59.1 billion, compared with \$56.7 billion in 2009. General fund assets increased from \$128.4 billion to \$131.6 billion in 2010.

Total assets under administration at December 31, 2010 were \$483.9 billion, compared with \$458.6 billion a year ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2010.

Great-West Lifeco's capital position remains very strong. Its Canadian operating subsidiary,



RAYMOND L. MCFEETORS

Vice-Chairman,
Power Financial Corporation
and Chairman of the Board,
Great-West Lifeco

Great-West Life, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 203 per cent at December 31, 2010. At December 31, 2010 Great-West Lifeco held, at the holding company level, approximately \$800 million in liquid assets derived from capital-raising initiatives since the fourth quarter of 2008, which is not reflected in the Great-West Life MCCSR ratio.

In Canada, Great-West Lifeco's companies maintained leading market positions in their individual and group businesses. The Canadian operations continue to experience strong organic growth by focusing on diversified distribution, product and service enhancements and expense management.

In Canada, net earnings attributable to Great-West Lifeco's common shareholders for 2010 were \$940 million, compared with \$883 million in 2009. Total sales in Canada for 2010 were up 23 per cent to \$9.5 billion, compared with \$7.7 billion after adjusting the 2009 twelve-month period for the impact of the group retirement assets acquired from Fidelity Investments Canada. This growth was driven by strong sales of proprietary retail investment funds which were up 31 per cent, payout annuity products which were up 11 per cent, and individual life product sales which increased 26 per cent, compared to the twelve-month period in 2009.

Total assets under administration at December 31, 2010 were \$125.5 billion, compared with \$114.6 billion at December 31, 2009.

In the United States, Great-West Lifeco's Financial Services businesses continued to grow, with a 34 per cent increase in sales over 2009 on a constant currency basis. Strong sales across defined contribution markets and of single-premium life and business-owned life insurance led to record sales in both business segments. Net earnings attributable to common shareholders for 2010 were \$343 million, compared with \$228 million in 2009. Total sales for 2010 were \$38.1 billion, compared with \$32.4 billion in 2009. As a result of currency movement, net earnings were negatively impacted by \$32 million compared to 2009.

Total assets under administration at December 31, 2010 were \$293.7 billion, compared with \$277.8 billion at December 31, 2009.

In 2010, Putnam Investments and its clients enjoyed another year of excellent investment performance which, together with innovative product launches, resulted in very strong market share gains in U.S. mutual fund sales. Putnam's assets under management, including PanAgora, increased to US\$121 billion at year-end from US\$115 billion a year earlier. Putnam's suite of absolute return funds, first offered in 2009, reached US\$2.7 billion at the end of 2010. Putnam continued to introduce new products and services across its offering in 2010. A key area of focus and investment is the defined contribution marketplace, and in particular 401(k) plans, where Putnam's award-winning offering is experiencing strong momentum with U.S. employers.

In Europe, net earnings attributable to common shareholders increased to \$578 million, compared with \$529 million in 2009, in spite of currency movements which negatively impacted results by \$71 million compared to 2009.

In 2010, Great-West Lifeco's European Operations continued to face challenging credit markets as well as a general loss of consumer confidence in investments, due to a sharp decline in equity markets in late 2008 and early 2009. Although conditions continued to generally improve in 2010, these pressures affected sales volumes in a number of areas. Earnings were impacted by the required strengthening of reserves for future asset default risk and asset impairments.

Total sales for 2010 were \$4.5 billion, compared with \$4.0 billion in 2009. Sales increased by 27 per cent in local currency; however, this was partly offset by the negative effect of currency movement.

Total assets under administration in Europe at December 31, 2010 were \$64.7 billion, compared with \$66.2 billion at December 31, 2009.

IGM FINANCIAL

IGM Financial and its operating companies experienced an increase in total assets under management during 2010. Net earnings for the company grew substantially compared with 2009.

Investors Group and Mackenzie Financial, IGM's principal businesses, generated business growth through product innovation, investment management success, resource management and distribution expansion throughout the year.

Operating earnings available to common shareholders of IGM for 2010 were \$734 million or \$2.79 per share, compared with \$622 million or \$2.35 per share in 2009. This represents an increase of 18.7 per cent on a per share basis.

Net earnings available to common shareholders were \$726 million or \$2.76 per share in 2010, compared with \$559 million or \$2.12 per share in 2009.

Total assets under management at December 31, 2010 were \$129.5 billion, an increase of 7.4 per cent. Return on average common equity based on operating earnings for 2010 was 17.0 per cent, compared with 14.8 per cent in 2009. Dividends declared remained unchanged in 2010.

The Investors Group consultant network expanded to 4,686 consultants at December 31, 2010, up from 4,633 at December 31, 2009.

Investors Group's mutual fund sales for the year were \$5.7 billion, compared with \$5.0 billion in the prior year, and mutual fund net sales were \$253 million, compared with \$404 million a year ago. Mutual fund assets under management at December 31, 2010 were \$61.8 billion, compared with \$57.7 billion at December 31, 2009, an increase of 7.2 per cent.

Mackenzie's total sales for 2010 were \$12.2 billion, compared with \$11.6 billion in the prior year. Total net redemptions were \$1.5 billion, compared with total net redemptions of \$1.4 billion a year ago.

Investment performance of Mackenzie's mutual fund family remained strong, with 60 per cent of its fund assets ranked in the first or second quartile of their respective asset categories over the last three years.

Mackenzie's total assets under management at December 31, 2010 were \$68.3 billion, compared with \$63.6 billion at December 31, 2009, an increase of 7.5 per cent. Mutual fund assets under management at the 2010 year-end were \$43.5 billion, compared with \$40.6 billion a year earlier, an increase of 7.0 per cent.



PAUL
DESMARAIS, JR., O.C., O.Q.
Co-Chairman of the Board,
Power Financial Corporation

17.7%
ANNUAL COMPOUND
TOTAL RETURN
TO SHAREHOLDERS
OVER FIFTEEN YEARS

\$2.9
TO **\$21.8**
BILLION
FIFTEEN-YEAR
GROWTH IN MARKET
CAPITALIZATION

\$7.3
BILLION
AGGREGATE
DIVIDENDS
PAID TO
SHAREHOLDERS
OVER FIFTEEN YEARS

PARGESA

The Pargesa group holds significant positions directly and through the Belgian holding company Groupe Bruxelles Lambert (GBL) in six large companies based in Europe: Lafarge, which produces cement and building materials; Imerys, a producer of industrial minerals; Total, in the oil and gas industry; GDF Suez, in electricity and gas; Suez Environnement, in water and waste management; and Pernod Ricard, a leading producer of wines and spirits.

The Pargesa group's strategy is to establish a limited number of substantial interests in which it can acquire a position of control or significant influence. In 2010, there were no major changes in Pargesa's investment portfolio. Overall, the companies in the group experienced improvements in operating performance, following the very difficult economic conditions of 2009.

During 2010, Pargesa and GBL carried out several transactions designed to extend their debt maturity profile and reduce borrowing costs. In June, GBL issued a €350 million 7.5-year 3.7 per cent bond and, during the course of the year, repurchased convertible bonds for €126 million. In October, Pargesa issued bonds bearing interest at 2.5 per cent per annum with a six-year term for SF150 million, and repurchased convertible bonds for SF6 million due in 2013 and SF132 million due in 2014. Also in 2010, GBL purchased €122 million of Pernod Ricard shares in the marketplace, raising its equity interest to 9.9 per cent as at December 31, 2010.

Pargesa's net operating earnings declined 9.2 per cent in 2010 to €465 million, mainly due to an 8.5 per cent decrease in the euro against the Swiss franc, the reporting currency used in Pargesa's financial statements. The 2009 results also reflected a number of non-recurring items, including an exceptional dividend from GDF Suez.

At the end of December 2010, Pargesa's adjusted net asset value was SF8.4 billion. This represents a value of SF99.8 per Pargesa share, compared with SF127.1 at the end of 2009, a decrease of 21.5 per cent expressed in Swiss francs.

At the annual meeting of shareholders of Pargesa, scheduled for May 5, 2011, its board of directors will propose maintaining the dividend at SF2.72 per bearer share, for a total distribution of SF230 million.

GROUP DEVELOPMENTS

The companies in the Power Financial group were active in the capital markets in 2010, with the goal of improving the quality of capital or extending debt maturities.

In June, Power Financial issued \$280 million of 4.40% non-cumulative rate reset First Preferred Shares, Series P. In July, the Corporation redeemed all \$150 million of its outstanding 4.70% Series J First Preferred Shares, and in October it redeemed all \$150 million of its outstanding 5.20% Series C First Preferred Shares.

Great-West Lifeco issued 4.65% debentures in the amount of \$500 million due in 2020, and redeemed \$200 million of outstanding 6.75% debentures due 2015. It also issued \$250 million of First Preferred Shares, Series M, and \$150 million of First Preferred Shares, Series N, and redeemed \$198 million of First Preferred Shares, Series D. During 2010, IGM issued \$200 million of 6.0% 30-year debentures.



ANDRÉ
DESMARAIS, O.C., O.Q.
Co-Chairman of the Board,
Power Financial Corporation

INDUSTRY MATTERS

Power Financial and its subsidiaries are engaged in dialogue throughout Canada with regard to a number of important topics which impact the well-being of Canadians and the financial services industry. These topics include the public debate regarding the retirement readiness of Canadians and a number of related matters.

Canada's retirement system is among the strongest in the OECD, both in terms of income adequacy and system sustainability. One of its key strengths is that it is well balanced between government-provided programs, employer-sponsored plans and individual savings. Notwithstanding the system's relative strength, research suggests that a number of Canadians across different age and income brackets may still not be adequately prepared for retirement. The public debate about retirement is therefore required and welcome. Enhancements to the system can and should be made, but should be based upon well-founded research and should seek to build upon the many elements of the current system which are already working well.

\$1,733
MILLION
OPERATING
EARNINGS IN 2010

Canadians' use of financial advisors is an important factor in enabling them to plan for and live comfortably in retirement. Research by the Investment Funds Institute of Canada demonstrates that people who use a financial advisor have substantially higher investment assets than non-advised households, in each income range and age bracket. Advised households also have approximately double the participation rate in tax-advantaged programs such as RRSPs and are more confident they will have enough money to retire comfortably.

\$13,184
MILLION
SHAREHOLDERS'
EQUITY

Mutual funds are one of the principal investment vehicles used by Canadians to save. A comprehensive research study commissioned by Mackenzie Financial and conducted by Bain Consulting demonstrates that for mutual funds purchased with financial advice, the cost of mutual fund ownership for the vast majority of investors in Canada is comparable with their counterparts in the United States. A number of other published studies have failed to account for the significant differences in the way in which mutual fund fees are reported in the two countries and for differences in the manner in which mutual funds are distributed. The company believes that mutual funds, together with the advice of a professional financial advisor, will remain a very effective way for millions of Canadians to provide for their financial futures.

\$490.8
BILLION
TOTAL ASSETS AND
ASSETS UNDER
MANAGEMENT

Power Financial and its subsidiaries believe the current public debate about the retirement readiness of Canadians is important and beneficial. A combination of public and private initiatives can build upon an already successful system to increase the number of Canadians who are financially prepared for the future.

BOARD OF DIRECTORS

At the May 2011 Annual Meeting, shareholders will be asked to elect Mr. Timothy Ryan to the Board. Mr. Ryan is President and Chief Executive Officer of SIFMA, the Securities Industry and Financial Markets Association, the leading trade association representing global financial market participants. He is also a director of Great-West Lifeco and several of its major subsidiaries, and has had broad international involvement in the financial services industry.

THE POWER FINANCIAL GROUP

Power Financial is focused on the economic drivers underlying demand for protection products, retirement savings, asset management and core shareholder investing. Our governance model involves a high degree of engagement in all of our companies through their boards of directors. And as we emerge from challenging times, your Directors believe that Power Financial's business model will continue to serve our shareholders well. Our companies have strong balance sheets, strategic distribution channels, competitive products and effective growth strategies.

Your Directors and Management team seek to provide attractive long-term shareholder returns. We believe that the results of this effort are reflected in the improvement in profitability, the maintenance of our dividend throughout the crisis and our strong and very stable credit ratings.

Our companies have strong balance sheets, strategic distribution channels, competitive products and effective growth strategies.

Significant effort is being directed by the management teams throughout the group at pursuing growth opportunities in their markets, while continuing to position their balance sheets and liquidity positions prudently.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution of the management and employees of our Corporation and its associated companies to the successful results achieved in 2010 in an improving but challenging operating environment.

ON BEHALF OF THE BOARD OF DIRECTORS,

Signed
R. Jeffrey Orr
President and
Chief Executive Officer

Signed
Paul Desmarais, Jr., o.c., o.q.
Co-Chairman of the Board

Signed
André Desmarais, o.c., o.q.
Co-Chairman of the Board

March 10, 2011