# 2012 Annual Report

## Imperial Growth Funds

Financial Information as of **December 31, 2012**

Imperial Growth Funds are established by
**Desjardins Financial Security Life Assurance Company.**

Desjardins Insurance refers to Desjardins Financial Security Life Assurance Company.

Desjardins
Insurance
LIFE • HEALTH • RETIREMENT

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A Guaranteed Investment Fund (GIF), commonly known as "segregated fund" is an investment fund created and issued exclusively by life insurance companies like Desjardins Financial Security. It is offered through Contracts which provide maturity and death benefit guarantees.

# MONEY MARKET FUND

## STATEMENT OF NET ASSETS

As at December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **ASSETS** | | |
| Cash | **7,672** | 1,324 |
| Investments at fair value* | **2,429,882** | 2,672,383 |
| Premiums receivable | **12,060** | 193 |
| Securities lending collateral | | |
| Cash and short-term notes | **—** | 14,064 |
| Canadian bonds | **—** | 37,533 |
| Accrued investment income | **—** | 101 |
| Interest, dividends and other receivables | **3,883** | 5,805 |
| | **2,453,497** | 2,731,403 |
| **LIABILITIES** | | |
| Accrued expenses | **5,680** | 4,192 |
| Withdrawals payable | **—** | 61,678 |
| Securities lending collateral payable to broker | **—** | 51,698 |
| | **5,680** | 117,568 |
| **NET ASSETS HELD FOR THE BENEFIT OF CONTRACTHOLDERS** | **2,447,817** | 2,613,835 |
| NET ASSETS PER UNIT (NOTE 3) | **20.85** | 20.92 |
| * *Investments at cost* | **2,427,291** | 2,669,298 |

## STATEMENT OF CHANGES IN NET ASSETS

Years Ended December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **NET ASSETS AT THE BEGINNING OF THE YEAR** | **2,613,835** | 2,837,607 |
| Increase (Decrease) in Net Assets from Operations | **(9,126)** | (4,629) |
| Premiums | **270,408** | 951,474 |
| Withdrawals | **(427,300)** | (1,170,617) |
| **NET ASSETS AT THE END OF THE YEAR** | **2,447,817** | 2,613,835 |

## STATEMENT OF OPERATIONS

Years Ended December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **INCOME** | | |
| Interest | **39,076** | 40,097 |
| Revenue from securities lending | **9** | 61 |
| | **39,085** | 40,158 |
| **EXPENSES** | | |
| Management fees and guarantee charge | **42,223** | 39,494 |
| Operating expenses | **563** | 1,707 |
| | **42,786** | 41,201 |
| **NET INVESTMENT INCOME (LOSS)** | **(3,701)** | (1,043) |
| **GAINS (LOSSES) ON INVESTMENTS** | | |
| Net realized gain (loss) | **(4,915)** | (4,483) |
| Net unrealized gain (loss) | **(510)** | 897 |
| | **(5,425)** | (3,586) |
| **INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS** | **(9,126)** | (4,629) |
| – per unit | **(0.07)** | (0.03) |

*The accompanying Notes are an integral part of these financial statements.*

# MONEY MARKET FUND (cont.)

## STATEMENT OF INVESTMENT PORTFOLIO

as at December 31, 2012

| | Par Value | Cost $ | Fair Value $ |
|---|---|---|---|
| **MONEY MARKET SECURITIES (66.2%)** | | | |
| Canada Treasury Bills | | | |
| 1.166%, 2013-08-29 | CAD 150,000 | 148,302 | 148,988 |
| 1.123%, 2013-09-26 | CAD 75,000 | 74,169 | 74,428 |
| Gaz Métro, notes | | | |
| 1.160%, 2013-02-11 | CAD 100,000 | 99,740 | 99,860 |
| HSBC Bank Canada, notes | | | |
| 1.180%, 2013-02-04 | CAD 75,000 | 74,782 | 74,919 |
| 1.181%, 2013-02-05 | CAD 150,000 | 149,574 | 149,834 |
| Laurentian Bank of Canada, notes | | | |
| 1.151%, 2013-01-21 | CAD 50,000 | 49,858 | 49,966 |
| OMERS Finance Trust, notes | | | |
| 1.151%, 2013-03-21 | CAD 175,000 | 174,505 | 174,549 |
| Ontario Treasury Bills | | | |
| 1.019%, 2013-02-20 | CAD 175,000 | 174,590 | 174,773 |
| PSP Capital, notes | | | |
| 1.118%, 2013-03-11 | CAD 125,000 | 124,656 | 124,701 |
| Société des loteries vidéo du Québec, notes | | | |
| 1.650%, 2013-06-13 | CAD 75,000 | 73,786 | 74,659 |
| Société Immobilière du Québec, notes | | | |
| 1.169%, 2013-01-07 | CAD 50,000 | 49,944 | 49,991 |
| Toronto-Dominion Bank, notes | | | |
| 1.301%, 2013-03-11 | CAD 125,000 | 124,199 | 124,729 |
| TransCanada PipeLines, notes | | | |
| 1.160%, 2013-01-30 | CAD 100,000 | 99,718 | 99,901 |
| Université de Montréal, notes | | | |
| 1.198%, 2013-01-30 | CAD 100,000 | 99,797 | 99,912 |
| Université Laval, notes | | | |
| 1.190%, 2013-01-11 | CAD 100,000 | 99,701 | 99,968 |
| **TOTAL MONEY MARKET SECURITIES** | | 1,617,321 | 1,621,178 |

## STATEMENT OF INVESTMENT PORTFOLIO

as at December 31, 2012

| | Par Value | Cost $ | Fair Value $ |
|---|---|---|---|
| BONDS (33.1%) | | | |
| Provincial Governments and Crown Corporations (6.5%) | | | |
| Alberta Capital Finance Authority floating rate, 2013-10-01 | CAD 60,000 | 60,056 | 60,090 |
| Financement-Québec floating rate, 2014-12-01 | CAD 100,000 | 99,735 | 99,726 |
| | | 159,791 | 159,816 |
| Municipalities and Semi-Public Institutions (2.9%) | | | |
| City of Salaberry-de-Valleyfield 1.500%, 2013-01-31 | CAD 20,000 | 19,961 | 19,991 |
| City of Trois-Rivières 1.550%, 2013-04-25 | CAD 50,000 | 49,902 | 49,946 |
| | | 69,863 | 69,937 |
| Corporations (23.7%) | | | |
| Bank of Montreal floating rate, 2013-01-22 | CAD 75,000 | 75,000 | 75,018 |
| BMW Canada 3.220%, 2013-03-28 | CAD 100,000 | 101,166 | 100,430 |
| Canadian Imperial Bank of Commerce floating rate, 2014-07-11 | CAD 100,000 | 100,000 | 100,352 |
| GE Capital Canada Funding Company floating rate, 2014-06-11 | CAD 50,000 | 50,000 | 50,315 |
| Honda Canada Finance 5.076%, 2013-05-09 | CAD 50,000 | 51,311 | 50,632 |
| Laurentian Bank of Canada floating rate, 2014-02-14 | CAD 50,000 | 50,130 | 50,111 |
| Scotiabank 5.040%, 2013-04-08 | CAD 50,000 | 50,869 | 50,488 |
| Toronto Hydro Corporation 6.110%, 2013-05-07 | CAD 100,000 | 101,840 | 101,605 |
| | | 580,316 | 578,951 |
| TOTAL BONDS | | 809,970 | 808,704 |
| TOTAL INVESTMENTS (99.3%) | | **2,427,291** | **2,429,882** |
| OTHER NET ASSETS (0.7%) | | | 17,935 |
| NET ASSETS (100%) | | | **2,447,817** |

*The accompanying Notes are an integral part of these financial statements.*

# MONEY MARKET FUND (cont.)

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### STRATEGY IN USING FINANCIAL INSTRUMENTS

**Investment Objective**

To provide a higher level of interest income than can normally be obtained from savings accounts, combined with a high level of liquidity and safety of capital.

**Investment Strategy**

To invest primarily in Canadian government treasury bills and in bankers' acceptances, which have a maximum maturity of 12 months, and the dollar-weighted average term to maturity of the portfolio does not exceed 180 days.

### FINANCIAL INSTRUMENTS FAIR VALUE MEASUREMENT

**Classification of Financial Instruments at Fair Value Measurement**

The following tables categorize the Fund's financial assets fair value measurement according to a three-level hierarchy. The methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities. The fair value measurement is described in the "Valuation of Instruments" section of Note 2.

*Investment Fair Value Measurement at the End of the Year, within the Following Levels:*

| As at December 31, 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Financial Assets Held for Trading | | | | |
| Bonds | 159,816 | 648,888 | — | 808,704 |
| Money Market Securities | 822,089 | 799,089 | — | 1,621,178 |
| TOTAL | **981,905** | **1,447,977** | **—** | **2,429,882** |

| As at December 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Financial Assets Held for Trading | | | | |
| Bonds | 110,070 | 421,533 | — | 531,603 |
| Money Market Securities | 727,887 | 1,412,893 | — | 2,140,780 |
| TOTAL | **837,957** | **1,834,426** | **—** | **2,672,383** |

*Transfers between Levels 1 and 2*

During the year ended December 31, 2012, there were no transfers of securities between Levels 1 and 2.

In December 2011, securities valued at approximately $225,000 were transferred from Level 1 to Level 2 following the modification of the method of classification.

### FINANCIAL INSTRUMENTS RISKS

**Currency Risk**

The following table summarizes the Fund's exposure to currency risk:

| As at December 31, 2012 | Financial Assets Held for Trading | Other Assets | Financial Liabilities Held for Trading | Other Liabilities |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| U.S. Dollar | 490 | — | — | — |

As at December 31, 2012, had the Canadian dollar strengthened or weakened by 3% in relation to U.S. dollar, with all other variables held constant, the impact on net assets would not have been significant.

In practice, actual trading results may differ from this sensitivity analyses and the differences could be significant.

As December 31, 2011, the majority of the Fund's financial assets and liabilities are denominated in Canadian dollars. As a result, the Fund is not significantly exposed to currency risk.

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### Interest Rate Risk

The following tables summarize the Fund's exposure to interest rate risk. They include the Fund's financial assets and liabilities at fair value, categorized by the earlier of contractual re-pricing or maturity dates.

| As at December 31, 2012 | Less than 1 Year | 1 to 5 Years | 5 to 10 Years | Greater than 10 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | |
| Financial assets held for trading | 2,437,554 | — | — | — | — | 2,437,554 |
| Other receivables | — | — | — | — | 15,943 | 15,943 |
| TOTAL ASSETS | **2,437,554** | **—** | **—** | **—** | **15,943** | **2,453,497** |
| **Liabilities** | | | | | | |
| Accrued expenses | — | — | — | — | 5,680 | 5,680 |
| TOTAL LIABILITIES | **—** | **—** | **—** | **—** | **5,680** | **5,680** |
| TOTAL INTEREST SENSITIVITY GAP | **2,437,554** | **—** | **—** | **—** | **10,263** | **2,447,817** |

| As at December 31, 2011 | Less than 1 Year | 1 to 5 Years | 5 to 10 Years | Greater than 10 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | |
| Financial assets held for trading | 2,673,707 | — | — | — | — | 2,673,707 |
| Other receivables | — | — | — | — | 57,696 | 57,696 |
| TOTAL ASSETS | **2,673,707** | **—** | **—** | **—** | **57,696** | **2,731,403** |
| **Liabilities** | | | | | | |
| Accrued expenses | — | — | — | — | 4,192 | 4,192 |
| Other liabilities | — | — | — | — | 113,376 | 113,376 |
| TOTAL LIABILITIES | **—** | **—** | **—** | **—** | **117,568** | **117,568** |
| TOTAL INTEREST SENSITIVITY GAP | **2,673,707** | **—** | **—** | **—** | **(59,872)** | **2,613,835** |

As at December 31, 2012, had prevailing interest rates increased or decreased by 0.25%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased or increased by $1,244 ($2,137 as at December 31, 2011).

There is minimal sensitivity to changes in interest rates for money market securities since these are usually held to maturity and tend to have a short-term nature.

In practice, actual trading results may differ from these sensitivity analyses and the differences could be significant.

# MONEY MARKET FUND (cont.)

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### Price Risk

The Fund trades in financial instruments, taking positions in over-the-counter instruments.

As at December 31, 2012 and 2011, management's estimate of the impact on net assets as a result of a reasonably possible change in the benchmark, using a historical beta coefficient (a measure of the sensibility of a security/Fund in comparison to the market) between the Fund's return as compared to the return of the Fund's benchmark, with all other variables held constant, is included in the following tables. A 36-month regression analysis has been utilized to estimate the historical beta coefficient. The regression analysis uses data based on the monthly returns of the Fund.

As at December 31, 2012

| Benchmark | Change in Price % | Impact on Net Assets $ |
|---|---|---|
| DEX 91-Day Treasury Bills | +/- 0.25 | +/- 5,523 |

As at December 31, 2011

| Benchmark | Change in Price % | Impact on Net Assets $ |
|---|---|---|
| DEX 91-Day Treasury Bills | +/- 0.25 | +/- 6,224 |

In practice, actual trading results may differ from these sensitivity analyses and the differences could be significant.

### Credit Risk

As at December 31, 2012 and 2011, the Fund's credit risk concentration is separated between fixed-income and money market securities. Their fair values include consideration of the issuers' creditworthiness and accordingly, represents the Fund's maximum exposure to credit risk.

The investment grade for Canadian fixed-income securities and money market securities is rated by the *Dominion Bond Rating Service ("DBRS"), Standard & Poor's* or *Moody's*. The investment grade for foreign fixed-income securities and money market securities is rated by *Standard & Poor's, Moody's* or *Fitch*. In cases where the rating agencies do not agree on a credit rating for fixed-income securities and money market securities, they will be classified following these rules:

- If two credit ratings are available, but the ratings are different, the lowest rating is used;
- If three credit ratings are available, the most common credit rating is used;
- If all three rating agencies have different ratings, the middle rating is used.

The credit rating is then converted to *DBRS* format. Generally, the greater the credit rating of a security, the lower the probability of it defaulting on its obligations.

*Portfolio's fixed-income securities by rating category*

As at December 31, 2012

| Rating | Percentage of Fixed-Income Securities % |
|---|---|
| AAA | 7 |
| AA | 28 |
| A | 50 |
| BBB | 6 |
| Not Rated | 9 |
| **TOTAL** | **100** |

As at December 31, 2011

| Rating | Percentage of Fixed-Income Securities % |
|---|---|
| AAA | 21 |
| AA | 56 |
| Not Rated | 23 |
| **TOTAL** | **100** |

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

*Portfolio's money market securities by rating category*

| As at December 31, 2012 | Percentage of Money Market Securities |
|---|---|
| Rating | % |
| R-1 (High) | 40 |
| R-1 (Middle) | 19 |
| R-1 (Low) | 26 |
| R-2 (Middle) | 3 |
| Not Rated | 12 |
| TOTAL | **100** |

| As at December 31, 2011 | Percentage of Money Market Securities |
|---|---|
| Rating | % |
| R-1 (High) | 56 |
| R-1 (Middle) | 23 |
| R-1 (Low) | 10 |
| Not Rated | 11 |
| TOTAL | **100** |

### Liquidity Risk

The following tables analyze the Fund's financial liabilities by relevant maturity groupings based on the remaining contractual period at the Statement of Net Assets date. The amounts in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| As at December 31, 2012 | Less than 1 Month | 1 to 3 Months | No Stated Maturity |
|---|---|---|---|
| | $ | $ | $ |
| Accrued expenses | 5,680 | — | — |
| TOTAL LIABILITIES | **5,680** | **—** | **—** |

| As at December 31, 2011 | Less than 1 Month | 1 to 3 Months | No Stated Maturity |
|---|---|---|---|
| | $ | $ | $ |
| Accrued expenses | 4,192 | — | — |
| Other liabilities | 113,376 | — | — |
| TOTAL LIABILITIES | **117,568** | **—** | **—** |

# MONEY MARKET FUND (cont.)

## FINANCIAL HIGHLIGHTS – UNAUDITED

The following table shows selected key financial information about the Fund and is intended to help you understand the Fund's financial performance for the past five years. The net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

| As at December 31 | 2008 | 2009 | 2010 | 2011 | **2012** |
|---|---|---|---|---|---|
| Net Assets Per Unit ($) | 21.27 | 21.14 | 20.96 | 20.92 | **20.85** |
| Net Asset Value Per Unit ($) | 21.21 | 21.14 | 20.96 | 20.92 | **20.85** |
| **Ratios and Supplemental Data** | | | | | |
| Net Asset Value ($000's) | 2,830 | 2,845 | 2,838 | 2,614 | **2,448** |
| Number of units outstanding (000) | 133 | 135 | 135 | 125 | **117** |
| Management expense ratio (MER)[1] (%) | 1.51 | 1.52 | 1.55 | 1.55 | **1.57** |
| Portfolio turnover rate[2] (%) | n/a | n/a | n/a | n/a | **n/a** |

[1] Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.

[2] The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of a year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

# CANADIAN EQUITY FUND

## STATEMENT OF NET ASSETS

As at December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **ASSETS** | | |
| Cash | **36,876** | 9,132 |
| Investments at fair value* | **5,163,459** | 5,944,149 |
| Premiums receivable | **458** | 506 |
| Receivable for investments sold | **98,667** | 9,086 |
| Interest, dividends and other receivables | **11,528** | 17,524 |
| | **5,310,988** | 5,980,397 |
| **LIABILITIES** | | |
| Accrued expenses | **15,213** | 11,807 |
| Withdrawals payable | **12,060** | 4,876 |
| Payable for investments purchased | **25,889** | 18,026 |
| | **53,162** | 34,709 |
| NET ASSETS HELD FOR THE BENEFIT OF CONTRACTHOLDERS | **5,257,826** | 5,945,688 |
| NET ASSETS PER UNIT (NOTE 3) | **42.47** | 41.29 |
| * *Investments at cost* | **4,911,034** | 6,082,299 |

## STATEMENT OF CHANGES IN NET ASSETS

Years Ended December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| NET ASSETS AT THE BEGINNING OF THE YEAR | **5,945,688** | 8,077,050 |
| Increase (Decrease) in Net Assets from Operations | **145,562** | (1,191,660) |
| Premiums | **50,123** | 74,018 |
| Withdrawals | **(883,547)** | (1,013,720) |
| NET ASSETS AT THE END OF THE YEAR | **5,257,826** | 5,945,688 |

## STATEMENT OF OPERATIONS

Years Ended December 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **INCOME** | | |
| Interest | **—** | 5,098 |
| Dividends | **128,258** | 121,810 |
| Revenue from securities lending | **1,786** | 1,064 |
| | **130,044** | 127,972 |
| **EXPENSES** | | |
| Management fees and guarantee charge | **119,687** | 127,884 |
| Operating expenses | **1,232** | 4,579 |
| | **120,919** | 132,463 |
| NET INVESTMENT INCOME (LOSS) | **9,125** | (4,491) |
| GAINS (LOSSES) ON INVESTMENTS AND PORTFOLIO TRANSACTION COSTS | | |
| Net realized gain (loss) | **(230,674)** | 153,412 |
| Net unrealized gain (loss) | **390,155** | (1,302,034) |
| Commissions and other portfolio transaction costs (Note 6) | **(23,044)** | (38,547) |
| | **136,437** | (1,187,169) |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | **145,562** | (1,191,660) |
| – per unit | **1.09** | (7.91) |

*The accompanying Notes are an integral part of these financial statements.*

# CANADIAN EQUITY FUND (cont.)

## STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2012

| | Number of Shares | Cost $ | Fair Value $ |
|---|---|---|---|
| EQUITIES (97.3%) | | | |
| Energy (27.3%) | | | |
| ARC Resources | 2,176 | 52,669 | 52,899 |
| Baytex Energy Corp. | 1,378 | 62,068 | 59,075 |
| Canadian Natural Resources | 3,200 | 88,990 | 91,616 |
| Cenovus Energy | 4,800 | 165,545 | 159,792 |
| Crescent Point Energy | 1,776 | 71,648 | 66,600 |
| Enbridge | 5,250 | 179,444 | 225,750 |
| MEG Energy Corp. | 1,900 | 68,194 | 57,798 |
| Painted Pony Petroleum | 5,800 | 58,870 | 60,900 |
| Peyto Exploration & Development Corp. | 3,600 | 67,829 | 82,476 |
| Suncor Energy | 8,042 | 281,132 | 263,054 |
| TORC Oil & Gas | 26,866 | 69,928 | 62,060 |
| TransCanada Corporation | 4,000 | 176,069 | 187,880 |
| TransGlobe Energy Corporation | 7,101 | 73,689 | 66,110 |
| | | 1,416,075 | 1,436,010 |
| Materials (15.6%) | | | |
| Agrium | 1,050 | 92,386 | 104,097 |
| Alacer Gold | 10,713 | 65,009 | 55,493 |
| Argonaut Gold | 8,207 | 79,204 | 77,720 |
| AuRico Gold | 16,117 | 127,762 | 130,709 |
| First Majestic Silver Corp. | 3,332 | 67,197 | 66,640 |
| First Quantum Minerals | 7,190 | 160,594 | 157,389 |
| Goldcorp | 2,100 | 91,655 | 76,398 |
| Potash Corporation of Saskatchewan | 1,300 | 62,774 | 52,494 |
| Silver Wheaton Corporation | 1,315 | 38,896 | 47,051 |
| Yamana Gold | 3,100 | 45,885 | 52,855 |
| | | 831,362 | 820,846 |
| Industrials (6.6%) | | | |
| Canadian National Railway Company | 2,263 | 182,871 | 204,417 |
| Canadian Pacific Railway | 600 | 56,339 | 60,504 |
| TransForce | 4,194 | 60,049 | 83,209 |
| | | 299,259 | 348,130 |
| Consumer Discretionary (4.1%) | | | |
| Canadian Tire Corporation, Class A | 940 | 63,412 | 65,208 |
| Dollarama | 2,490 | 143,953 | 146,786 |
| | | 207,365 | 211,994 |
| Consumer Staples (6.0%) | | | |
| Alimentation Couche-Tard, Class B | 2,826 | 127,170 | 137,768 |
| Loblaw Companies | 1,600 | 62,076 | 66,976 |
| Metro | 879 | 48,397 | 55,597 |
| Shoppers Drug Mart Corporation | 1,300 | 52,727 | 55,523 |
| | | 290,370 | 315,864 |

## STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2012

| | Number of Shares | Cost $ | Fair Value $ |
|---|---|---|---|
| Financials (29.0%) | | | |
| Bank of Montreal | 2,850 | 163,421 | 173,308 |
| Brookfield Asset Management, Class A | 5,050 | 146,908 | 183,618 |
| Intact Financial Corporation | 2,000 | 116,255 | 129,380 |
| Manulife Financial Corporation | 8,000 | 98,090 | 107,840 |
| Royal Bank of Canada | 4,037 | 206,906 | 241,534 |
| Scotiabank | 5,400 | 285,609 | 310,068 |
| Toronto-Dominion Bank | 4,525 | 298,693 | 378,515 |
| | | 1,315,882 | 1,524,263 |
| Information Technology (3.1%) | | | |
| CGI Group, Class A | 6,095 | 138,650 | 139,819 |
| Research In Motion | 1,900 | 106,855 | 22,382 |
| | | 245,505 | 162,201 |
| Telecommunication Services (5.6%) | | | |
| Rogers Communications, Class B | 3,501 | 141,129 | 158,035 |
| TELUS Corporation | 2,094 | 119,875 | 136,194 |
| | | 261,004 | 294,229 |
| TOTAL EQUITIES | | 4,866,822 | 5,113,537 |

| | Par Value | | |
|---|---|---|---|
| MONEY MARKET SECURITIES (0.9%) | | | |
| Canada Treasury Bills 2013-02-28 | CAD 50,000 | 49,900 | 49,922 |
| PORTFOLIO TRANSACTION COSTS INCLUDED IN THE SECURITIES' COST | | (5,688) | — |
| TOTAL INVESTMENTS (98.2%) | | **4,911,034** | **5,163,459** |
| OTHER NET ASSETS (1.8%) | | | 94,367 |
| NET ASSETS (100%) | | | **5,257,826** |

*The accompanying Notes are an integral part of these financial statements.*

# CANADIAN EQUITY FUND (cont.)

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### STRATEGY IN USING FINANCIAL INSTRUMENTS

#### Investment Objective

To provide investors with long-term capital growth by investing primarily in Canadian equity securities.

#### Investment Strategy

To invest primarily in the common shares of medium and large cap Canadian securities of growth-oriented companies.

### FINANCIAL INSTRUMENTS FAIR VALUE MEASUREMENT

#### Classification of Financial Instruments at Fair Value Measurement

The following tables categorize the Fund's financial assets fair value measurement according to a three-level hierarchy. The methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities. The fair value measurement is described in the "Valuation of Instruments" section of Note 2.

*Investment Fair Value Measurement at the End of the Year, within the Following Levels:*

| As at December 31, 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Financial Assets Held for Trading** | | | | |
| Equities | 5,113,537 | — | — | 5,113,537 |
| Money Market Securities | 49,922 | — | — | 49,922 |
| TOTAL | **5,163,459** | **—** | **—** | **5,163,459** |

| As at December 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Financial Assets Held for Trading** | | | | |
| Equities | 5,844,283 | — | — | 5,844,283 |
| Money Market Securities | 99,866 | — | — | 99,866 |
| TOTAL | **5,944,149** | **—** | **—** | **5,944,149** |

*Transfers between Levels 1 and 2*
During the years ended December 31, 2012 and 2011, there were no transfers of securities between Levels 1 and 2.

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### FINANCIAL INSTRUMENTS RISKS

#### Currency Risk

The following tables summarize the Fund's exposure to currency risk:

| As at December 31, 2012 | Financial Assets Held for Trading | Other Assets | Financial Liabilities Held for Trading | Other Liabilities |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| U.S. Dollar | 6,608 | 723 | — | — |

| As at December 31, 2011 | Financial Assets Held for Trading | Other Assets | Financial Liabilities Held for Trading | Other Liabilities |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| U.S. Dollar | 8,823 | 809 | — | — |

As at December 31, 2012 and 2011, had the Canadian dollar strengthened or weakened by 3% in relation to U.S. dollar, with all other variables held constant, the impact on net assets would not have been significant.

In practice, actual trading results may differ from these sensitivity analyses and the differences could be significant.

#### Interest Rate Risk

As at December 31, 2012 and 2011, the majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to significant amounts of risk arising from fluctuations in the prevailing levels of market interest rates.

#### Price Risk

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments.

As at December 31, 2012 and 2011, management's estimate of the impact on net assets as a result of a reasonably possible change in the benchmark, using a historical beta coefficient (a measure of the sensibility of a security/Fund in comparison to the market) between the Fund's return as compared to the return of the Fund's benchmark, with all other variables held constant, is included in the following tables. A 36-month regression analysis has been utilized to estimate the historical beta coefficient. The regression analysis uses data based on the monthly returns of the Fund.

| As at December 31, 2012 | Change in Price | Impact on Net Assets |
|---|---|---|
| Benchmark | % | $ |
| S&P/TSX Capped | +/- 3.00 | +/- 171,679 |

| As at December 31, 2011 | Change in Price | Impact on Net Assets |
|---|---|---|
| Benchmark | % | $ |
| S&P/TSX Capped | +/- 3.00 | +/- 193,586 |

In practice, actual trading results may differ from these sensitivity analyses and the differences could be significant.

# CANADIAN EQUITY FUND (cont.)

## FINANCIAL INSTRUMENTS DISCLOSURES (Note 7)

As at December 31, 2012

### Credit Risk

As at December 31, 2012 and 2011, the Fund had no significant investments in either fixed-income securities, money market securities and derivative financial instruments. As a result, the Fund is not significantly exposed to credit risk.

### Liquidity Risk

The following tables analyze the Fund's financial liabilities by relevant maturity groupings based on the remaining contractual period at the Statement of Net Assets date. The amounts in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| As at December 31, 2012 | Less than 1 Month | 1 to 3 Months | No Stated Maturity |
|---|---|---|---|
| | $ | $ | $ |
| Payable for investments purchased | 25,889 | — | — |
| Accrued expenses | 15,213 | — | — |
| Other liabilities | 12,060 | — | — |
| TOTAL LIABILITIES | **53,162** | **—** | **—** |

| As at December 31, 2011 | Less than 1 Month | 1 to 3 Months | No Stated Maturity |
|---|---|---|---|
| | $ | $ | $ |
| Payable for investments purchased | 18,026 | — | — |
| Accrued expenses | 11,807 | — | — |
| Other liabilities | 4,876 | — | — |
| TOTAL LIABILITIES | **34,709** | **—** | **—** |

## FINANCIAL HIGHLIGHTS – UNAUDITED

The following table shows selected key financial information about the Fund and is intended to help you understand the Fund's financial performance for the past five years. The net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

| As at December 31 | 2008 | 2009 | 2010 | 2011 | **2012** |
|---|---|---|---|---|---|
| Net Assets Per Unit ($) | 30.13 | 42.65 | 49.44 | 41.29 | **42.47** |
| Net Asset Value Per Unit ($) | 30.23 | 42.75 | 49.51 | 41.36 | **42.54** |
| **Ratios and Supplemental Data** | | | | | |
| Net Asset Value ($000's) | 6,376 | 7,904 | 8,088 | 5,956 | **5,265** |
| Number of units outstanding (000) | 211 | 185 | 163 | 144 | **124** |
| Management expense ratio (MER)[1] (%) | 1.95 | 1.98 | 2.03 | 2.05 | **2.07** |
| Portfolio turnover rate[2] (%) | 359.58 | 121.19 | 161.98 | 160.52 | **135.81** |

[1] Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.

[2] The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of a year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

# NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

## 1. ESTABLISHMENT OF THE FUNDS

The Imperial Growth Funds (the "Funds") consist of two Funds maintained by Desjardins Financial Security Life Assurance Company ("Desjardins Financial Security" or the "Company") in respect of individual variable insurance contracts issued under the Desjardins Financial Security Imperial Growth Plan. The assets of each Fund are segregated from the Company's other assets and are owned by Desjardins Financial Security. The Funds are not separate legal entities.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars. The significant accounting policies followed by the Funds are summarized below.

### Future Accounting Standards

*International Financial Reporting Standards*

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") announced that GAAP, for publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") and it will apply to semi-annual and annual financial statements for fiscal years beginning on or after January 1, 2011.

In December 2011, the CICA amended the date of application of IFRS for investment companies that apply the Accounting Guideline on investment companies (AcG-18). Hence, IFRS will be adopted for semi-annual and annual financial statements for periods beginning on or after January 1, 2014.

The Company monitors developments in the IFRS conversion program and, in particular, the key elements below:

- Changes in accounting policies;
- Impacts on information technology and data systems;
- Impacts on internal control over financial reporting;
- Impacts on disclosure controls and procedures;
- Impacts on expertise in financial reporting.

As of now, the Company has completed the Identification phase and the analysis of the effects of conversion to IFRS. The Feasibility phase is finalized, and the implementation of improvements is almost completed. Until transition, the Company will monitor developments in IFRS and adjust its transition plan, if necessary.

The Company established that conversion to the current IFRS will essentially change the following policies:

- Consolidation:
  According to current accounting policies (*Accounting Guideline on Investment companies* (AcG-18)), consolidation is not required for funds held by other investment funds meeting monitoring criteria.

  The new *Investment Entities* Amendments to IFRS 10, *Consolidated Financial Statements*, provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure underlying funds at fair value, rather than consolidate them. Therefore, consolidation is no longer required for entities that meet the definition of Investment Entities.

- Classification of Units:
  According to current accounting policies (EIC-149, *Accounting for Retractable or Mandatorily Redeemable Shares*) units are presented to the unitholders' equity.

  In accordance with IAS 1, *Presentation of Financial Statements*, and IAS 32, *Financial Instruments: Presentation*, units will be classified as liabilities or as unitholders' equity based on the units' characteristics.

- Income Taxes:
  According to current accounting policies (EIC-107, *Application of CICA 3465 to mutual fund trusts, real estate investment trusts, royalty trusts and income trusts*), investment funds do not report any future income taxes.

  In accordance with IAS 12, *Income Taxes*, no similar exception to EIC-107 is permitted. Therefore, investment funds will have to report a future income tax assets or liabilities when applicable.

- Statement of Cash Flows:
  According to current accounting policies (Section 1540, *Cash Flow Statement*), presentation of the Cash Flow Statement is not required when the cash flow information is readily apparent from other financial statements or is adequately disclosed in the Notes to the Financial Statements.

  In accordance with IAS 7, *Statement of Cash Flows*, the presentation of the Statement of Cash Flows will be required for all entities.

- Fair Value Measurement :
  In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, fair value is measured based on bid price for a long position and on the ask price for a short position.

  In accordance with IFRS 13, *Fair Value Measurement*, the fair value is measured with the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. The fair value should be between the bid/ask range. Therefore, this standard could reduce the spread between the Net Assets per Unit per the Financial Statements and the Net Asset Value per Unit for Purposes Other than the Financial Statements.

A team was appointed to oversee the IFRS conversion project. Beginning in 2013, the team will start gathering comparative information as at June 30, 2013 in order to prepare for the semi-annual financial statements ending June 30, 2014 under GAAP and in accordance with IFRS. Until the switchover to IFRS in 2014, management will continue to closely monitor the evolution of IFRS.

Given the evolving standards, the Company has determined that the transition to IFRS will have no significant impact on the Funds' net asset value per unit. A comment on the quantitative impact will be presented in the annual financial statements of December 31, 2013.

### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. These estimates are made based on information available as at the date of issuance of the financial statements. Actual results could differ from those estimates.

### Valuation of Instruments

Canadian GAAP requires the fair value of financial instruments traded in an active market to be measured based on an investment's bid/ask price depending on the investment position (long/short).

For the purpose of processing Contract holders' transactions, net asset value is calculated based on the closing market price of investments ("Net Asset Value"), while for financial statement purposes, net assets are calculated based on bid/ask price of investments ("Net Assets").

In accordance with National Instrument 81-106, a comparison between the Net Asset Value per unit and the Net Assets per unit is disclosed in the Reconciliation of Net Assets per Unit per the Financial Statements with Net Asset Value per Unit for Purposes Other than the Financial Statements (see Note 3).

Investments and derivative financial instruments are deemed to be categorized as held for trading and, accordingly, are required to be recorded at fair value, which is determined as follows:

*Money market securities*
Money market securities are recorded at the bid price.

*Equity securities*
Equity securities are recorded at the bid price of the accredited stock exchange on which the corresponding security is mainly traded.

*Warrants*
Non-rated warrants are valued with the Black & Scholes method.

*Bonds and Mortgage-Backed Securities*
Bonds and mortgage-backed securities are valued based on bid prices obtained from recognized securities dealers.

*Financial Derivative Instruments*
Certain Funds may use an array of financial derivative instruments such as forwards contracts and futures contracts, for hedging purposes, purposes other than hedging, or both. The fair value of these instruments corresponds to the gains or losses that would result from the contract close-out on the valuation date; this value is recorded in "Unrealized appreciation (depreciation) on derivatives" in the Statement of Net Assets. As at December 31, 2012, no such investments were recorded.

*Valuation of Unlisted Securities and Other Investments*
When the valuation principles of the aforementioned investments are not appropriate, fair value is determined according to the Company's best estimate, based on established valuation procedures. These procedures cover, among others, securities no longer traded, securities issued by private corporations as well as illiquid securities. The fair value of these securities established for the purpose of calculating the Funds' net asset value may differ from the securities most recent bid or ask price.

# NOTES TO THE FINANCIAL STATEMENTS (cont.)

### Investment Transactions

Investment transactions are accounted for on the trade date. The cost is determined on an average cost basis except for the money market securities, for which the cost is determined using the First In First Out method. Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Funds are recognized in the Statement of Operations. The difference between the unrealized appreciation (depreciation) of investments at the beginning and at the end of the year is included in the "Net unrealized gain (loss)" in the Statement of Operations. When the Fund disposes of an investment, the difference between the fair value and the cost of investments is included in the "Net realized gain (loss)" in the Statement of Operations.

### Securities Lending

Income from securities lending is recorded as "Revenue from securities lending" in the Statement of Operations on a cash basis accounting. The securities on loan continue to be disclosed in the investment portfolio. The cash collateral received by the Funds and the obligation to repay the cash collateral is disclosed in the Statement of Net Assets. Aggregate values of securities on loan and related collateral held in trust are disclosed in Note 9.

### Cash

Cash and bank overdraft are deemed to be held for trading and carried at fair value.

### Other Assets and Liabilities

Margin deposited on futures contracts, premiums receivable, receivable for investments sold and interest, dividends and other receivables are deemed to be loans and receivables and recorded at cost. Similarly, overdraft on futures contracts, accrued expenses, withdrawals payable and payable for investments purchased are deemed to be other financial liabilities and recorded at cost. Given their short nature, their carrying amount approximates their fair value.

### Income

Income is accounted for on an accrual basis. Interest income is recorded as it is earned and dividend income is recorded on the ex-dividend date. Interest income might include other revenues. Distributions received from income and royalty trust investments are classified as income, capital gains or return of capital based on amounts reported by the management of these trusts, or if such specific information is not available, the Company will determine the split at its discretion.

Gains and losses realized when financial derivative instruments held for hedging purposes are closed out are included in the "Net Realized Gain (Loss)" in the Statement of Operations. Gains and losses on financial derivative instruments held for purposes other than hedging are included in "Net Income (Loss) from Derivative Financial Instruments" in that Statement.

### Foreign Currency Translation

The fair value of financial instruments denominated in foreign currencies is translated into Canadian dollars at the rate of exchange on each valuation date. Purchases and sales of securities as well as income and expenses denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the transaction date.

Realized exchange gains and losses are included in the "Net Realized Gain (Loss)" in the Statement of Operations. The difference between the unrealized exchange gains and losses at the beginning and at the end of the year is included in the "Net Unrealized Gain (Loss)" in that Statement.

### Increase (Decrease) in Net Assets from Operations per Unit

Increase (decrease) in net assets from operations per unit in the Statement of Operations represents the increase (decrease) in net assets from operations, divided by the average number of units outstanding during the year.

## 3. RECONCILIATION OF NET ASSETS PER UNIT PER THE FINANCIAL STATEMENTS WITH NET ASSET VALUE PER UNIT FOR PURPOSES OTHER THAN THE FINANCIAL STATEMENTS

The reconciliation is presented below:

| | | **Net Assets per Unit per the Financial Statements** | **Net Asset Value per Unit for Purposes Other than the Financial Statements** |
|---|---|---|---|
| | | **$** | **$** |
| Money Market | **2012** | **20.85** | **20.85** |
| | 2011 | 20.92 | 20.92 |
| Canadian Equity | **2012** | **42.47** | **42.54** |
| | 2011 | 41.29 | 41.36 |

## 4. UNITS OF A FUND AND VALUE OF UNITS

### Structure of the Funds and the Units

The Funds are wholly owned assets of Desjardins Financial Security, which have been segregated from the Company's other assets. Except for instances where the Company has acquired an interest in the Fund, the Funds' assets may only be used to pay benefits under the Contracts.

Each Fund's units are attributed to individual Contracts for the purpose of determining the value of benefits under those Contracts. A Contract holder acquires no direct claim on the units or assets of a Fund by purchasing a Contract but only the benefits which are provided under the Contract.

Subject to the Company's administrative rules, Contract holders have the right to make transactions under their Contracts such as premium payments, surrenders and inter-Fund transfers. As a result of these transactions, units are attributed to and withdrawn from the Contract based on each Contract's terms and conditions or as provided by law. Since the Contract holder does not own units of a Fund, ownership of units cannot be sold or transferred to another party. There are no voting rights associated with the units of the Fund.

### Valuation of the Units

The units of a Fund are valued according to the administrative rules established by the Company and in accordance with the Contract and all laws and regulations applicable to the Funds.

A separate net asset value per unit is determined on each market day by dividing the net assets of the Fund by its outstanding units.

### Number of Units

The number of units outstanding in each Fund as at December 31, 2012 and 2011 and the number of units attributed to and withdrawn from contracts during the years are as follows:

| | **Outstanding Units** | | **Attributed Units** | | **Withdrawn Units** | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| Money Market | **117,395** | 124,918 | **12,954** | 45,413 | **20,477** | 55,850 |
| Canadian Equity | **123,787** | 144,005 | **1,186** | 1,550 | **21,404** | 20,900 |

## 5. MANAGEMENT FEES AND OTHER EXPENSES

### Management Fees

Management fees are calculated based on the net assets of each Fund at each valuation date. The Imperial Growth Canadian Equity Fund bears management fees of 2% per annum with respect to policies issued after 1988 and 1.5% per annum with respect to policies issued before 1989. The Imperial Growth Money Market Fund bears management fees of 1.5% per annum.

### Operating Expenses

In addition to management fees, a charge is applied to each Fund for operating and administrative expenses relating to the Fund. Each Fund is also responsible for all applicable taxes, including GST and Harmonized sales tax (HST) if any, and all brokerage commissions incurred in the buying and selling of investments on behalf of a Fund.

### Management Expense Ratios

The management expense ratios for the past five years, which includes management, guarantee and operating expenses, are as follows* :

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **%** | % | % | % | % |
| Money Market | **1.5679** | 1.5486 | 1.5453 | 1.5189 | 1.5081 |
| Canadian Equity | **2.0677** | 2.0539 | 2.0300 | 1.9783 | 1.9474 |

* Management expense ratios do not include GST and HST if any.

## 6. RELATED PARTY TRANSACTIONS

The Funds pay management fees to the Company, which are presented in the Statement of Operations. Those fees are calculated on a daily basis with the net asset value of the Fund and paid monthly at the annual rate specified in Note 5.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# NOTES TO THE FINANCIAL STATEMENTS (cont.)

## 7. FINANCIAL INSTRUMENTS DISCLOSURES

### DFS Preliminary information

The net assets of the Imperial Growth Funds are held by the Company on behalf of all Contract holders. These Funds are not separate legal entities. The Contract holders do not own any of the assets of the Funds nor own an interest in the Funds. However, the financial instrument risks resulting from the Funds are assumed by the Contract Holders. The segregated fund's value may increase or decrease according to market fluctuations.

Moreover, the Funds are offered with a deposit guarantee limited to 75% that protects the deposits until specific maturity dates.

### Classification of Financial Instruments at Fair Value Measurement

The Funds present their financial instruments at fair value according to a three-level hierarchy that reflects the significance of the inputs used to determine such fair value measurements. The fair value hierarchy consists of the three following levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A change in the fair value measurement method could result in a transfer between levels.

### Financial Risk Management

The Funds' activities expose them to a variety of financial risks, among which are market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Funds' overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Funds' rate of return.

In accordance with the Funds' investment policy, the Company monitors the Funds' risks on a monthly basis and the investment committee reviews these risks on a quarterly basis.

*Currency Risk*
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Funds are exposed to the currency risk in holding assets and/or liabilities denominated in currencies other than the Canadian dollar, the Funds' functional currency, as the value of the securities denominated in other currencies will fluctuate in accordance with the applicable exchange rates in effect.

The Fund's exposure to currency risk is shown based on the carrying value of monetary and non-monetary assets, (including derivatives and the notional amount of forward currency contracts, if any). For the notional amount of forward currency contracts, a long position is shown under "Financial Assets Held for Trading," and a short position under "Financial Liabilities Held for Trading."

When the Canadian dollar decreases in relation to the foreign currencies, then the value of foreign investments increases. When the value of the Canadian dollar increases, the value of foreign investments decreases.

*Interest Rate Risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

Interest rate risk occurs when a Fund invests in interest-bearing financial instruments. The Funds are exposed to the risk that the value of such financial instruments will fluctuate due to changes in market interest rates. Generally, the value of these securities increases if interest rates decrease and decreases if interest rates increase. There is minimal sensitivity to interest rate fluctuations on cash and cash equivalents invested at short-term market interest rates.

*Price Risk*
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk).

All securities investments present a risk of loss of capital. The portfolio advisor intends to manage this risk through a careful selection of securities and other financial instruments in compliance with the specified limits. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Funds' overall market positions are monitored on a monthly basis by the Funds' portfolio advisor and reviewed on a quarterly basis by the investment committee. The Funds' financial instruments are exposed to market price risk arising from uncertainties about the future prices of instruments.

The Funds' market price risk is managed through diversification of the investment portfolio's exposure ratio. The return on investments held by the Funds is monitored by the Company on a monthly basis and reviewed by the investment committee on a quarterly basis.

*Credit Risk*
Credit risk is the risk that the counterparty to a financial instrument will be unable to pay the full amount upon maturity.

The Funds take on exposure to credit risk and default provisions are recorded for the losses incurred prior to the Statement of Net Assets issue date, if any.

All transactions are settled or paid upon delivery through approved brokers. The risk of default is considered minimal as securities sold are delivered only once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party defaults on its obligation.

The entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

*Liquidity Risk*
Liquidity risk is the risk that a counterparty to a financial instrument may not be able to settle or meet its obligation on time or at a reasonable price.

The Funds are exposed to daily cash redemptions of units. They therefore invest the majority of their assets in liquid investments (i.e. investments that are traded in an active market and that can be readily disposed of). In accordance with securities regulations, the Funds must maintain at least 90% of their assets in liquid investments.

*Additional information*
For further information regarding the classification of financial instruments at fair value measurement and risk exposure of each Fund, please refer to the appendix of the investment portfolio of each Fund.

## 8. TAXATION OF THE FUNDS AND CAPITAL GAINS

Under the *Income Tax Act* (Canada), each Fund is treated as a segregated fund trust. The Fund's income, as well as gains or losses realized, if any, are allocated to Contract holders on a regular basis. In the case of interest that accumulates in a registered account, Contract holders will not receive annual tax slips. However, any amount paid to Contract holders or former Contract holders may be subject to be taxed in their hands. In the case of interest that accumulates in a non-registered account, Contract holders will receive an annual tax slip for any income, gains or losses allocated. Under current tax laws, Funds do not pay income taxes, with the exception of foreign tax withholdings that may apply.

## 9. SECURITIES LENDING

The Funds lend securities they own to third parties and receive securities or cash amounts as collateral. The fair value of securities owned by the Funds that have been loaned and the value of collateral securities at December 31, 2012 are as follows:

| | **Fair Value** | **Value of Collateral Securities** |
|---|---|---|
| | **$** | **$** |
| Canadian Equity | 1,642,819 | 1,675,674 |

The Funds require collateral in the form of cash or such other securities as may be acceptable to Desjardins Financial Security and that have an aggregate value of no less than 102% of the fair value of the loaned securities.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING IN THE AUDITED ANNUAL FINANCIAL STATEMENTS

## Management

The accompanying financial statements have been prepared by the management of the Funds' trustee, Desjardins Financial Security Life Assurance Company ("Desjardins Financial Security"), in accordance with Canadian generally accepted accounting principles. Management is responsible for the information contained in the financial statements.

Desjardins Financial Security maintains an appropriate system of internal control to ensure than relevant and reliable financial information is produced and that the Funds' assets are appropriately accounted for and safeguarded. A summary of the significant accounting policies applicable to the Funds can be found in Note 2 of the Notes to the Financial Statements.

## External Auditor

Deloitte s.e.n.c.r.l. have been appointed by the Audit Committee of Desjardins Financial Security as the external auditor of the Funds. Their responsibility is to audit the annual financial statements in accordance with Canadian generally accepted auditing standards and to report to the Contract Holders of the fairness of the Funds' financial position and results of operations as reflected in the annual financial statements.

Montréal, Quebec
April 25, 2013

**Alain Bédard**
Senior Vice-President,
Individual Insurance and Savings

# INDEPENDENT AUDITOR'S REPORT

## To the Contract holders and Manager of the following segregated funds of Desjardins Financial Security Life Assurance Company:

Imperial Growth Money Market Fund

Imperial Growth Canadian Equity Fund

(Collectively called the "Funds")

We have audited the accompanying financial statements of the Funds which comprise the Investment Portfolios as at December 31, 2012, the Statements of Net Assets as at December 31, 2012 and 2011, the Statements of Operations and Changes in Net Assets for the years then ended, as well as a summary of significant accounting policies and other explanatory information.

### MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the Investment Portfolio of each of the Funds as at December 31, 2012, their financial position as at December 31, 2012 and 2011, as well as the results of their operations and the changes in their net assets for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte s.e.n.c.r.l.[1]

Montreal, Quebec
April 25, 2013

[1] CPA auditor, CA, public accountancy permit No. A104243

# NOTES

# NOTES

# NOTES

# Thank you.

Thank you for choosing the strength and stability of a company specialized in providing individual insurance and retirement savings products to over five million Canadians, every day, to ensure their financial security.

Thank you for also choosing Desjardins Group, the largest cooperative financial group in Canada, whose **financial stability is recognized** by the following credit ratings which are comparable, if not superior to those of the five largest Canadian banks and insurance companies:

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