



Directors' Report to Shareholders

The year 2017 was significant for Power Financial, providing a number of tangible proof points validating the strategies our group companies have been pursuing for the past several years.

Financial Services

THE PATH WE ARE ON

It became evident a number of years ago that changes in technology, consumer expectations and regulatory focus would change business models in financial services. Success would be reserved to those organizations that could provide clients with best-of-breed products, services and advice, delivered by the means and at the times that best suited them, with full transparency regarding price and risk.

The different businesses that make up Great-West Lifeco and IGM Financial embarked upon transformation strategies which involved augmenting their talent pools, their technology platforms and their product and service offerings, while also reducing their prices in many instances.

One of the consequences of such strategies was an increase in the rate of growth of expenses to levels well above the historic levels achieved by our companies. Our group made difficult choices in the face of significant external headwinds, including the negative impact of record low interest rates on the profitability of our insurance products, declining fee levels on mutual funds and other investment products, a shift of investment monies towards lower-cost passive products versus the actively managed products managed by our companies, and higher required capital levels and oversight costs resulting from regulatory requirements.

The resulting impact has been a reduction in the rate of growth in profitability of our companies over the past several years.

We are as convinced today as we were a few years back as to the wisdom of such choices. They are consistent with our historic and ongoing objective of creating superior shareholder value over the long term.

The opportunities to help meet the financial, physical and mental well-being needs of large populations will remain attractive for many decades to come, both from a business perspective and as a vital role to be played in society. Our companies are well placed to serve the needs of such populations in the future, occupying leading positions in almost all of the markets in which we operate. But we can only seize such opportunities if we transform our business models.

While the transformation journeys are by no means complete, a number of our businesses reached inflection points in 2017 following several years of investment and change. They enjoyed marked improvements in client experience, gained market share and achieved improving financial metrics.

Within IGM, both Investors Group and Mackenzie are cases in point.

In 2017, Investors Group experienced its best fund sales in over a decade and gained market share. This followed several years of material price reductions, transparent fee disclosure, enhanced product offerings, heavy investments in technology infrastructure and a change in advisor recruiting strategy. The story at Mackenzie is very similar. After several years of investing in people, products, sales and service, technology and branding, in 2017 Mackenzie experienced its best investment product flows in over 10 years, gained share and increased profitability.

Great-West Lifeco's Empower Retirement is another example. Empower is the second-largest provider of defined contribution plans (such as 401(k) plans) in the United States, managing the retirement accounts of over 8.3 million Americans and with US\$530 billion on its platform. Empower was created from the combination of the defined contribution businesses of Great-West Financial, Putnam and J.P. Morgan. For the past few years, earnings at Empower were reduced materially as the company spent heavily on the integration of the three businesses, migrating all clients on to one system and automating processes to improve the client experience and productivity. Empower has been winning new business in the market for the past few years at a rate which is far greater than its current market share, and in 2017 profitability grew strongly through revenue growth and productivity gains. It is now poised to grow organically and through potential consolidation of a fragmented industry.

Power Financial, Great-West Lifeco and IGM Financial are also actively supporting the group's Fintech strategy, which has the dual objective of providing an attractive return on the capital invested and of helping our existing financial services businesses transform their models and enrich their clients' experiences. We anticipate continuing to support this strategy, and are very encouraged by the progress of companies such as Wealthsimple, Personal Capital, Portag3, and the many investee companies associated with our group.

From a value creation perspective, our Fintech investments are unlikely to produce operating income from their activities for several years, and are in fact more likely to create operating losses. Value creation in such early stage ventures is usually measured using other metrics than bottom line profit. We will continue to provide meaningful information and metrics and look to incorporate other measures to reflect progress on these activities.

THE PATH FORWARD

Power Financial's value creation agenda within financial services is entering a new phase and will be focused on three priorities:

- Continue the internal transformations with the goal of having additional businesses break out and translate their past investments into market gains and profit growth;
- Reduce the rate of expense growth across the group; and
- Place a greater emphasis on capital deployment and re-deployment to shift our overall portfolio of businesses to provide higher growth potential and greater potential return on capital.

On the latter point, our group has a long and successful history of using M&A to create shareholder value, and has remained active during the past five years. We believe that adding complementary businesses or shedding business activities will be an important tool in realizing our profit potential and value creation objectives.

China AMC

The Power group has had a long history of participating in the Chinese market and, in August, it entered a new phase with the support of its long-term partner CITIC Securities. IGM Financial acquired a 13.9 per cent interest in China AMC and Power Corporation added 3.9 per cent to its existing 10 per cent interest. We believe experience and long-term relationships with strong local partners will serve us best in pursuing opportunities in this large and dynamic market. Mackenzie and PanAgora (a very successful quantitative investment management company which is part of our group) have seized on the opportunity early, each working with China AMC to launch products: Mackenzie offering a China AMC sub-advised fund to the Canadian market and PanAgora advising a China AMC product for the Chinese market.

Pargesa/GBL

GBL initiated a rebalancing of its portfolio in 2012 with a view to strengthen the portfolio's growth profile and consequently optimize its potential for long-term value creation. This transformation has been pursued through a significant portfolio rotation, with disposals and acquisitions totalling €14 billion. It has led to a substantial shift from high-yielding assets in the energy and utilities sectors into growth assets in the industrial, business services and consumer goods sectors having greater exposure to long-term growth trends.

GBL has consistently invested behind megatrends that should support growing revenues of its portfolio companies and thus contribute to further value creation. Most recent investments are reflective of its strategy and include: sustainability and resource scarcity – Umicore; health and lifestyle – GEA, Parques and Burberry; and the shift in demographics and economic power towards emerging markets – Ontex.

Financial Results

Power Financial's net earnings^[1] were \$1,717 million or \$2.41 per share for the year ended December 31, 2017, compared with \$1,919 million or \$2.69 per share in 2016.

Adjusted net earnings^[1, 2] were \$2,135 million or \$2.99 per share, matching the \$2.99 per share in 2016.

Contributions to Power Financial's adjusted net earnings were:

In millions	2017	2016
Great-West Lifeco	\$1,791	\$1,821
IGM Financial	\$428	\$452
Pargesa	\$131	\$119

Net earnings and adjusted net earnings in 2017 reflect a \$175 million loss at Lifeco on estimated hurricane claims, the Corporation's share being \$123 million.

Dividends declared by Power Financial were \$1.65 per common share, an increase of 5.1 per cent, compared with \$1.57 per share in 2016. On March 23, 2018, the Board of Directors announced a 5 per cent increase in the quarterly dividend on the Corporation's common shares, from \$0.4125 to \$0.4330 per share.

Power Financial ended the year with a strong capital base, enhanced by a \$250 million preferred share issue in May 2017, and a healthy liquidity position with cash and short-term investments of \$1.05 billion. Power Financial's strong capital base and liquidity will ensure we will be in a position to support our companies as they navigate the path forward.

[1] Attributable to common shareholders.

[2] Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.

Shareholder Engagement

Our companies continued to enhance their efforts in 2017 to communicate with their shareholders. In November, each of Great-West Lifeco, IGM Financial and Pargesa held investor days for analysts and shareholders. Power Financial continued to meet with shareholders during the year, both one-on-one and in group presentations. Our group companies did likewise.

We have an objective of taking our shareholder engagement to the next level to assist shareholders in their understanding of our strategies, our opportunities, our challenges and our progress.

Board of Directors

At the May 2018 Annual Meeting of the Corporation, shareholders will be asked to elect Ms. Susan J. McArthur and Mr. Siim A. Vanaselja to the Board.

Ms. McArthur is Managing Partner at GreenSoil Investments, a private equity firm, a position she has held since 2013. She has 25 years of experience in international and domestic investment banking. Ms. McArthur is also a director of Great-West Lifeco and IGM Financial and of a number of their operating companies.

Mr. Vanaselja served as Executive Vice-President and Chief Financial Officer of BCE Inc. and Bell Canada, from 2001 to 2015. Prior to that, he was a Partner with KPMG Canada in Toronto. Mr. Vanaselja has also been a member of the Board of Directors of Great-West Lifeco and a number of its operating companies since 2014.

Mrs. Louise Roy and Mr. Raymond Royer will not stand for re-election to the Corporation's Board of Directors. Mrs. Roy has been a member of the Board since 2010. Mr. Royer has been a member of the Board since the Corporation's inception in 1984; he is currently Chairman of the Audit Committee and the Compensation Committee, and serves on the Governance and Nominating Committee and the Related Party and Conduct Review Committee. The Directors wish to thank Mrs. Roy and Mr. Royer, on behalf of the shareholders, for their important contributions to the Board.

On behalf of the Board of Directors,

Signed,

R. Jeffrey Orr
President and
Chief Executive Officer

March 23, 2018

Signed,

Paul Desmarais, Jr., o.c., o.g.
Executive Co-Chairman
of the Board

The Power Financial Group

Since Power Financial's inception, it has created value through a focus on managing to some basic principles:

- take a long-term perspective and investment horizon
- build industry leaders
- focus on high-growth, high-ROE (return on equity) products and market segments
- employ a disciplined, fact-based approach to decision making
- use prudence, be risk aware and maintain strong balance sheets

We invest in high-quality, socially responsible companies with sustainable franchises. Our companies have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach to responsible management are outlined later in this report and on www.PowerFinancialCSR.com.

As we look forward, we do so with a conviction that the need for the financial services offered by Power Financial's group of companies will continue to grow and evolve. Power Financial is well positioned to respond to opportunities ahead.

Your Directors and management seek to deliver attractive long-term shareholder returns. In most any environment, companies with strong balance sheets, sound financial management and prudent liquidity will be best positioned to seize upon the most attractive opportunities. At the Power Financial group of companies, we seek opportunities to grow our business organically and capitalize on acquisitions that are strategic as well as accretive.

Your Directors wish to express gratitude, on behalf of the shareholders, for the important contribution made by the management and the employees of our Corporation and our group companies to the strong results achieved in 2017, and we look forward to 2018.

Signed,

André Desmarais, o.c., o.g.
Executive Co-Chairman
of the Board