

DIRECTORS' REPORT TO SHAREHOLDERS

Power Financial reported the highest earnings in its history in 2014, driven by strong financial results reported by its subsidiaries. The record earnings resulted from increased business volumes, higher market levels and the benefits of acquisition activity.



Great-West Lifeco substantially completed the integration of Irish Life in 2014. Irish Life has surpassed the synergy, profitability and market share goals established at the time of the acquisition in 2013.

Great-West Lifeco also acquired J.P. Morgan's U.S.-based Retirement Plan Services business in 2014, and then combined it with the existing retirement businesses of Great-West Financial and Putnam Investments to create Empower Retirement. Empower is now the second-largest defined contribution retirement provider in the United States and serves over seven million Americans in 401(k) and similar retirement plans.

At IGM Financial, Investors Group's consultant-driven financial planning model continued to deliver high value to its clients in 2014, as evidenced by its outstanding client satisfaction scores. The consultant network continues to grow, now surpassing 5,000 consultants in number, the largest ever. These factors contributed to strong sales of mutual funds and other products and low redemption rates, resulting in a record level of client assets under management.

Mackenzie Investments, also part of IGM Financial, continued to invest in a number of key initiatives in 2014 to execute on its new investor-focused vision and strategy. The product line-up was revitalized, pricing was simplified and significant talent was added to an already strong investment team.

During 2014, Lafarge, one of the principal investments held by Pargesa, announced plans to merge with Holcim to create LafargeHolcim, the most advanced group in the building materials industry worldwide. LafargeHolcim will operate in 90 countries upon closing of the transaction.

The companies in our group benefit from strong balance sheets, enabling them to honour the long-term commitments they have made to clients and to invest from a position of strength in the people, products and technology to serve our clients in the future.

At Power Financial, we continue to develop our active governance model, guiding the growth and development of our subsidiary companies through our participation on their boards of directors, as a long-term, committed owner.

Our 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, 2014 were \$2,105 million or \$2.96 per share, compared with \$1,708 million or \$2.40 per share in 2013.

Other items represented a contribution of \$31 million in 2014, compared with \$188 million in 2013.

Net earnings attributable to common shareholders were \$2,136 million or \$3.00 per share, compared with \$1,896 million or \$2.67 per share in 2013.

Dividends declared by Power Financial totalled \$1.40 per common share in 2014, unchanged from 2013.

RESULTS OF GROUP COMPANIES

GREAT-WEST LIFECO

Great-West Lifeco's operating earnings attributable to common shareholders were \$2.5 billion or \$2.549 per share in 2014, compared with \$2.1 billion or \$2.108 per share in 2013.

Net earnings attributable to common shareholders were \$2.5 billion or \$2.549 per common share, compared with \$2.3 billion or \$2.340 per common share a year ago.

Great-West Lifeco maintained a strong return on equity (ROE) of 15.7 per cent, based on both operating and net earnings for the twelve months ended December 31, 2014.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 224 per cent on a consolidated basis at December 31, 2014. This measure of capital strength is slightly higher than the upper end of Great-West Life's target operating range of 175-215 per cent.

In 2014, Great-West Lifeco's companies grew organically and through acquisitions in their target segments, while investing in initiatives that will strengthen the businesses and position them for growth in the years to come. Through their continued focus on growth, Great-West Lifeco achieved a major milestone in 2014—over \$1 trillion in assets under administration.

IGM FINANCIAL

Operating earnings available to common shareholders, excluding other items, were \$826 million or \$3.27 per share in 2014, compared with \$764 million or \$3.02 per share in 2013.

Net earnings available to common shareholders were \$753 million or \$2.98 per share in 2014, compared with \$762 million or \$3.02 per share in 2013.

Total assets under management at December 31, 2014 totalled \$142 billion, compared with \$132 billion at December 31, 2013, an increase of 7.7 per cent.

IGM Financial continues to build its business through its extensive network of distribution opportunities, delivering high-quality advice and innovative, flexible solutions for investors.

The company's investment in technology and operations continues to help it manage its resources effectively and develop long-term growth in the business.

PARGESA

Pargesa's operating earnings were SF339 million in 2014, compared with SF251 million in 2013. Including non-operating earnings consisting primarily of gains on the partial disposals by GBL of its interests in Total and in Suez Environnement, Pargesa's net earnings in 2014 were SF637 million, compared with SF394 million in 2013.

In addition to its strategic holdings, GBL is developing an incubator-type portfolio comprised of: interests of smaller size in a limited number of listed and unlisted companies — these investments would be smaller commitments than the strategic holdings — and investments in private equity and other funds where GBL acts as an anchor investor.

Albert Frère has announced that he will step down as Director and CEO of GBL and will not seek another term as Vice-Chairman and Executive Director of Pargesa. Mr. Frère has worked in partnership with Power Corporation and Power Financial since 1981 and has been a key player in the growth and success of Pargesa and GBL for more than three decades. Power Financial would like to acknowledge and thank Albert Frère for his exceptional contribution to the group.

GOVERNANCE

In March 2015, the Corporation's Board of Directors adopted a Board and Senior Management Diversity Policy, expressing its belief in increased diversity on boards and in business in general. The Board recognizes that gender diversity is a significant aspect of diversity and acknowledges the important role of women in contributing to diversity of perspective in the boardroom and in senior management roles.

As part of its ongoing commitment to effective governance, the Corporation has enhanced its Board assessment process by implementing a formal Board effectiveness survey, which is completed by each of the Directors. The survey assists the Board and its committees in assessing their overall performance and in continuing to improve their deliberations and decision-making process.

The companies in our group benefit from strong balance sheets, enabling them to honour the long-term commitments they have made to clients and to invest from a position of strength in the people, products and technology to serve our clients in the future.

CANADA'S RETIREMENT SYSTEM – THE CRISIS THAT WASN'T!

The vast majority of Canadians are on track to sustain their standard of living in retirement. A recent study by the global consulting firm McKinsey & Company concludes that 83 per cent of Canadians are on track and well prepared. McKinsey's work is based upon the most comprehensive survey and analysis of Canadians' financial affairs ever done. And yet, numerous surveys also show that a majority of Canadians believe they will not have enough income in retirement.

There are a number of possible reasons for the major gap between perception and reality. These include lingering fear created by the financial crisis, pension plans reporting funding challenges due to persistent low interest rates, and the financial services industry's call to Canadians for more savings.

Many groups in society are advocating for universal solutions to the "pension crisis," such as an increase in the benefits of the Canada Pension Plan, or the creation of an Ontario Retirement Pension Plan.

These universal pension proposals, while well intentioned, may have some serious negative consequences. By forcing everyone to save more, they reduce today's standard of living, hurting in particular lower- and middle-income Canadians, whose future consumption in retirement is already well provided for through existing programs.

To be clear, there are issues to be addressed in the Canadian retirement system. While our balanced system has resulted in Canada having one of the strongest retirement systems in the world, there are still a number of groups in Canadian society who are not faring well.

The research shows that to be effective the solutions need to be specific and targeted. There are three areas where focus could materially reduce the number of people ill prepared for retirement: facilitating low-cost workplace savings plans for Canadians who work at smaller employers; addressing anomalies in existing government programs that are punitive to single people in old age; and creating collective solutions to help Canadians manage the financial challenge of outliving their individual savings.

Fact-based and targeted solutions to Canada's specific retirement challenges will leave the country in the best financial position to tackle other significant challenges yet to be addressed, such as funding future health care costs for an ever-aging Canadian population.

THE POWER FINANCIAL GROUP

In March of 2015, Power Financial announced that it was increasing the quarterly dividend payable to its common shareholders by 6.4 per cent to \$0.3725 per share. This was the first dividend increase by the Corporation since the start of the financial crisis in the fall of 2008. Record earnings in 2014, recent dividend increases by the Corporation's principal subsidiaries and positive momentum in the underlying businesses all contributed to the Board's decision to increase the dividend.

Our financial services businesses are focused upon providing financial security and peace of mind to millions of people through various investment, retirement and insurance solutions. These are provided to our clients through one-on-one relationships with their financial advisors and through workplace programs. Excellence and innovation in products and services and value to the customer are critical factors in meeting client needs. Financial strength and the ability to honour long-term commitments are equally important.

The need for these products and services is expected to continue to grow in the future. The strategies being pursued by our group companies to serve these growing markets are focused upon organic growth, based upon delivering ever-improving client outcomes and experiences. Acquisitions are expected to continue to complement these strategies as opportunities arise.

Power Financial and its subsidiaries are committed to creating long-term value for shareholders based upon 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 2014.

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 18, 2015