DIRECTORS' REPORT TO SHAREHOLDERS

Power Financial and its subsidiaries produced solid financial results in 2012 in an environment which remained challenging for many of the company's businesses. Ongoing uncertainty regarding the resolution of financial challenges in Europe and the United States resulted in clients remaining very cautious in their investment and insurance decisions. Historically low interest rates also prevailed throughout the year, creating challenges for savers everywhere, including life insurance companies and pension funds.

Against this backdrop, the companies in the Power Financial group continued to invest in strengthening their product and service offerings to their clients and the advisors who serve them with a view to enhancing the long-term growth prospects of their businesses.

In addition to pursuing organic growth opportunities, our companies have sought to create growth over time through acquisitions. In early 2013, Great-West Lifeco agreed to acquire Irish Life Group Limited from the Government of Ireland for $1.75 billion. The acquisition is expected to be accretive to Lifeco's earnings and is highly consistent with its global business strategy.

Keeping commitments is an essential attribute in financial services. Our financial strength allows our companies to keep their commitments over the long term for the benefit of their clients, employees, communities and shareholders. This is why our group companies have maintained their prudent approach to balance sheet management and a strong risk-management culture over many years. This is evident in the maintenance of strong credit ratings across our group.

We believe our corporate governance structures and practices have been essential in creating and maintaining strong business franchises capable of performing in good times and in bad. Our governance is rooted in a long-term perspective towards shareholder returns, and focuses upon key factors such as strategy, people, capital and risk. We oversee our principal investments through boards of directors made up of a mix of experienced individuals both from within our group and from the outside.

Our group companies also have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach in this area are outlined later in this report under "Responsible Management".

FINANCIAL RESULTS

Power Financial's operating earnings attributable to common shareholders for the year ended December 31, 2012 were $1,686 million or $2.38 per share, compared with $1,729 million or $2.44 per share in 2011.

For the twelve-month period ended December 31, 2012, other items represented a charge of $60 million, compared with a charge of $7 million in 2011.

Other items in 2012 included the Corporation's share of the impact of litigation provision adjustments at Lifeco in the fourth quarter of 2012, as well as the Corporation's share of impairment charges at GBL, net of gains on the disposal of two investments during the year.

Net earnings attributable to common shareholders, including other items, were $1,626 million or $2.30 per share for the year ended December 31, 2012, compared with $1,722 million or $2.43 per share in 2011.

Dividends declared by Power Financial Corporation totalled $1.40 per common share in 2012, unchanged from 2011.

RESULTS OF GROUP COMPANIES

GREAT-WEST LIFECO

Great-West Lifeco's financial condition continues to be very solid as a result of its continued strong performance in 2012. The company delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, and solid investment performance, despite challenging market conditions.

Great-West Lifeco reported operating earnings attributable to common shareholders of $1,955 million or $2.059 per share for 2012, compared with $1,898 million or $2.000 per share for 2011.

Great-West Lifeco's return on equity (ROE) of 15.9 per cent on operating earnings and 14.7 per cent on net earnings for the twelve months ended December 31, 2012 continued to rank among the strongest in the financial services sector.

Other measures of Great-West Lifeco's performance in 2012 include:

> Premiums and deposits of $59.8 billion, compared with $62.3 billion in 2011.

> An increase in general fund and segregated fund assets from $238.8 billion to $253.7 billion in 2012.

> Total assets under administration at December 31, 2012 of $546 billion, compared with $502 billion twelve months ago.

The dividend on Great-West Lifeco's common shares remained unchanged in 2012.

Great-West Lifeco's companies continue to benefit from prudent and conservative investment policies and practices with respect to the management of their consolidated assets. In addition, Great-West Lifeco's conservative product underwriting standards and disciplined approach to introducing new products have proved beneficial for the company and its subsidiaries over the long term. Also, Great-West Lifeco's approach to asset/liability management has minimized exposure to interest rate movements. In Canada, the company continued to offer segregated fund guarantees in a prudent and disciplined manner, thereby limiting its risk exposure. As a result, Great-West Lifeco's balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 207 per cent on a consolidated basis at December 31, 2012.

In Canada, Great-West Lifeco's companies maintained leading market positions in their individual and group businesses, and experienced strong organic growth. This was achieved by focusing on three broad goals in 2012: improving products and services for clients and advisors, maintaining strong financial discipline, and improving tools, information and processes to enable greater productivity and effectiveness.

Group retirement services business recorded strong growth, group insurance business continued to experience excellent persistency, and individual segregated fund and mutual fund businesses maintained positive net cash flows. Individual insurance sales in Canada increased 15 per cent and sales of proprietary retail investment funds increased 2.8 per cent year over year.

Together, Great-West Lifeco's subsidiaries Great-West Life, London Life and Canada Life remain Canada's number one provider of individual insurance solutions.

In the United States, a single brand identity, Great-West Financial, was introduced in 2012 across all of the lines of business operated by Great-West Life & Annuity. The clarity of one brand with a focused and well-positioned message is helping build name recognition and creating stronger brand equity in all Great-West Financial markets, to further augment growth.

Diverse products, expanded partnerships, enhanced tools and a new brand identity all contributed to Great-West Financial's solid growth in 2012. Sales of 401(k) plans increased 14 per cent, business-owned life insurance sales were up 20 per cent and single premium life insurance sales jumped 56 per cent year over year.

In 2012, Putnam continued its focus on investment performance and innovation. For the second time in the last four years, *Barron's* magazine ranked Putnam #1 out of 62 fund companies in 2012, based upon its fund performance over a broad range of investment categories. Putnam's financial advisor website was ranked the industry's best by researcher kasina, and the FundVisualizer analytical tool received an award from the Mutual Fund Education Alliance, as well as from *Money Management Executive*, in conjunction with the National Investment Company Service Association.

In Europe, Canada Life has operations in the United Kingdom, Isle of Man, Ireland and Germany. As a result of its continued focus on credit and expense controls, Great-West Lifeco's European operations were in a strong position coming into 2012, and this focus was maintained throughout the year.

IGM FINANCIAL

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

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

Operating earnings available to common shareholders, excluding other items, for the year ended December 31, 2012, were $750 million or $2.94 per share, compared with $833 million or $3.22 per share in 2011.

Net earnings available to common shareholders for the year ended December 31, 2012, were $762 million or $2.99 per share, compared with $901 million or $3.48 per share in 2011.

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

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

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

Investors Group continued to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice. In May 2012, Investors Group announced enhanced pricing for the majority of its funds effective June 30, 2012, and the addition of alternative high net worth series for households investing $500,000 or more with the company.

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

Mackenzie maintained its focus on delivering consistent long-term investment performance, while emphasizing product innovation and communication with advisors

and investors. Mackenzie's relationship with financial advisors is strengthened by the work it does through investor and advisor education programs, and through its commitment to focusing on active investment management strategies. During 2012, Mackenzie broadened its investment choices for Canadians by adding several new funds and more options, including tax-deferred solutions.

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

IGM Financial continues to build its business through its extensive network of distribution opportunities delivering high-quality advice and innovative, flexible solutions for investors. Its investment in technology and operations continues to help it manage its resources effectively and develop long-term growth in its business.

PARGESA

Through the Belgian holding company Groupe Bruxelles Lambert (GBL), the Pargesa group holds significant positions 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.

Pargesa's operating earnings stood at SF359 million in 2012, compared with SF343 million in 2011, an increase of 4.7 per cent. Although Imerys' income increased by 2.3 per cent in 2012, its contribution at the Pargesa level declined due to the latter's decreased economic interest in this holding following the sale of Pargesa's share of Imerys to GBL. Lafarge reported operating earnings of €772 million in 2012, compared with €453 million in 2011. Including non-operating income consisting primarily of gains on the disposal by GBL of its interest in Arkema and the partial disposal by GBL of its interest in Pernod Ricard, and of an impairment charge recorded by GBL on its investment in GDF Suez, Pargesa's net income in 2012 was SF418 million.

At the end of December 2012, Pargesa's adjusted net asset value was SF7.6 billion. This represents a value of SF90.4 per Pargesa share, compared with SF79.0 at the end of 2011, an increase of 14.4 per cent.

At the next annual meeting of shareholders on May 8, 2013, Pargesa's board of directors is expected to propose paying a stable dividend of SF2.57 per bearer share, for a total distribution of SF217.5 million.

ACQUISITION OF IRISH LIFE

On February 19, 2013, Great-West Lifeco announced that it had reached an agreement with the Government of Ireland to acquire all of the shares of Irish Life Group Limited for $1.75 billion (€1.3 billion). Established in 1939, Irish Life is the largest life and pensions group and investment manager in Ireland. The acquisition is transformational for the Lifeco companies in Ireland. With this single transaction, Lifeco achieves the leading position in life insurance, pensions and investment management, which is consistent with Lifeco's global business strategy of developing significant market positions in the sectors where the company participates.

Great-West Lifeco also announced a $1.25 billion offering of subscription receipts exchangeable into common shares by way of a $650 million bought deal public offering as well as concurrent private placements of subscription receipts to Power Financial and IGM Financial at the same price as the public offering.

On March 12, 2013, Power Financial and IGM Financial purchased $550 million and $50 million, respectively, of Lifeco subscription receipts. Each subscription receipt entitles the holder to receive one common share of Great-West Lifeco upon closing of the acquisition of Irish Life, without any action on the part of the holder and without payment of additional consideration.

Should the subscription receipts be converted into common shares of Great-West Lifeco, Power Financial will hold, directly and indirectly, a 69.4% economic interest in Lifeco.

The Corporation also announced on February 28, 2013, the closing of an offering of $300 million of First Preferred Shares. Proceeds from the issue were used to acquire the subscription receipts of Great-West Lifeco referred to above.

THE VALUE OF FINANCIAL ADVICE

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

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

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

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

BOARD OF DIRECTORS

At the May 2013 Annual Meeting, shareholders will be asked to elect Mr. J. David A. Jackson to the Board.

Mr. Jackson retired as a Partner of the law firm Blake, Cassels & Graydon LLP in 2012, and currently serves as Senior Counsel to the firm, providing advice primarily in the areas of mergers and acquisitions and corporate governance. He was the Chairman of Blakes from 1995 to 2001. He is recognized as a leading practitioner in the areas of mergers and acquisitions, corporate finance and corporate governance by numerous independent assessment organizations. Mr. Jackson served as a Director of Investors Group Inc. from 1991 to 2001, and has also served as a director of a number of public and private organizations. Mr. Jackson has also been nominated for election to the Boards of Power Corporation and Great-West Lifeco.

Mr. T. Timothy Ryan, Jr. will not stand for re-election to the Board at the May 2013 Annual Meeting of Shareholders. Mr. Ryan joined the Board of Power Financial Corporation in 2011. Mr. Ryan was recently appointed Managing Director, Global Head of Regulatory

Strategy and Policy for JPMorgan Chase & Co., a leading global financial services firm. He was previously the President and Chief Executive Officer of SIFMA, the Securities Industry and Financial Markets Association, a leading trade association representing global financial market participants. Mr. Ryan has also served as a Director of Power Corporation, where he chaired the Audit Committee of the Board, as well as Great-West Lifeco and many of its subsidiaries. Mr. Ryan brought to the Boards of our group companies the benefit of his broad international involvement in the financial services industry.

FUTURE OUTLOOK

As we enter 2013, steady if unspectacular progress in the U.S. economy together with calmer and more liquid markets in Europe have contributed to increased optimism. Individual investors have started to deploy funds into higher-return asset classes. These positive signs are tempered with the knowledge that many global economic issues will take time to resolve.

The Corporation and its subsidiaries will continue to invest and build for future growth based upon a long-term optimistic view of the future coupled with an acute awareness of the possible risk of interim setbacks.

Above all, we will continue to manage our affairs prudently so as to ensure we have the financial strength to honour the commitments we make to our various stakeholders over the long term.

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 2012 in an improving but still 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 13, 2013