

Directors' Report to Shareholders

Embracing Change

Rapid change is occurring within the financial services industry, driven by the same forces that are sweeping across other industries and our society at large. Be it from our clients, employees, business partners or the communities in which we operate, the expectation is for an ever-increasing level of value, convenience and transparency in all that we do. The ease of doing business in one industry very quickly becomes the expected norm in another, while at the same time technology is blurring the lines between industries and redefining who it is we will need to compete with.

The companies in our group are embracing the opportunities and the challenges presented by this rapid pace of change. They are investing in enhancing their current business models to better serve existing clients and to appeal to a broader set of new ones. They are also investing in emerging new business models that will drive our success in the future. While many of these investments come at a cost to shorter-term financial returns, we are striving to maintain an appropriate balance between near-term profitability and long-term growth.

Our Strategy for Creating Shareholder Value

We are intently focused on the goal of creating shareholder value. Our basic approach has not changed for decades and has been responsible for our long track record of producing attractive shareholder returns. We take a long-term perspective, build industry leaders in all of the markets in which we operate, follow an active governance model and maintain a strong financial position and a prudent approach to risk.

We are creating shareholder value by pursuing a combination of internal strategies and external capital deployment and redeployment opportunities.

Our internal strategies are focused on several key initiatives: transforming our advisor-based distribution businesses; harnessing the potential of our group customers; reshaping global asset management; and increasing the competitiveness and profitability of our core insurance franchises.

Externally deploying our strong capital position on acquisitions to enhance our returns is a vital component of our strategy for value creation. We are actively pursuing acquisitions that enhance our capabilities, strengthen our market positions and add profitability to our existing businesses. Canada Life's recent acquisition of Retirement Advantage in the U.K. is a prime example. Looking forward, building upon Great-West Lifeco's U.S. positions in asset management and the retirement market are two high-priority areas.

We are also deploying our capital in a series of investments that hold the potential for higher organic growth than our existing businesses. Examples include the group's investment in Wealthsimple, Canada's leading robo-advisor, IGM Financial's investment in Personal Capital, a U.S.-based digital wealth platform, our investment in and sponsorship of Portag3, a fintech venture capital fund, and IGM Financial's purchase, in partnership with Power Corporation, of a significant position in China Asset Management Corporation, China's leading asset management company.

In addition to deploying capital, we have been actively reviewing businesses that do not hold the prospect of contributing adequately to our returns in the future. Great-West Lifeco's recent announcement that it has agreed to sell its U.S. life insurance business is a case in point. The estimated \$1.6 billion in combined proceeds and capital release that will come from the transaction will add to what is already a position of excess capital for the company. As a result, Great-West Lifeco subsequently announced a substantial issuer bid ("SIB") to purchase up to \$2 billion of its outstanding common shares. After the SIB, Great-West Lifeco will remain in a very healthy capital position that will be sufficient to meet its ongoing operating needs and pursue its acquisition strategy.

Great-West Lifeco's decision to launch an SIB resulted in a decision by Power Financial to launch its own SIB of up to \$1.65 billion, which was replicated by our parent, Power Corporation, which announced its own SIB for up to \$1.35 billion. While the outcomes of these SIBs are unknown at the time of this report, the intended distribution of excess capital by our group illustrates our willingness to use multiple tools in our strategy to deliver shareholder value.

Pargesa, through its majority ownership of GBL, provides an additional value creation vehicle for Power Financial. In 2012, a new portfolio strategy was launched at GBL under new management. Since that time, GBL has shifted its portfolio of companies away from high-yielding cyclical assets in the energy and utilities sectors into growth assets in industrials, business and consumer goods. With greater exposure to long-term growth trends, GBL's portfolio is expected to have increased resilience in an economic downturn. Although this strategy has resulted in meaningful increases in GBL's net asset value, Power Financial's share of GBL's dividend income has actually decreased as a result of the rotation.

Since the launch of the portfolio rebalancing strategy in 2012, GBL has completed €16 billion of acquisitions and divestments. During a turbulent environment in 2018, GBL continued to actively pursue this strategy. Throughout the year, GBL deployed €1.2 billion while taking advantage of a favorable market in the second quarter to divest of its Burberry stake. In November, the GBL board of directors authorized a €250 million share buyback program.

Shareholder Engagement

In 2018, Power Financial and its group companies continued their efforts to communicate their strategies and their financial and operating results with investors and analysts. Our objective is to continue to enhance the level of engagement and quality of our shareholder communications. A key challenge remains to effectively demonstrate how our ongoing investments relate to value creation. This is particularly important given the increased amount of effort and investment being made in higher-growth areas, where value creation metrics can be different than in our incumbent businesses. We are committed to an active dialogue to continue to improve our shareholder engagement practices.

Financial Results

Power Financial's net earnings^[1] were \$2,245 million or \$3.15 per share for the year ended December 31, 2018, compared with \$1,717 million or \$2.41 per share in 2017.

Adjusted net earnings^{[1][2]} were \$2,282 million or \$3.20 per share, compared with \$2,135 million or \$2.99 per share in 2017. Adjusted net earnings were the highest in the Corporation's history.

Contributions to Power Financial's net earnings and adjusted net earnings were:

In millions	2018		2017	
	Net Earnings	Adjusted Net Earnings	Net Earnings	Adjusted Net Earnings
Great-West Lifeco	\$2,001	\$2,040	\$1,451	\$1,791
IGM Financial	\$446	\$462	\$350	\$428
Pargesa	\$57	\$39	\$131	\$131

Dividends declared by Power Financial were \$1.73 per share, an increase of 4.8 per cent, compared with \$1.65 per share in 2017. On March 20, 2019, the Board of Directors announced a 5.2 per cent increase in the quarterly dividend on the Corporation's common shares, from \$0.4330 to \$0.4555 per share.

[1] Attributable to common shareholders.

[2] Adjusted net earnings is a non-IFRS financial measure. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.

IN MEMORIAM

Earlier in 2019, we were saddened by the death of Jim Burns. Mr. Burns was the founding President and Chief Executive Officer of Power Financial. He began his career at Great-West Life in 1953 and served as its President and Chief Executive Officer for many years. In 1979, he was named President of Power Corporation. An icon of Canadian business and a key architect of the modern insurance business, Mr. Burns laid the groundwork that allowed Power Financial to become the financial services leader it is today. He was instrumental in the first foray of Great-West Life into the United States, establishing a solid beach head in the country upon which he and his successors greatly expanded the business.

In December 2018, we were saddened by the news of the passing of Albert Frère. Mr. Frère was Honorary Chairman and co-controlling shareholder of GBL and former Vice-Chairman of Pargesa, and also served on the Board of Directors of Power Corporation from 1985 to 1995. Established in 1990 by the Honourable Paul G. Desmarais and Mr. Frère, the partnership between the Desmarais and Frère families is one of the hallmarks of Albert Frère's legacy. He played an instrumental role in the development of GBL and Pargesa.

The Corporation is forever grateful to both these men for their invaluable contribution to the group.

The Power Financial Group

The companies that are part of the Power Financial group provide vital services to millions of people in North America, Europe and Asia. They help people achieve financial security and peace of mind. While the manner in which these services are delivered is undergoing rapid change, the need for them will continue to grow well into the future.

As we pursue our value creation strategies, we are very conscious of the meaningful role that we, and others in our industry, play in creating a better society. As such, it is critically important that we meet our responsibilities effectively.

The principles of responsible management have long guided the actions of our companies. As our multiple stakeholders increasingly place a priority on demonstrating sound practices in this regard,

we have placed far greater energy over the past few years in disclosing our current activities and our strategies for continuing our progress. The principles underlying our approach to responsible management are outlined later in this report and 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 their appreciation, 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 2018.

On behalf of the Board of Directors,

Signed,

R. Jeffrey Orr
President and
Chief Executive Officer

March 20, 2019

Signed,

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

Signed,

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