BANK ON US

ANNUAL REPORT 2013

About Equitable Group Inc.

Equitable Group Inc. (TSX: EQB and EQB.PR.A) is a growing Canadian financial services business that serves the market through its wholly-owned subsidiary, Equitable Bank. Equitable Bank is a federally regulated Schedule I Bank with total assets of approximately $12 billion, offering savings and mortgage lending products to retail and commercial customers across Canada. For more information, visit the Company's website at www.equitablebank.ca and click on Investor Relations.

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We've opened a new chapter in our proud history as a Canadian financial services company by converting our wholly-owned subsidiary into a Schedule I Bank and introducing exciting new product solutions. That means you can bank on us for more of what you need …

Superior Returns on Your Savings

As a leader in branchless banking, Equitable provides a rate of return on savings that makes us the favoured choice for Canada's most discerning financial consumers.

Unlike many other financial institutions, Equitable is not burdened with the overhead associated with branch networks. This fundamental difference means we can provide our customers with consistently superior returns on our Guaranteed Investment Certificates (GICs) and High Interest Savings Accounts.

This is just one – albeit the most important – of many reasons that Canadians from coast to coast have entrusted us with well over $6 billion of their savings. Another is that Equitable has a strong capital base as a federally regulated Schedule I Bank and is a member of the Canada Deposit Insurance Corporation (CDIC), meaning the savings entrusted to us are safe and secure.

Savers also like Equitable because our rates are transparent, our terms are easy to understand, and our Deposit Services team works seamlessly with independent deposit brokers and financial planners who shop the market for the best returns.

Whether our customers access their funds through an on-line trading account, an independent professional or at the Bank's head office in mid-town Toronto, they get the convenience of personal banking and the power of higher returns. This makes our Bank's savings products ideal wealth builders for any number of important purposes:

- saving to buy a home, vacation property or car
- saving to fund a small business purchase
- saving for a rainy day
- saving – inside an Equitable Tax-Free Savings Account (TFSA) where all interest earned on eligible contributions is tax-free

Choice is also an important part of our value proposition. We offer short-term GICs for those wishing to invest from 30-364 days with interest paid at maturity; long-term GICs with terms of one to five years (including options on when interest is paid: be it annually, semi-annually, quarterly, monthly or compounded annually, paid at maturity); and Cashable GICs available for a one-year term that can be redeemed any time after 30 days with interest paid at your contract rate for the time held.

Equitable Bank's broad portfolio of GIC products means our customers can easily employ a laddered strategy – purchasing products with different maturity dates – to meet their staggered needs for cash. This strategy can also work to diversify their rates of return in a rising interest-rate environment.

In late 2013, we added another important savings vehicle for our customers: the Equitable Bank High Interest Savings Account (HISA). Like our other savings solutions, it outperforms ordinary bank accounts by paying a competitive rate of interest, calculated daily and paid monthly – and comes with absolutely no fees or strings attached. Our HISA can be used as a temporary shelter or long-term port of call for savings of as little as $500 up to and including $2.5 million.

The Equitable Bank High Interest Savings Account is available through authorized dealers on the Fund*SERV* network (Company Code EQB). Equitable GICs are similarly offered by independent deposit brokers, investment dealers and other professional intermediaries.

When it comes to savings, our goal is to be the financial institution that savers bank on for great returns, guaranteed.

Highly Responsive Residential Mortgage Solutions

Equitable is the bank that the self-employed and other Canadians, overlooked by the country's largest financial institutions, turn to in realizing their dreams of home ownership.

Through our Single Family Lending Services business, we occupy a special place in the Canadian financial services landscape. We specialize in understanding the needs of – and giving great service to – the self-employed, newcomers to Canada, those who have no or limited credit history as well as the independent mortgage brokers who expertly represent them.

As a result, we have positioned the Bank as a lender of choice in urban centres across Canada – including Gatineau and the Greater Montreal Area starting in the spring of 2014 – and have benefitted from the trends that are reshaping our country: the rise of the entrepreneurial, business-for-self class; the arrival of newcomers who enrich us with their culture, their work ethic and their capital; and growing recognition among both consumers and legislators of the important role that mortgage brokers and smaller financial institutions play in sustaining a healthy and competitive marketplace.

Rose Lirantzis is a perfect example of a customer who chose us because of our focus. Rose is an entrepreneur. She also happens to be an experienced mortgage advisor who serves a growing clientele of home buyers in the Greater Toronto Area and increasingly, single family borrowers who are also investing in commercial properties.

In representing her clients, many of whom are also self-employed, Rose searches the market for the best rates, terms and service. She often recommends us over competing lenders because, as she says, "Equitable offers the best combination of all three and is always prepared to go above and beyond to satisfy customer needs, whether on a residential or commercial transaction."

In renewing the mortgage on her home this past December, Rose chose to move her personal business to Equitable for the same reasons. As a discerning financial products' consumer, Rose's endorsement means a lot to us.

For people like Rose, we have made service excellence a way of life at our Bank, bearing in mind that we are just one of many lenders and must earn our way into the hearts and minds of borrowers and mortgage advisors. This means showing we care by responding quickly to requests, processing paperwork accurately and efficiently and continually investing to up our game through knowledge, technology and product development.

Our products include, as one would expect of a successful residential lender, fixed and open interest rate conventional mortgages, adjustable rate mortgages and since the fall of 2013, the Equitable Bank Home Equity Line of Credit or "HELOC". Our HELOC makes it possible for Single Family customers to get more out of their mortgage accounts by accessing home equity to use for investments or to provide capital to grow their businesses.

We developed our HELOC recognizing that each of our borrowers has unique and changing cash flow needs that can best be met with a flexible financial tool such as this. Rather than looking elsewhere to satisfy their credit lifecycle requirements, our customers can bank on us for credit, at very competitive rates, that can be used to fund whatever is important to them.

This product is much cheaper than carrying a balance on a conventional credit card and yet it is just as convenient to use thanks to the fact that it comes with an Equitable Bank VISA® Gold Access Card.

Rose Lirantzis banks on us because ...

"Equitable wants my business and isn't afraid to show it. In my experience, they are as friendly and responsive to borrower needs when the mortgage transaction closes as they are when they were bidding on the business. I worked for another lender in the past, and I'm intimately familiar with the competitive lending marketplace and believe me, Equitable's approach is not the norm. With Equitable, I feel valued."

Our HELOC is available as a value-added feature on new home purchases, renewals and refinancings in combination with a mortgage. It even comes with no charge health and legal assistance services, auto rental collision and loss damage insurance and emergency card and cash replacement.

While serving our customers, we also employ all of the rigorous risk management techniques expected of a disciplined lender. Managing to do both is not easy, but it's why we are gaining access to more and more lending opportunities that may have gone to other lenders in the past – and sustaining our exemplary track record of credit quality.

All of which proves that in the consumer lending market our Single Family Lending Services business sees possibilities – and realizes on them.

Commercial Mortgages That Work

Equitable Bank does more than fund mortgages on commercial properties. We help our commercial customers realize their business objectives.

Unlike a traditional bank, we see the people behind the mortgage. Quality people like Paul Pattison who is building Canada's new economy one pixel at a time.

Paul is the co-founder of Relish Interactive (www.reli.sh), a 20-person digital media company. From offices in Toronto, Vancouver and San Francisco, Relish designs mobile apps, websites, games, motion graphics, and social media campaigns for some of North America's most creative ad agencies and TV producers. Driven by Relish's success, Paul recently co-founded a second venture in his Kensington Market location called All Play, No Work which is developing a children's iPad storybook with innovative game apps.

After seven years of business success, Paul recently found himself looking for a new financial services partner that could better appreciate the investments he was making in his business.

Working with a commercial mortgage broker, Paul came to our Bank and to our Commercial Lending Services team seeking a new mortgage on a 3,400 square foot Toronto studio he purchased three years ago to accommodate business growth. Unlike his previous financial institution, we did a deep dive, using our unique approach to credit decisioning. What did we find? Not only did Paul have sufficient equity in the Augusta Avenue property, including $250,000 that Paul and his partner invested in renovating it, Paul had successfully rented the ground floor store to a tenant who is contributing to cash flow.

With an Equitable Bank commercial mortgage in place, Paul and his team can now focus on developing both businesses with an eye on international success.

Paul is just one example of many Canadians who bank on us because they know we have the expertise to understand that financial statements, while important, are not always indicative of future results.

Taking a personal approach is what our Commercial Lending Services team does every day in working with commercial borrowers and their mortgage brokers and legal advisors. Our experienced experts make the

Paul Pattison, co-founder and Technical Director of Relish Interactive, banks on us because ...

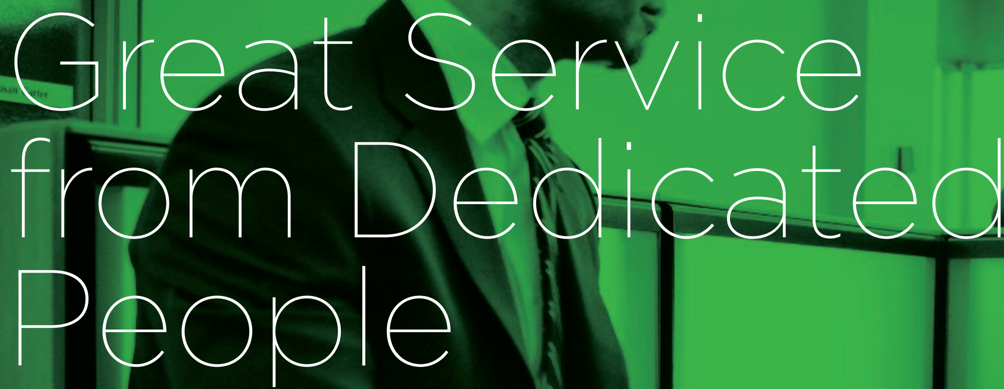
"Equitable is open-minded and flexible and they move quickly. It took two weeks for my previous bank just to send a mortgage statement. With Equitable, it arrived the next day. In my world, time is money and Equitable Bank appreciates that fact."

effort to understand the big picture on every one of the myriad of commercial mortgage requests that we receive as a growing national financial services provider.

Whether it is a small mortgage like Paul's or a multi-million dollar CMHC-insured loan to a large REIT, we find tremendous value in taking the measure of the people behind the request and assessing their potential – not just their past – as part of the calculus of our proven evaluation process. Our fundamental approach assesses the 5-C's: Character of the borrower; Capacity to repay the loan; Capital that the borrower has invested; Collateral used to secure the loan; and Conditions including the amount of principal and interest rate. It is this up-close-and-personal method that makes it possible for us to lend with confidence on large and small mortgages alike.

In our $2.4 billion commercial portfolio are mortgages on mixed-used properties, multi-unit residential properties, shopping plazas, offices, industrial sites and properties under construction, some underwritten exclusively by our Bank and some underwritten in partnership with other institutions. But more than this, there are business owners like Paul who know that Equitable Bank is there to support them every step of the way.

Great Service from Dedicated People



It takes a special person to be part of the Equitable team: intelligent, energetic, engaged, caring and solutions oriented. Today, we have almost 300 of these special people and it shows.

A baker who learned his trade in France and with the help of an Equitable Bank commercial mortgage, expanded his business in Montreal. A homeowner who used us to purchase her first home in Vancouver six months after leaving her native country. A mortgage broker building his practice one loan at a time in downtown Halifax. These are just some of the many customers we serve every day.

Their lives are worlds apart. But they're all connected by an essential daily need – the need to be understood, respected and supported. It's a need Equitable employees meet 24/7 while maintaining the discipline that goes hand-in-hand with our status as a regulated and performance-driven financial institution.

Our people are our best assets and the key to our success in markets across Canada.

Together, they focus on common goals and pursue clear strategies. They live and breathe service and help our customers achieve their personal financial goals, whatever they may be: investing in commercial real estate, buying a home to raise a family or saving for the future through an Equitable Bank GIC or High Interest Savings Account.

In exchange for all that they do for the Bank, our team banks on us to create a respectful and engaging workplace, where teamwork and learning are encouraged, initiative is valued, and hard work is rewarded.

To address the needs of our employees and create the positive relationships between our people and our institution that are essential to long-term success, we are constantly refining our people and performance management systems, our workplace career development programs, including one-on-one manager training and coaching, and clarifying accountabilities to create a working environment where everyone can contribute. More is planned for the years ahead to maintain our edge in the market.

We also dramatically improved our benefits program. Today, the Equitable team has access to a retirement savings plan, a company-matched deferred profit sharing plan, and a stock purchase plan that gives our people a helping hand in becoming Equitable shareholders. Equitable is also committed to supporting wellness for our people through workplace immunization programs, health programs, health seminars and free access to a gym and yoga studio.

These investments are the most important that we make each year and they are shaped by feedback we receive from our employees during formal engagement surveys. These surveys tell us where we need to improve and where we've struck the right cord.

Since we did our first survey in 2009, our engagement scores have improved steadily and significantly each year. The feedback is overwhelming that our team believes in our approach to business and foresees a bright future for our institution. People like working for the Bank and turnover is lower than the industry as a whole.

Attracting top talent to serve alongside our proven performers also infuses our organization with fresh perspectives, enhances our ability to coach our next generation of leaders and simply makes Equitable a better bank.

Overall, it takes a diverse set of skills – treasury, credit, finance, securitization, legal, compliance, IT and digital banking, risk management, marketing, sales and HR – that need to be welded together in a complex set of relationships to run a bank. Across our entire organization, we have the people to run the Bank and are developing strength on the bench to take us into the future.

We are extremely proud of our team, of the diverse, high-performance culture we are creating and of what we do each day in the service of Canadian savers and borrowers.

Caring Support for Important Social Causes

As a socially responsible bank, we work collaboratively to make our communities better.

In 2013, we did more than ever in support of important social causes, using a proven strategy that is based on a simple but powerful principle: we can make a bigger impact by combining financial contributions with the skills, talents and energy of our people.

This means that when we engage, we go all in as a team and as a corporation and where possible, join with our business partners to further maximize the value of our support.

Deciding on where to invest in a community is exceedingly important. As a financial services provider with diversified mortgage lending operations, we've chosen to focus on mental health and the attendant issue of homelessness. This is a major problem across Canada, including in our most prosperous communities.

Reflecting our dedicated community service strategy, Equitable is a long-time supporter of 40 Oaks and Madison Community Services ("MCS"). At 40 Oaks, an affordable housing and community centre complex in Toronto's Regent Park neighbourhood managed by the CRC, our team is deeply engaged, volunteering to serve meals to grateful residents. At MCS, which promotes the health, recovery and community integration of persons with mental health challenges, our support over the years has been multi-faceted and includes volunteering, offering vital resources for housing renovations and more recently funding for a Bursary Program that provides worthy recipients with funds to pursue formal education or life skills training. For the past two years, we have also sponsored MCS's Arts Expression Program and hosted an arts and crafts exhibition at the Bank where gifted artisans, who also happen to be MCS clients, showcase their handiwork with the support of Equitable volunteers, and sell it to consumers.

As strategic causes, 40 Oaks and MCS account for a significant part of our giving activities year to year. But that doesn't stop our team from making generous contributions to other important charities, like the Heart and Stroke Foundation's *Ride for Heart*. In 2013, a 115-member Equitable team of employees, their families and business partners rode and raised over $42,000. Of the 37 financial institutions entered in this race, we finished second and took home a Silver Wheel award for our efforts and the knowledge that we made a meaningful difference – as a team – to funding research for these life-threatening diseases.

We also entered three teams in the Bombardier Plane Pull for ALS Canada, where competitors struggled to pull a Q400 NextGen aircraft, weighing 37,000 lbs., over a 100-metre course in the shortest time possible. The 30 Equitable participants took home the title as the event's top fundraisers, contributing $25,000 to purchase essential medical equipment for people with Lou Gehrig's disease.

Other important Equitable causes in 2013 included: co-sponsoring an auction at the Dankooz Golf Tournament, which raised more than $100,000 for Montréal's Children's Hospital Foundation and Centre hospitalier universitaire Sainte-Justine; sponsoring and volunteering at the Mount Sinai Hospital Classic Golf Tournament; joining with the *Brown Bagging for Calgary's Kids Society* (BB4CK) in their efforts to deliver more than 1,500 lunches a day to Calgary schools; playing in the Paddle Royale ping pong tournament in aid of Big Brothers and Big Sisters Toronto; and supporting READ, a charity whose mission is to bring authors into schools in challenged neighbourhoods.

Overall, we seek to engage with charitable organizations collaboratively, respectfully and with a shared sense of purpose so that they too can bank on us for reliable support.

Of course, our communities also include our business partners. We believe our Bank has a responsibility to them that extends beyond day-to-day service. That's why we are dedicated members and tireless advocates of *The Canadian Association of Accredited Mortgage Professionals* (CAAMP), participants in events such as the *British Columbia Women in Mortgages Leadership* symposium, various housing and real estate conferences, and broker appreciation dinners.

Our employees further lend their expertise by serving on education and compliance committees for organizations such as the *Independent Mortgage Brokers Association* in Ontario, the *Alberta Mortgage Brokers Association*, and the *Mortgage Brokers Association of British Columbia* and are actively involved in teaching at community colleges.

By engaging with our partners outside of business hours, we advance our understanding of their needs and industry trends, participate in establishing best industry practices and sometimes, get the chance to help them with the many community investments that they make across Canada.

Fellow Shareholders:

In 2013, Equitable again demonstrated consistent value creation while setting new growth and performance records. ROE, which is our most important financial performance indicator as it represents the sum total of our efforts to deploy capital in a disciplined manner, manage our costs and avoid losses, was 18.1 percent. Diluted earnings per share were $5.82, a 14 percent increase over 2012 on improving margins.

Book value per common share increased 18 percent to $35.14 and we declared common share dividends of $0.60, up 15 percent from 2012. Including dividends and share price appreciation, our total return to shareholders was 58 percent in 2013 – making Equitable Canada's best performing bank on the Toronto Stock Exchange.

As Canada's ninth largest independent Schedule I Bank, Equitable is a strong and consistent value creator. Over the past five years, our Company has delivered return on shareholders' equity (ROE) averaging 17.5 percent, achieved average annual growth in diluted earnings per share of 15 percent, and increased the common share dividend five times.

This ongoing trend of performance reflects, in part, our strategy of emphasizing Single Family and Commercial Lending Services, which, after growing by $1 billion in 2013, now represent $6.2 billion or 51 percent of our total portfolio. Growth in this part of our portfolio of some 24 percent each year over the past five years has been designed and delivered to produce strong earnings and margin performance without compromising our financial strength or future. Our year-end capital ratios were all well above international regulatory standards, and our impairment provision amounted to less than $0.7 million in 2013 reflecting the strength of our mortgage book.

This financial performance was achieved by working closely with our customers to deliver excellent service and value. Equitable provides Canadians with good returns on their savings. For real estate owners, ranging from a young family buying a single family home to a commercial property investor or a public REIT looking for financing, the Bank strives to provide competitive rates as well as certainty and consistency in service excellence. We are pleased with the vigorous effort put forward by the Equitable team to make service the lifeblood of the business, which bodes well for the Bank's future.

Overall, our business has the strength, the strategies, and most especially the talented people in place to produce consistently great results for our shareholders, customers and business partners.

Equitable Bank

Perhaps the most notable accomplishment of 2013 was the conversion of The Equitable Trust Company to Equitable Bank, a Schedule I Bank, completed successfully on July 1, 2013. While it did not change our strategies or risk appetite, this

Austin Beutel

"From our family's first investment in 1994, I have witnessed firsthand Equitable's transformation from a small, regional trust company to Canada's 9th largest independent bank serving customers from coast to coast. It has been my pleasure to serve as Chairman for 15 years, and to be present to mark our 10th anniversary as a public company. Many people are responsible for this progress. In the early years, Geoffrey Bledin led the company's turnaround from the difficult real estate market of the early 1990's. Since 2007, our dedicated and talented staff has been led by Andrew Moor, an astute manager with an entrepreneurial bent. As Joe Dickstein, Morris Shohet and I retire from the board this spring, we are confident Equitable is in very capable hands. We have an experienced and vigorous board, which will be chaired by David LeGresley, an expert in financial services governance and strategy, a deeply engaged management group and a great team of people who are performing at a high level across every business line. As a shareholder, I look forward to participating in Equitable's ongoing value creation as a diversified provider of financial products."

sought-after transformation, which was accompanied by a change in our Toronto Stock Exchange common share trading symbols to EQB, elevated our standing in savings markets where banks generally enjoy strong confidence with consumers.

It is part of a broader strategic ambition to provide more financial solutions to more Canadians in the future.

Equitable Bank High Interest Savings Account

Shortly after converting from our trust company roots, Equitable Bank launched two exciting new financial products. The first was the Equitable Bank High Interest Savings Account. Its introduction is strategically important: it allows us to provide greater convenience to the investing public and attract future funds from both existing and new savers. The calculus of this new product is beneficial to consumers in that it pays higher returns than regular savings accounts and beneficial for the Bank as it extends our reach to savers who want a good return on their cash, with the flexibility to be able to access their funds when they want.

As a leading branchless bank, we are reaching the investing public with this new solution through Fund*SERV* , the electronic platform used by mutual fund dealers and members of the Investment Industry Regulatory Organization of Canada (IIROC).

Equitable Bank Home Equity Line of Credit

As a lender, we provide a number of mortgage solutions for residential and commercial customers alike. In late 2013, we added to our Single Family fixed and open-rate conventional mortgages and adjustable rate mortgages, with the Equitable Bank Home Equity Line of Credit (HELOC).

This personal credit facility is available to qualifying homeowners to use as they see fit, and is accessible through an Equitable Bank VISA® Gold Access Card. Our HELOC is ideally suited for many of our self-employed customers who may need to borrow to support seasonal swings in their business needs and want to access funds at the fair rates offered. As such, we believe it will help us provide a broader range of services to existing customers and attract new customers who will value the flexibility and convenience we can now provide.

Bank on Equitable for More in 2014

Today, after more than 40 years of providing valued financial solutions, Equitable is a trusted name in Canada. However, we believe we can build on our position and in so doing, make Equitable an even stronger value creator.

In the near term, in addition to building a following for the products we introduced in 2013, we are expanding our lending footprint. This spring, we are opening for residential mortgage business in the Greater Montréal

Andrew Moor

"I would like to sincerely thank Joe Dickstein, Austin Beutel, and Morris Shohet for their contributions to Equitable over many years. Joe and Morris joined as independent corporate directors in 1995 and 2009, respectively and have played integral roles on the Board and on its various committees since then. Austin became Chairman of the Company in 1999 and has been the guiding hand behind the development of Equitable since then. On a personal note, I owe special thanks to Austin who has provided me trusted advice and guidance since I joined as CEO in 2007. Austin's insightful guidance through the global financial crisis and the ensuing rapid regulatory changes has set Equitable on the path for further success and, I believe, improved my ability to effectively lead the Bank."

area where we have successfully served commercial customers since 2010 and in the Gatineau region, extending our reach to the market around Ottawa.

We do not expect this expansion to have a material impact on our mortgage book or earnings right away, but the expansion into new markets provides us with more opportunity for growth over the years to come.

We are also studying seriously the business prospects of entering the prime single family market with the goals of broadening our customer base and of realizing significant long-term strategic and financial value. We will make final determinations in this regard later in 2014.

Bank on Equitable for Service

In every market we serve, and in every new product introduction, Equitable Bank seeks to make service our key differentiator.

Embracing service as a way of life has been transformational for our Bank. It has shaped our hiring practices, our training investments, the development of our technology and our engagement in the communities where we work. It is the single biggest reason we've been able to deliver meaningful growth and market share year upon year upon year. Today, we are a Bank that is responsive like no other.

We are also a Bank that believes in and is dedicated to the mortgage broker channel. We have long aligned ourselves with these independent professionals and taken it as our obligation to support their success because we believe that their entrepreneurial and innovative spirit and core value proposition will win out over alternative channels. Our thesis has proven to be correct: the broker channel is increasingly vibrant and is attracting more business from other channels, which bodes well for Equitable Bank over the long term.

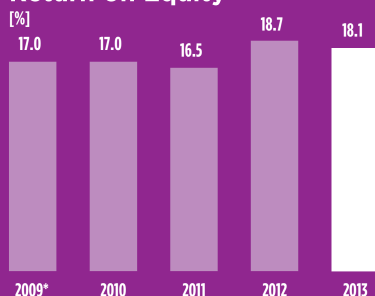
Board Developments

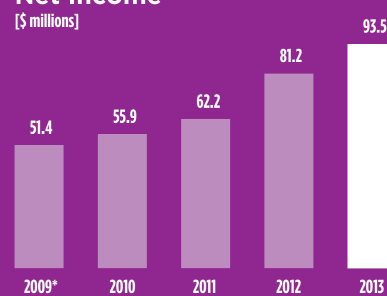
In 2014, Joseph Dickstein, Morris Shohet and Austin Beutel will retire from our Board of Directors. Our Board has worked diligently to identify worthy replacements who will uphold the high standards of governance our stakeholders have come to expect.

We are very pleased that our Board has chosen two experienced business leaders to stand for first-time election this year.

Michael Emory is President, CEO and a Trustee of Allied Properties REIT, a position he has held since 2003. Since 1988, he has also served as President, CEO and a Director of Allied Canadian Development Corporation. Mr. Emory is a graduate of Queen's University and the Faculty of Law at the University of Toronto and serves as a Director of the Real Property Association of Canada, a national industry organization for owners and managers of investment real estate.

Michael Stramaglia is President and Founder of Matrisc Advisory Group, a risk management consulting firm and serves as Executive in Residence at the Global Risk Institute and on the boards of the Economical Insurance Group and Foresters. Earlier in his career, Mr. Stramaglia was Executive Vice-President and Chief Risk Officer for Sun Life Financial,





** 2009 calculated under previous Canadian GAAP, 2010 – 2013 calculated under IFRS*

Executive Vice-President and Chief Investment Officer of Clarica and President and CEO of Zurich Life Canada. He is a graduate of the University of Waterloo, holds the ICD.D designation from the Institute of Corporate Directors and is a qualified actuary and Chartered Enterprise Risk Analyst.

We believe Messrs. Emory and Stramaglia, along with our returning directors will contribute in many ways to the ongoing development of the Bank.

Looking Forward

We have an active agenda in 2014 and a positive outlook.

We expect continued expansion of our Single Family and Commercial Lending businesses and in fact started the year with very strong momentum in Single Family, with production well ahead of last year. While there is some risk of slowing in residential real estate activity, we believe the Bank's positioning in the market as a national player and the increased access we have to borrowers will serve us well.

We also expect little deviation in our credit metrics as employment levels in our chosen urban markets are expected to remain healthy and our insistence on conservative loan-to-value ratios gives us a broad comfort zone in the event of real estate price contraction.

The continuing development of technology is reshaping the banking industry around the world. We believe that this change positions Equitable for a successful future as a branchless bank built around a digital core.

This backdrop should support attractive earnings and ROE performance that, like service, has become synonymous with the Equitable brand over many years.

We are pleased that Equitable's initiatives align well with the Federal Government's policy direction in support of enhanced financial services competition provided by the development of smaller institutions.

In summary, we believe Equitable is the Bank to bank on for reliable performance, whether you are a borrower, a saver, a mortgage broker or a shareholder. Our sincere thanks to all those who contributed to the Bank's success in 2013; we look forward to building on this success again in 2014.

Yours sincerely,

Austin Beutel
Chairman of the Board

Andrew Moor
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months and year ended December 31, 2013

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and year ended December 31, 2013. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 26, 27 and 28 on pages 46, 47 and 48 of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 27, 2014. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "2013 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Fourth Quarter Overview", Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may" , "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" herein and in the Company's documents filed on SEDAR at www.sedar.com.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Company and the Canadian economy. Although the Company believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Company in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its mortgage business, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.A) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank ("Equitable" or the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total assets of approximately $12 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products. Measured by assets, Equitable Bank was the ninth largest independent Schedule I Bank in Canada at December 31, 2013.

Equitable Bank was founded in 1970 as The Equitable Trust Company. We chose to convert The Equitable Trust Company to Equitable Bank in 2013 as part of a strategy to elevate our standing with a new generation of Canadian savers and borrowers who are more comfortable dealing with banks. We believe that our conversion, which became effective July 1, 2013 through the issuance of Letters Patent, will enhance our brand equity and long-term competitiveness.

VISION AND STRATEGY

Our Bank provides mortgage loans to a wide range of customers that include business-for-self borrowers, newcomers to Canada and publicly-traded REITs and real estate investors. Equitable Bank also provides savers with Guaranteed Investment Certificates ("GIC"s) and High Interest Savings Accounts ("HISA"s) that provide security and competitive interest rates. We serve these customers through our extensive partnerships with Canada's mortgage brokers, mortgage bankers, deposit agents, investment dealers and financial planners who provide independent professional advice to Equitable's customers.

Our strategy includes four major priorities:

Strategic Objectives	Description
Grow by providing effective service, competitive products and cost-efficient operations	Our teams provide outstanding service to our customers to earn their business. We deliver this service through a branchless distribution model, which allows us to maintain an efficient and flexible cost structure.
Build our capabilities and brand	We are committed to investing in the continuous improvement of our people and systems, and to becoming an employer of choice in the financial services community.
Consistently create shareholder value	Management allocates capital to business opportunities using a disciplined process designed to enhance our Return on Equity ("ROE"). We use retained earnings and non-dilutive forms of capital to fund growth and are committed to growing common share dividends consistently.
Maintain a low risk profile	We employ rigorous underwriting and collection practices that keep our loss risk profile and rates low. Equitable also holds significant liquid assets to ensure that we are able to withstand potential disruptions in the financial markets.

Our value creation strategies have allowed Equitable to generate a growing and consistently high ROE, averaging 17.5% over the past five years. Underpinning our ROE is steady earnings growth that has also enabled Equitable to increase common share dividends five times over the past three years alone. Equitable's consistent performance has been recognized by the capital markets; in each of the past two years, Equitable posted the best total return of any bank or trust company stock on the Toronto Stock Exchange ("TSX") and outperformed the TSX Financials Index by a factor of almost two over that period.

CAPABILITIES

We compete successfully with other financial institutions on the basis of our niche strategy and the breadth of our capabilities, in particular our customer service focus. Management intends to build on these capabilities to prudently diversify the products and services that we offer to savers and borrowers.

Responsive service: Service excellence is how Equitable differentiates itself in the market. Through training and technology, we are able to build long-term customer and partner relationships that are mutually beneficial and increase our share of lending and savings markets. Our deep knowledge of, and sensitivity to, the unique needs of our borrowers – along with their advisors – allows us to execute a loan qualification process that is efficient and effective in responding to each opportunity. We then apply our service strategies to retain customer accounts and position Equitable for additional business through each customer's credit and savings needs.

Disciplined capital deployment: Management deploys capital for opportunities only if they exceed well-defined ROE thresholds and focus on long-term value creation for our shareholders. We build regulatory capital to fuel our growth by retaining most of our earnings and by raising other types of capital that are non-dilutive to shareholders. While attractive returns can be garnered on a variety of loan types, single family residential mortgages typically generate a higher ROE than do commercial mortgages because they require less regulatory capital, even though they involve higher operating costs. For that reason, as well as our desire to maintain strength in our capital ratios, our portfolio has recently shifted more towards single family residential mortgages, though we intend it to remain diversified across property types.

National distribution presence: We have systematically grown from our roots in serving the Greater Toronto Area ("GTA") to become a national financial services organization. Equitable reaches borrowers and depositors across Canada through independent mortgage brokers, deposit agents, and other business partners. Our Company employs a team of specialists with deep local knowledge in market hubs to support our distribution partners. Though coast-to-coast in reach, we focus on urban markets that benefit from immigration and migration trends, and we avoid single industry geographies where real estate markets are less liquid. To reinforce our national presence, we give back to the communities in which our Company does business.

Low costs: Equitable is one of the most efficient Schedule I Banks in Canada, and one of the very few that operates entirely without a physical retail presence. Due to our branchless operating model, we have a low level of fixed expenses and a highly flexible, efficient cost structure. Despite the significant growth in our assets and our employee resources over the past five years, we have sustained a consistently attractive productivity ratio.

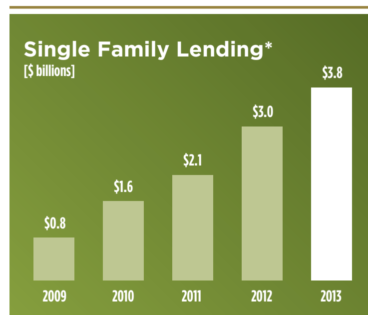
Rigorous risk management standards: Our Board of Directors and senior management team identifies risks within our business and deploys a risk management framework to guide all of our activities including underwriting. As part of our proven framework, our underwriters evaluate the background and experience of each borrower, the cash flow of the individual or the property, the investment of the borrower into the purchase and the resources behind them, the value of the collateral, and the conditions attached to the credit. Our process is repeatable but not formulaic: we place strong emphasis on detailed analysis of the risks and security in each transaction, and supplement that analysis with our experienced teams' judgement. As a result, we can underwrite mortgages on favorable terms for borrowers with good equity and debt service ratios who would be turned down by other lenders. Our rigorous approach, along with broadly positive Canadian economic conditions, has resulted in impairment provisions that have averaged just 0.05% of total average mortgage principal since 2008.

Access to cost-effective funding: As a federally regulated deposit-taking institution, and member of the Canada Deposit Insurance Corporation ("CDIC"), we offer secure deposit products to savers in all Canadian jurisdictions. Our Deposit Services team manages over $6.4 billion of deposits from thousands of Canadian investors who rely on Equitable Bank for GICs and since late 2013, HISAs. These deposits funded our unsecuritized mortgage lending in 2013 and over the long term have served as a reliable source of funding and asset-liability matching. We are also a participant in Canada Mortgage and Housing Corporation's National Housing Act ("NHA") Mortgage-backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which allow us to securitize insured mortgages cost-effectively. These funding strategies, and our low cost operations, allow Equitable Bank to be price competitive in our chosen lending markets. Although current sources of funding are sufficient to meet our needs, we intend to further diversify our funding sources over time as a risk management strategy.

Our people: Equitable depends on skilled, productive and engaged employees at all levels to deliver on our strategies and meet our commitment to service excellence. We have a diverse and talented team of 295 employees, led by a senior management team that averages 25 years of relevant experience. To sustain and grow our talent, and to align our team with our value-creation objectives, we provide competitive compensation, benefits, and an employee stock purchase plan; deliver ongoing employee training and support, and promote from within wherever possible. Employee engagement surveys gauge program effectiveness and are used to refine our approaches to becoming an employer of choice in the industry.

OUR BUSINESS LINES

We organize our operations according to specialty.



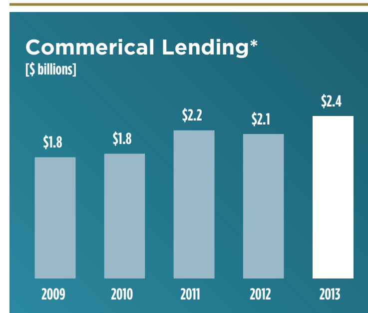
Single Family Lending Services: $3.8 billion

Products: mortgages for owner-occupied and investment properties including detached and semi-detached houses, townhouses, and condos across Canada. Competitive products now include Home Equity Lines of Credit ("HELOC").

Target customers: business-for-self, those who are new to Canada and establishing credit for the first time, and the credit challenged

Distribution: through Canada's mortgage brokers

Strengths: include superior levels of customer service, extensive broker relationships, and a disciplined approach to credit



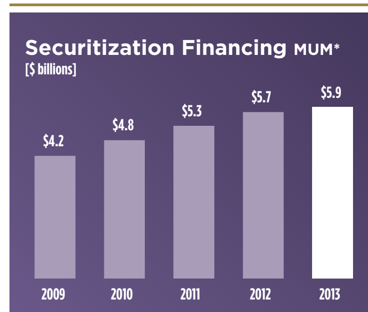
Commercial Lending Services: $2.4 billion

Products: mortgages – which generally range from $0.5 million to $25 million – on a variety of commercial property types including mixed-use, multi-unit residential, shopping plazas, professional offices, and industrial

Target customers: commercial clients, from small business owners to large, publicly traded entities

Distribution: through mortgage brokers, business partners, and other financial institutions

Strengths: include service excellence, breadth and strength of distribution relationships, underwriting capabilities, and intimate market knowledge



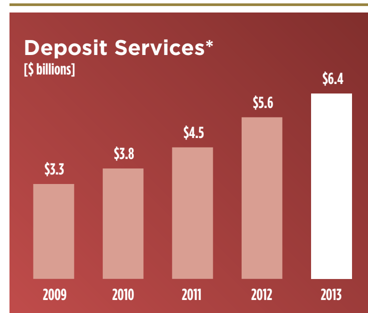
Securitization Financing: $5.9 billion

Products: insured mortgages, primarily multi-unit residential properties funded through securitization programs

Target customers: commercial clients, from entrepreneurs to large, publicly traded entities

Distribution: through mortgage brokers and other business partners

Strengths: include access to low-cost funding through CMHC's NHA-MBS and CMB programs, extensive experience in mortgage securitization, and experience underwriting mortgages on specialized property types



Deposit Services: $6.4 billion

Products: safe and secure savings products including GICs and HISAs

Target customers: Canadians looking to build a secure fixed-income portfolio with a competitive rate of return and those who have short to medium-term liquidity needs

Distribution: through third party deposit agents, investment dealers, and financial planners, including Canada's large banks

Strengths: include relationships with the agents who recommend our products, our responsive service, and competitive product offerings and rates

**Represents total principal outstanding*

KEY PERFORMANCE INDICATORS

Management looks at a range of metrics to assess the performance of the business. The primary indicators of Equitable's success are:

Performance Metric	What it Represents and Why it Matters
Return on Equity ("ROE")[(1)]	• The return that we are able to generate for our common shareholders, relative to the book value of our equity • Reflects management's ability to deploy capital in a disciplined manner by making profitable lending decisions and operating an efficient business
Total Capital and CET1 ratios[(1)]	• The amount of loss absorbing capital invested in our business relative to the size of our risk-adjusted asset base • Signifies our ability to protect our depositors and the Company in the event of financial stress
Net Interest Margin ("NIM")[(1)]	• The excess of our interest revenues over our funding costs, as a percentage of our assets • Represents the profitability of our loan book and is the most important driver of net income for the Company
Productivity Ratio[(1)]	• Non-interest expenses as a percentage of our net revenue[(1)] • Measures how much it costs us to generate each dollar of net revenue[(1)] and indicates how efficiently we operate
Employee Engagement	• Measured based on a third-party survey of our employee base that we conduct on an annual basis, which benchmarks us against other employers • Signifies the commitment and satisfaction of our employees, a key driver of our success. High engagement correlates with reduced turnover and higher productivity, and it is often considered a forward-looking indicator of performance.
Impairment Provision Rates[(1)]	• The provision for credit losses recorded during the year on mortgages that we have identified as individually impaired, as a percentage of the average loan portfolio • Reflects the credit quality of our loan book, specifically the level of individually impaired loans and our ability to mitigate potential losses thereon

[(1)] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2013	2012	2011[5]	Change from 2012	
OPERATIONS					
Net income	**$ 93,530**	$ 81,207	$ 62,186	$ 12,323	15%
Net income available to common shareholders	**89,905**	77,582	58,561	12,323	16%
EPS – basic	**$ 5.89**	$ 5.15	$ 3.91	$ 0.74	14%
EPS – diluted	**$ 5.82**	$ 5.11	$ 3.88	$ 0.71	14%
ROE – annualized[1]	**18.1%**	18.7%	16.5%		(0.6%)
Return on average assets – annualized[1]	**0.8%**	0.7%	0.6%		0.1%
NIM – TEB – total assets[1]	**1.49%**	1.47%	1.43%		0.02%
Productivity ratio – TEB[1][2]	**30.1%**	30.2%	32.4%		(0.1%)
BALANCE SHEET					
Total assets	**11,816,453**	11,601,440	10,257,013	215,013	2%
Mortgages receivable	**11,129,867**	10,609,472	9,577,087	520,395	5%
Mortgages under management[1]	**12,105,968**	10,909,480	9,538,153	1,196,488	11%
Shareholders' equity	**588,318**	501,571	426,640	86,747	17%
CREDIT QUALITY					
Impairment provision[3]	**691**	1,858	2,419	(1,167)	(63%)
Net impaired mortgages as a % of total mortgage assets[4]	**0.24%**	0.30%	0.25%		(0.06%)
Allowance for credit losses as a % of total mortgage assets	**0.28%**	0.25%	0.21%		0.03%
SHARE CAPITAL					
Common shares outstanding	**15,355,405**	15,189,983	15,018,401	165,422	1%
Dividends declared per common share	**$ 0.60**	$ 0.52	$ 0.45	$ 0.08	15%
Dividends declared per preferred share	**$ 1.81**	$ 1.81	$ 1.81	$ -	-%
Book value per common share[1]	**$ 35.14**	$ 29.83	$ 25.18	$ 5.31	18%
Common share price – close	**$ 50.76**	$ 32.65	$ 25.00	$ 18.11	55%
Market capitalization	**779,440**	495,953	375,460	283,487	57%
EQUITABLE BANK CAPITAL RATIOS [1][6]					
Common Equity Tier 1 capital ratio[7]	**12.4%**	N/A	N/A		N/A
Tier 1 capital ratio	**13.5%**	13.5%	13.4%		-%
Total capital ratio	**16.3%**	17.4%	15.3%		(1.1%)

[1] See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

[2] Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

[3] See Additionally Generally Accepted Accounting Principles Financial Measures section of this MD&A.

[4] Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.

[5] The Company recorded an operational provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in 2011. Excluding the provision, net income in 2011 was $65.8 million or $4.12 per diluted share; ROE was 17.4%; and productivity ratio – TEB was 28.8%.

[6] Effective the first quarter of 2013, we calculate capital ratios using the Basel III framework. The capital ratios are calculated on the "all-in" basis. The 2012 and 2011 capital ratios were calculated using the Basel II framework. Basel III and Basel II are not directly comparable.

[7] The Common Equity Tier 1 capital ("CET1") ratio is a new regulatory measure under the Basel III framework. The CET1 ratio is not applicable for the prior years as Basel III was adopted prospectively, effective the first quarter of 2013.

2013 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record earnings and successfully delivered on our strategic priorities in 2013:

Strategic Objectives	Accomplishments
Grow by providing effective service, competitive products and cost-effective operations	• Increased Mortgages Under Management[1] by 11% over 2012 • Launched the *Equitable Bank Home Equity Line of Credit,* a revolving line of credit that is secured by an Equitable collateral mortgage • Added the *Equitable Bank High Interest Savings Account,* available through the FundSERV network, to our portfolio of safe and secure deposit solutions • Secured a $300 million facility from a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization
Build our capabilities and brand	• Successfully completed our conversion to a Schedule I Bank • Originated a record $2.5 billion of Core Lending mortgages in the year, with the performance driven by both the Single Family and Commercial businesses
Consistently create shareholder value	• Delivered record EPS of $5.82 up 14% over the prior year • Produced an ROE of 18.1% (above our five-year average of 17.5%) • Declared common share dividends that were 15% higher than in 2012 • Repaid $37.7 million of debt, resulting in an annual interest cost savings of almost $2 million
Maintain a low risk profile	• Maintained a loan-to-value ratio of 69% on our residential mortgage portfolio • Recorded an impairment provision of just $0.7 million in the year • Reported a Common Equity Tier 1 ("CET1")[1] capital ratio of 12.4% which was well ahead of most industry benchmarks

[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

ITEMS OF NOTE

Our 2013 financial results were impacted by the following noted items:

- fair value gains of $1.4 million on derivative financial instruments related to our securitization activities
- gains of $0.9 million from the planned sale of preferred shares in our investment portfolio, which were sold to meet certain regulatory requirements that came into effect at the beginning of the year

Our 2012 financial results were impacted by one noted item:

- an investment gain from a securities transaction that reduced tax expense and increased net income by $3.6 million, and increased diluted EPS by $0.24

DIVIDENDS

On February 27, 2014 the Company's Board of Directors declared a quarterly dividend in the amount of $0.16 per common share, payable on April 3, 2014, to common shareholders of record at the close of business on March 14, 2014. This dividend represents a 14% increase over dividends declared in February 2013.

In addition, on February 27, 2014, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on March 31, 2014, to preferred shareholders of record at the close of business on March 14, 2014.

BUSINESS OUTLOOK

Throughout 2013, Equitable demonstrated the strength of our franchise and the benefits of our diversified business model. We expect that our strategy, including our disciplined approach to capital allocation, will continue to deliver high returns on our shareholders' equity in the coming year.

Core Lending

Beginning in the summer, Canadian housing market activity gained momentum, although growth levels varied by geographic region and property type. Our Single Family mortgage business benefitted from this rebound in activity and from our superior levels of customer service, delivering record production and strong renewals in the final quarter of the year. Our preliminary outlook for 2014 is that we expect continued growth in production and our portfolio, aided by our planned entry into the Québec market and reasonably stable competitive conditions.

Similarly, management expects the commercial portfolio to grow in 2014 due to the continued strengthening of relationships with our key distribution partners, likely at rates in the high single digits.

Securitization Financing

In 2014, we have the opportunity to renew a significant portion of the mortgages in our Securitization Financing portfolio in each quarter. We plan to supplement those renewals with targeted levels of production, such that we utilize the full amount of our CMB capacity each quarter. As a result, total Mortgages Under Management ("MUM" – the sum of mortgage assets reported on-balance sheet and derecognized) should grow at rates in the low single-digits in 2014. On the other hand, the Securitization Financing portfolio reported on our consolidated balance sheet will likely decline at rates in the double digits over that period because a significant portion of the assets being securitized will be derecognized.

Credit Quality

We expect our single family arrears rates and impairment provisions to remain low in 2014, assuming that Canadian unemployment and interest rates stay within the range of broad market expectations. Loss rates may, however, return to more normal levels from the exceptionally low rates experienced in 2013. Similarly, our loan-by-loan and overall analysis of our commercial portfolio indicates that losses should stay low. Management will continue to manage credit risk through the application of our traditional prudent lending practices.

NIM

Management believes that the total NIM on the mortgage portfolio will increase during 2014, though NIM may experience some fluctuations due to inherently volatile mortgage prepayment charge income. This expectation has changed from prior quarters due to a more pronounced shift in our asset mix towards Core Lending and the impact of some recent pricing changes. More specifically, relative to Q4 2013 levels we expect that in 2014:

- Total NIM will benefit from the continued shift in volume towards the Company's higher margin Core Lending book
- Core Lending NIM will remain relatively consistent, as the effect of recent initiatives aimed at optimizing Single Family renewal pricing and efficiently managing our liquidity portfolio are offset by the impact of a continued shift toward lower spread – but higher return on equity – Single Family assets
- Securitization Financing NIM will compress due to the origination of new and renewal of existing mortgages at lower spreads

Non-Interest Expenses

Equitable will continue investing to grow our bank's franchise and support our high level of customer service in 2014. Even with that investment, the Bank will continue to operate efficiently on both an absolute and relative basis compared to other financial institutions, particularly taking into account the relative scale of our operations. We expect our productivity ratio in 2014 to be only marginally higher than in 2013. Management will continue to prudently manage hiring and spending to keep expense increases consistent with the growth of the business.

Strategic Initiatives

Our key strategic initiatives for 2014 are focused on diversifying our product offerings. We believe that Equitable is well positioned to launch new products that are targeted at market niches not well-served by Canada's larger financial institutions. These initiatives align well with the overall policy direction in Ottawa – specifically a commitment in both the 2013 and 2014 federal budgets to promoting the competitiveness of smaller financial institutions – and are supported by our conversion to a Schedule I Bank.

Due to recent regulatory developments related to the allocation of NHA-MBS capacity, we have an opportunity to profitably enter the prime single family mortgage market. While we believe there is significant long-term strategic and financial value in this business, we do not expect it to have a material EPS impact this year: any revenues generated will likely be offset by the investment required to build a new business line. We intend to fund a majority of the mortgages through an MBS securitization program. Our capacity to grow this business over time will be influenced by the amount of MBS capacity that is allocated each year.

Likewise, we intend to broaden our range of products for savers. Our primary focus will be on growing the recently launched Equitable Bank High Interest Savings Account. Initiatives to strengthen our deposit offerings may result in a modestly higher level of expenses in 2014, but reinforce our diversification strategy and provide important risk management benefits.

In summary, 2013 was a year of change and record financial performance for Equitable and we expect to deliver more of the same in 2014.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. **See "Cautionary Note Regarding Forward-Looking Statements" on page 16 of this MD&A.**

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2013**	2012	Change from 2012	
Net income	**$ 93,530**	$ 81,207	$ 12,323	15%
EPS – diluted	**$ 5.82**	$ 5.11	$ 0.71	14%
Net interest income[1]	**174,537**	156,170	18,367	12%
Provision for credit losses	**6,732**	7,992	(1,260)	(16%)
Non-interest expenses	**57,514**	50,176	7,338	15%
Income taxes	**31,147**	23,467	7,680	33%

[1] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

NET INTEREST INCOME

Net interest income is the main driver of profitability for the Company. Table 3 details the Company's net interest income and NIM for 2013 and 2012, by product and business:

Table 3: Net interest income

($ THOUSANDS)	2013 Average balance	2013 Revenue/ Expense	2013 Average rate[1]	2012 Average balance	2012 Revenue/ Expense	2012 Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 5,610,861**	**$ 278,921**	**4.97%**	$ 4,697,881	$ 242,459	5.16%
Liquidity investments	**559,597**	**7,826**	**1.40%**	513,063	7,563	1.47%
Equity securities – TEB[2]	**104,306**	**5,557**	**5.33%**	170,281	10,126	5.95%
	6,274,764	**292,304**	**4.66%**	5,381,225	260,148	4.83%
Expenses related to:						
Deposits	**5,592,821**	**133,585**	**2.39%**	4,793,984	123,144	2.57%
Debentures and bank facilities	**107,339**	**6,688**	**6.23%**	83,763	5,055	6.03%
	5,700,160	**140,273**	**2.46%**	4,877,747	128,199	2.63%
Net interest income – TEB[2][3][4]		**152,031**	**2.40%**		131,949	2.43%
Taxable equivalent basis – adjustment[4]		**(2,134)**			(3,422)	
Core Lending		**$ 149,897**			$ 128,527	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 5,252,185**	**$ 200,522**	**3.82%**	$ 5,288,956	$ 217,276	4.11%
Liquidity investments	**221,338**	**3,487**	**1.58%**	146,565	2,525	1.72%
	5,473,523	**204,009**	**3.73%**	5,435,521	219,801	4.04%
Expenses related to:						
Securitization liabilities	**5,019,485**	**170,110**	**3.39%**	5,057,431	184,260	3.64%
Deposits and secured funding facility	**387,153**	**9,259**	**2.39%**	307,450	7,898	2.57%
	5,406,638	**179,369**	**3.32%**	5,364,881	192,158	3.58%
Securitization Financing		**$ 24,640**	**0.45%**		$ 27,643	0.51%
Total assets – TEB[2][3][4]	**$ 11,832,579**	**$ 176,671**	**1.49%**	$ 10,877,694	$ 159,592	1.47%

[1] *Rates are calculated based on the average of the month-end balances outstanding during the year.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[3] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[4] *Net interest margin – TEB on Core lending assets and total assets in 2012 was 2.52% and 1.52%, respectively, if the TEB adjustment is calculated including the investment gain associated with one of the Company's security portfolio holdings.*

Net interest income was up by 12%, in line with the increase in average total asset balances of $1.0 billion or 9%. NIM remained relatively stable, increasing two basis points ("bps") to 1.49% from 1.47% in 2012, partly as a result of the continued shift in asset mix towards our higher margin Core Lending business.

NIM earned on Core Lending assets was down three bps to 2.40% from 2.43%, partly due to the continued shift towards single family residential mortgages, which generally earn lower spreads than commercial mortgages but provide a higher return on capital. The effect of this change in mix was offset by measures that we implemented during 2013 to optimize pricing on single family mortgage renewals. Our NIM also benefited from a reduction in our holdings of lower margin liquidity investments.

Securitization Financing NIM was down 6 bps because of lower mortgage prepayment income relative to an exceptionally high level in 2012 and higher levels of liquidity held during 2013 because of the timing of mortgage maturities and securitization liability repayments, offset by certain adjustments recorded in 2012 and other factors.

The drivers of the changes in NIM from the prior year are provided in more detail in Table 4 below.

Table 4: Factors affecting NIM

(IN BASIS POINTS)	2013 vs. 2012
Core Lending NIM:	
Mortgage prepayment income	(2)
Size and rate of liquidity investments	2
Size and rate of equity securities holdings	(2)
Size and rate of debentures and bank facilities	(2)
2013 debt redemption charge	(1)
Other[1]	2
Total change in NIM	(3)
Securitization Financing NIM:	
Mortgage prepayment income	(5)
Size and rate of liquidity investments	(4)
One-time adjustments	2
Other[1]	1
Total change in NIM	(6)

[1] *Other includes various effects including the effect of the shift in mix of the mortgage portfolio, pricing refinements, the timing of new originations and renewals, the timing of securitizations, and the number of days in the period.*

PROVISION FOR CREDIT LOSSES

Our total provision for credit losses decreased 16% or $1.3 million to $6.7 million in 2013. The modest level of this credit provision reflects the quality of the underlying mortgage portfolio and our sufficient balance sheet allowances.

Management uses the term impairment provision to refer to the provision that we have taken during the year on loans that we identified as impaired, each of which is individually assessed for potential loss. We view the impairment provision metric as the most important indicator of the credit quality of our portfolio. During 2013, impairment provision decreased 63% to $0.7 million, from $1.9 million in 2012. This contrasts with our total 2013 provision of $6.7 million, with the difference of $6.0 million related to unimpaired mortgages and supporting our overall collective allowance.

Impairment provision as a percentage of our average loan portfolio was 0.01%, down one basis point from 0.02% in 2012.

OTHER INCOME

Table 5: Other income

($ THOUSANDS)	2013	2012	Change from 2012	
Fees and other income	$ 5,815	$ 3,970	$ 1,845	46%
Net gain on investments	987	629	358	57%
Securitization activities:				
Gains on securitization and income from retained interests	6,205	2,010	4,195	209%
Fair value gains on derivative financial instruments	1,379	63	1,316	2089%
Total	$ 14,386	$ 6,672	$ 7,714	116%

Other income increased by 116% to $14.4 million in 2013, compared to $6.7 million in 2012. The $7.7 million increase is mainly due to:

- $4.2 million of additional gains recorded on the securitization and derecognition of insured residential mortgages;
- $1.3 million of fair value gains on derivative financial instruments related to our securitization activities;
- $1.3 million of higher mortgage administration fees, driven by growth in the mortgage portfolio; $0.5 million of HST refunds received in Q1 and Q3 of 2013, related to previous taxation years and recorded as other income; and
- $0.4 million higher investment gains.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and productivity ratio

($ THOUSANDS, EXCEPT FTE)	2013	2012	Change from 2012	
Compensation and benefits	$ 33,870	$ 28,246	$ 5,624	20%
Premises, equipment and systems costs	7,055	5,029	2,026	40%
Other	4,910	5,006	(96)	(2%)
Mortgage servicing	4,245	4,237	8	0%
Licenses, regulatory fees and insurance	3,151	3,735	(584)	(16%)
Marketing, travel and communications	2,620	2,081	539	26%
Legal, audit and related services	1,663	1,842	(179)	(10%)
Total	$ 57,514	$ 50,176	$ 7,338	15%
Productivity ratio – TEB	30.1%	30.2%	N/A	(0.1%)
Full-time employee ("FTE") – period average	279	234	45	19%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our productivity ratio was 30.1% in 2013, down slightly from 30.2% in 2012 despite a 15% or $7.3 million increase in non-interest expenses.

The absolute increase in non-interest expenses reflects the growth in our business and the investments required to maintain one of our significant competitive advantages, the high level of service we provide to mortgage brokers and borrowers. The majority of the net increase relates to FTE growth during 2013 and the costs to support our incremental staff, such as premises and equipment. The increase in premises, equipment and systems costs also reflects costs associated with a renegotiated contract with our core technology provider, which allows us to gain access to additional functionality at lower overall costs going forward.

INCOME TAXES

Our effective income tax rate in 2013 was 25.0% compared to 22.4% in 2012. The 2.6% increase was largely due to the impact of an investment gain realized in 2012. Excluding the effects of this investment gain, the Company's 2012 effective tax rate was 25.9%.

The Company's statutory tax rate was 26.3% for 2013, consistent with the prior year. Our effective tax rate for 2013 was below the statutory rate mainly due to tax-exempt dividend income received from our preferred securities portfolio.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

($ THOUSANDS)	**2013**	2012	Change from 2012	
Total assets	**$ 11,816,453**	$ 11,601,440	$ 215,013	2%
Mortgage principal – Core Lending	**6,196,930**	5,160,785	1,036,145	20%
Mortgage principal – Securitization Financing	**4,910,118**	5,415,773	(505,655)	(9%)
Total liquid assets[1] as a % of total assets	**6.0%**	8.3%	N/A	(2.3%)

[1] See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize our ROE, while focusing our strategic growth efforts on Single Family Lending Services. The following tables provide mortgage principal continuity schedules by lending business for 2013 and 2012:

Table 8: Mortgage principal continuity schedule

							2013
($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
2012 closing balance	$ 3,026,523	$ 2,134,262	$ 5,160,785	$ 5,415,773	$ 10,576,558	$ 332,922	$ 5,748,695
Production	1,655,326	832,077	2,487,403	1,003,616	3,491,019	-	1,003,616
Core Lending securitized[1]	(267,710)	-	(267,710)	267,710	-	-	267,710
Securitized and derecognized	-	-	-	(690,154)	(690,154)	690,154	-
Net repayments	(616,140)	(567,408)	(1,183,548)	(1,086,827)	(2,270,375)	(24,156)	(1,110,983)
2013 closing balance	$ 3,797,999	$ 2,398,931	$ 6,196,930	$ 4,910,118	$ 11,107,048	$ 998,920	$ 5,909,038
% Change from 2012	25%	12%	20%	(9%)	5%	200%	3%
Net repayments percentage[4]	20.4%	26.6%	22.9%	20.1%	21.5%	7.3%	19.3%

							2012
($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
2011 closing balance	$ 2,076,659	$ 2,188,593	$ 4,265,252	$ 5,272,901	$ 9,538,153	$ -	$ 5,272,901
Production	1,539,631	665,497	2,205,128	978,926	3,184,054	-	978,926
Core Lending securitized[1]	(201,287)	-	(201,287)	201,287	-	-	201,287
Securitized and derecognized	-	-	-	(335,349)	(335,349)	335,349	-
Net repayments	(388,480)	(719,828)	(1,108,308)	(701,992)	(1,810,300)	(2,427)	(704,419)
2012 closing balance	$ 3,026,523	$ 2,134,262	$ 5,160,785	$ 5,415,773	$ 10,576,558	$ 332,922	$ 5,748,695
% Change from 2011	46%	(2%)	21%	3%	11%	N/A	9%
Net repayments percentage[4]	18.7%	32.9%	26.0%	13.3%	19.0%	N/A	13.4%

[1] *Core Lending securitized represents Single Family mortgages that were securitized in the year and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the year as part of Single Family Lending Services (i.e. not securitized again at the time of renewal).*

[2] *Derecognized Mortgage Principal represents mortgages under administration that are not reported on Equitable's consolidated balance sheets. These mortgages were securitized using transaction structures that transferred substantially all the risks and rewards or control associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages.*

[3] *Securitization Financing MUM includes Securitization Financing and Derecognized Mortgage Principal.*

[4] *Net repayments percentage is calculated by dividing net repayments by the previous year's closing balance.*

Total reported mortgage principal increased by $0.5 billion or 5% compared to December 31, 2012, driven by 20% growth in Core Lending balances.

The growth in Core Lending was attributable to both our Single Family and Commercial Lending businesses, which grew 25% and 12%, respectively. The main drivers of growth were the high levels of production and our success with mortgage renewals during the year. This growth was achieved despite the securitization of $268 million of Single Family mortgages during 2013 (which moves the reported balances from Core Lending to Securitization Financing). The growth in Commercial reflected our strong business partnerships and the contribution of new partnerships established during the year.

Securitization Financing Mortgages Under Management ("Securitization Financing MUM"), which includes derecognized mortgage principal, is more reflective of the performance of the underlying securitization business than is assets reported on our balance sheet. Securitization MUM, which included $1.0 billion of derecognized mortgage principal, grew 3% or $0.2 billion in the year. The portfolio balance grew despite an increase in the level of repayments, which occurred because of large volumes of CMB maturities. Securitization Financing MUM growth was helped by high levels of production in 2013 and by the securitization of $268 million of mortgages previously reported in our Core Lending balances.

MORTGAGE ASSET PRODUCTION

The table below provides mortgage production for 2013 and 2012 by lending business:

Table 9: Mortgage production – by lending business

($ THOUSANDS)	2013 Mortgage principal funded	2013 % of total	2012 Mortgage principal funded	2012 % of total	Change from 2012	
Single Family Lending Services	**$ 1,655,326**	**47.4%**	$ 1,539,631	48.4%	$ 115,695	8%
Commercial Lending Services	**832,077**	**23.9%**	665,497	20.9%	166,580	25%
Core Lending	**2,487,403**	**71.3%**	2,205,128	69.3%	282,275	13%
Securitization Financing	**1,003,616**	**28.7%**	978,926	30.7%	24,690	3%
Total mortgage production	**$ 3,491,019**	**100.0%**	$ 3,184,054	100.0%	$ 306,965	10%

Total mortgage production was up $307 million or 10% from 2012. Commensurate with Equitable's strategic focus, 71% of the mortgages funded were Core Lending mortgages, compared to 69% in 2012.

Within Core Lending, Commercial production was up 25%, reflecting the depth of long-term business partnerships and the contribution of new partnerships established during 2013. As a result of an exceptionally strong finish to 2013, Single Family Lending was up by 8% over 2012, with this performance reflecting the strength of the Canadian housing market and our continuing high levels of service quality.

Securitization Financing origination activity is limited by our quarterly CMB allocations and the volume of our mortgage renewals (our capacity for net new originations is effectively our CMB allocation after our renewal volumes are securitized). During 2013, we originated $1.0 billion of new mortgages, 3% more than in the prior year, and utilized the rest of our capacity for the renewal of maturing mortgages.

SECURITIZATION

We regularly securitize mortgages in order to effectively manage our funding costs. When the Company securitizes mortgages, it applies the IFRS derecognition rules to determine whether it has effectively transferred substantially all the risks and rewards associated with the mortgages to a third party. In Q3 2012, the Company was able to structure transactions that transfer substantially all the risks and rewards or control associated with the mortgages to third parties, which resulted in the full or partial derecognition of the securitized mortgages and an upfront gain on sale. In some cases, the Company retains residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

Since new securitization transaction structures were introduced in Q3 2012, we have originated and renewed higher volumes of mortgages in our Securitization Financing business and a significant portion of these mortgages have been derecognized because of market demand for our non-prepayable products.

The table below provides a summary of the mortgages securitized and derecognized in 2013 and 2012, as well as the associated retained interests and gains on sale amounts.

Table 10: Securitization and derecognition activity

($ THOUSANDS)	2013	2012	Change from 2012	
Securitized and derecognized – retained interests recorded	$ 690,154	$ 185,754	$ 504,400	272%
Securitized and derecognized – no retained interests recorded[1]	-	149,595	(149,595)	(100%)
Total principal derecognized	$ 690,154	$ 335,349	$ 354,805	106%
Retained interests recorded	$ 26,235	$ 7,481	$ 18,754	251%
Gains on sale	5,613	2,005	3,608	180%
Gains on sale – percentage[2]	0.81%	0.60%	N/A	0.21%

(1) *Securitizations that result in derecognition with no retained interests recorded on the consolidated balance sheet occur when the Company sells its residual interests in the securitizations (commonly referred to as interest-only strips) to third parties.*

(2) *Gains on sale – percentage represents the gains on sale as a percentage of total principal derecognized.*

During 2013, we securitized and derecognized $690 million of non-prepayable mortgages which represents an increase of 106% over 2012. We also recorded gains on sale of $5.6 million on these transactions. The gains recorded in the year relative to the principal derecognized were 21 bps higher than in 2012 as a result of the mix of securitization activity. Specifically, in 2012 we sold the residual interests (the interest-only strips) on 45% of the mortgage balances derecognized and those transactions typically generate a lower overall spread.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management actively analyzes the profile of its lending portfolio and its originations taking into account external market conditions, including market values and employment conditions that prevail in those markets in which we lend. When management judges that the risk associated with a particular region or product is no longer acceptable, we adjust underwriting criteria to ensure that our policies continue to be prudent and reflective of current and expected economic conditions, thereby safeguarding the future health of our portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to ensure a prudent credit risk profile.

The Company's active management of credit risk and our workout efforts continue to yield positive results. The success of our credit management strategies is highlighted in the metrics in Table 11.

Table 11: Mortgage credit metrics

($ THOUSANDS)	2013	2012	Change from 2012	
Impairment provision[1]	$ 691	$ 1,858	$ (1,167)	(63%)
Impairment provision – rate[2]	0.01%	0.02%	N/A	(0.01%)
Gross impaired mortgage assets[3]	29,955	36,408	(6,453)	(18%)
Net impaired mortgage assets[3][4]	26,574	31,748	(5,174)	(16%)
Net impaired mortgage assets as a % of total mortgage assets[3][4]	0.24%	0.30%	N/A	(0.06%)
Allowance for credit losses	31,477	26,620	4,857	18%
Allowance for credit losses as a % of total mortgage assets	0.28%	0.25%	N/A	0.03%
Allowance for credit losses as a % of gross impaired mortgage assets	105%	73%	N/A	32%
Mortgage principal in arrears 30 to 89 days[5]	45,282	30,463	14,819	49%
Mortgage principal in arrears 30 to 89 days as a % of total mortgage principal[5]	0.41%	0.29%	N/A	0.12%
Mortgage principal in arrears 90 days or more[6]	25,884	33,606	(7,722)	(23%)
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[6]	0.23%	0.32%	N/A	(0.09%)

[1] *Impairment provision represents the provision for impairment recorded during the year on loans identified as impaired. See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

[2] *Impairment provision – rate represents impairment provision as a percentage of the average loan portfolio. See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

[3] *Conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.*

[4] *Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.*

[5] *Mortgage principal in arrears 30 to 89 days does not include insured mortgages less than 365 days in arrears.*

[6] *Mortgage principal in arrears 90 days or more does not include insured mortgages that are less than 365 days in arrears.*

Management believes that the measures above reflect the health of the Company's mortgage portfolio and indicate that our allowance for credit losses adequately provides for our risk of loss.

- The rate of mortgage principal in arrears 90 days or more decreased to 0.23% from 0.32% a year ago, a level that is exceptionally low and below historical norms.
- The rate of early stage delinquency (between 30 to 89 days past due) increased from 0.29% to 0.41%, although is still within historically normal levels. Early stage delinquency may be a leading indicator of credit quality in future periods.
- Net impaired mortgage assets as a percentage of total mortgage assets was 0.24%, 6 bps lower than a year ago.
- Allowance for credit losses represented 105% of gross impaired mortgage assets, up from 73% in 2012. We added $6.0 million to our collective allowance during 2013, which represents an allowance for losses on mortgages that are not currently identified as individually impaired.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management closely monitors the Company's liquidity position and believes that the level of liquid resources held, together with Equitable's ability to raise deposits, is sufficient for us to meet our funding and deposit maturity commitments, as well as to ensure that we can collect our other receivables and meet our other obligations. Liquidity may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality.

Table 12: Liquid assets[1]

($ THOUSANDS)	2013	2012	Change from 2012	
Eligible deposits with regulated financial institutions[2]	$ **243,297**	$ 379,184	$ (135,887)	(36%)
Debt securities issued by regulated financial institutions	**70,586**	217,709	(147,123)	(68%)
Government issued or guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**20,026**	10,173	9,853	97%
Debt securities guaranteed by Government of Canada	**25,227**	26,519	(1,292)	(5%)
Mortgages held in the form of debt securities guaranteed by Government of Canada[3]	**246,266**	201,202	45,064	22%
Obligations under repurchase agreements	**(8,143)**	(9,882)	1,739	(18%)
Liquid assets held for regulatory purposes	$ **597,259**	$ 824,905	$ (227,646)	(28%)
Other deposits with regulated financial institutions	**348**	263	85	32%
Equity securities[4]	**106,405**	140,801	(34,396)	(24%)
Total liquid assets[1]	$ **704,012**	$ 965,969	$ (261,957)	(27%)
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**5.1%**	7.1%	N/A	(2.0%)
Total liquid assets as a % of total assets	**6.0%**	8.3%	N/A	(2.3%)

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

(2) *Eligible deposits with regulated financial institutions represent deposits of Equitable Bank which are held with major Canadian banks or regulated financial institutions and excludes $10.1 million (December 31, 2012 – $16.9 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $77.2 million (December 31, 2012 – $46.7 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

(3) *Mortgages held in the form of debt securities represent mortgages securitized and retained by the Company and are reported in our Mortgages receivable – Securitization Financing balances. The values reported above represents the fair market value of the associated MBS securities.*

(4) *Equity securities include publically traded common and preferred shares.*

Liquid assets held for regulatory purposes were down by $228 million or 28% despite the increase in outstanding mortgage commitments from $445 million at December 31, 2012 to $486 million at the end of December 31, 2013. The balance decreased due to the Company's more efficient management of our liquid assets portfolio.

Equity securities decreased by $34.4 million, primarily due to the sale in early 2013 of preferred shares issued by other financial institutions.

OTHER ASSETS

The table below provides a breakdown of other assets at December 31, 2013 and 2012:

Table 13: Other assets

($ THOUSANDS)	2013	2012	Change from 2012	
Real estate owned	$ **7,703**	$ 227	$ 7,476	3293%
Prepaid expenses and other	**6,497**	11,624	(5,127)	(44%)
Deferred system costs	**5,975**	3,719	2,256	61%
Capital assets	**4,021**	3,547	474	13%
Receivables related to securitization activities	**2,512**	2,773	(261)	(9%)
Derivative financial instruments – interest rate swaps	**1,650**	-	1,650	N/A
Derivative financial instruments – bond forwards	**705**	323	382	118%
Accrued interest and dividends on non-mortgage assets	**630**	1,393	(763)	(55%)
Derivative financial instruments – hedges	**-**	20	(20)	(100%)
Total	$ **29,693**	$ 23,626	$ 6,067	26%

Other assets were $29.7 million at the end of December 31, 2013, up by 26% or $6.1 million over the prior year. The increase was mainly due to $7.7 million of real estate owned assets recorded as a result of three mortgage foreclosures in 2013 and the capitalization of $3.5 million of systems development costs.

Offsetting these increases was the recovery of a portion of a receivable related to an alleged fraud identified in 2011. In September 2013, Equitable entered into an agreement to resolve a litigation related to the alleged fraud, resulting in the receipt of $5.2 million in October 2013. Subsequent to the receipt, our net outstanding receivable is $3.2 million. In addition to this settlement, we are pursuing an additional claim against our insurer under our Financial Institution Bond, which is intended to protect us against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions, or that such proceeds will be sufficient to recover the remaining amount of the receivable.

DEPOSITS

Equitable's ability to fund our mortgage businesses with insured deposits, by attracting deposit brokers and savers across Canada with our exceptional service, is critical to our success. Equitable sources deposits primarily through a national distribution network of third party deposit agents and financial advisors.

In the third quarter of 2013, we successfully launched a new deposit product, the Equitable Bank HISA. The product is available across Canada from authorized investment dealers, in nominee format through the FundSERV network. The addition of the HISA to our deposits portfolio allows us to deliver a highly competitive rate of interest to Canadian savers and provide more value to our investment advisor partners. We had $20.5 million of HISA deposits outstanding at December 31, 2013.

Total deposit principal outstanding increased $811 million or 15%, to $6.4 billion over the year. Deposits have grown in line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

SECURITIZATION LIABILITIES

The majority of the Company's historic securitization transactions do not qualify the securitized mortgages for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheet and accounted for as securitization financing.

Securitization liabilities were $4.6 billion at the end of December 31, 2013, down 13% from December 31, 2012. The amount is generally consistent with the level of Securitization Financing assets reported on our consolidated balance sheet.

DEBENTURES AND BANK FACILITIES

Equitable had three series of debentures outstanding at December 31, 2013, compared with four series and a bank term loan outstanding at the end of the prior year. All series of debentures mature between 2017 and 2020, but we can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements and our liquidity position.

We have used the proceeds from Equitable Group Inc.'s debentures and term loans to provide regulatory capital to Equitable Bank, and have done so by issuing subordinated debentures from Equitable Bank. These intercompany debentures are subordinated to the rights of Equitable Bank's depositors and other creditors. Equitable Bank's debentures mature between 2017 and 2020, but we can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements and to the approval of OSFI.

Our debenture and term loan balances decreased by $37.7 million from December 31, 2012. The change is due to:

- a $9.5 million redemption of 7.1% Series 7 subordinated debentures on January 3, 2013 at par value;
- a $15.8 million redemption of 6.5% Series 8 subordinated debentures on March 5, 2013, ahead of their December 2014 par call date and at a 5% premium to par value; and
- the repayment of a $12.5 million 6.4% bank term loan.

The following table details the Company's outstanding debentures and term loan at December 31, 2013 and 2012.

Table 14: Debentures and term loan

($ THOUSANDS)		2013	2012	Change from 2012	
Debentures	Interest Rate				
Series 7	7.10%	**$ -**	$ 9,450	$ (9,450)	(100%)
Series 8	6.50%	**7,483**	23,221	(15,738)	(68%)
Series 9	6.09%	**20,000**	20,000	-	- %
Series 10	5.40%	**65,000**	65,000	-	- %
Total debentures		**$ 92,483**	$ 117,671	$ (25,188)	(21%)
Total bank term loan	6.41%	**$ -**	$ 12,500	$ (12,500)	(100%)
Total debentures and term loan		**$ 92,483**	$ 130,171	$ (37,688)	(29%)

In Q3 2013, we secured a $300 million credit facility with a major Canadian Schedule I Bank to finance insured residential mortgages prior to securitization. We utilized the facility regularly during Q3 and Q4, but due to the timing of securitizations the facility was undrawn at year-end.

We have a $35.0 million credit facility in place with a major Canadian Schedule I Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance on the facility at December 31, 2013 (2012 – nil).

Details related to the Company's bank facilities and debentures can be found in Notes 16 and 17 to the 2013 audited consolidated financial statements.

OTHER LIABILITIES AND DEFERRED INCOME TAXES

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, income taxes payable, the fair value of derivative financial instruments, and a future servicing liability for securitized mortgages that achieved derecognition.

Table 15: Other liabilities and deferred income taxes

($ THOUSANDS)	2013	2012	Change from 2012	
Mortgagor realty taxes	**$ 26,335**	$ 22,340	$ 3,995	18%
Accounts payable and accrued liabilities	**12,092**	10,102	1,990	20%
Income taxes payable	**8,883**	4,670	4,213	90%
Securitized mortgage servicing liability	**7,921**	1,518	6,403	422%
Mortgage commitments	**19**	-	19	N/A
Derivative financial instruments – interest rate swaps	**-**	2,301	(2,301)	(100%)
	55,250	40,931	14,319	35%
Deferred tax liabilities	**10,826**	5,498	5,328	97%
Total other liabilities and deferred tax liabilities	**$ 66,076**	$ 46,429	$ 19,647	42%

Other liabilities and deferred tax liabilities totaled $66.1 million at December 31, 2013, up from $46.4 million in 2012. The primary driver of the change was growth in our securitization activities that led to higher levels of derecognized mortgages and the recognition of securitized mortgage servicing liabilities. These activities also resulted in an increase in our deferred tax liabilities because of timing differences between when the income is recorded on our consolidated statement of income and when it is recognized for tax purposes. Increases in other line items related mainly to the growth of our business.

Contractual obligations by year of maturity are outlined in Table 32 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2013.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased $86.7 million or 17.3% to $588 million at December 31, 2013, from $502 million at December 31, 2012. The increase reflects the high level of earnings retained by the Company, partly offset by dividends paid.

The Company has a Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional, and under the terms of the plan cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. Common shares issued as a result of participation in the DRIP are issued from the Company's treasury. During the year ended December 31, 2013, the Company issued 23,699 common shares under the DRIP (2012 – 29,222).

At December 31, 2013, the Company had 15,355,405 common shares issued and outstanding compared to 15,189,983 issued and outstanding at December 31, 2012. At December 31, 2013 and 2012, the Company had 2,000,000 non-cumulative five-year rate reset preferred shares issued and outstanding.

During 2013, 144,537 options were granted. In addition, 141,723 stock options were exercised that contributed $2.4 million to common share capital. At December 31, 2013, there were 521,631 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $14.9 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) of the consolidated financial statements.

CAPITAL MANAGEMENT – EQUITABLE BANK

We manage Equitable Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

Effective January 1, 2013, OSFI's Capital Adequacy Requirements ("CAR") Guideline was updated to reflect the BCBS reforms commonly referred to as 'Basel III'. The CAR Guideline requires that Canadian-regulated financial institutions meet a minimum 7.0% CET1 capital ratio on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments), starting in Q1 2013. Equitable Bank's CET1 ratio on an "all-in" basis was 12.4% as at December 31, 2013.

Similarly, our Tier 1 and Total Capital ratios of 13.5% and 16.3%, respectively, exceeded regulatory minimums on an "all-in" basis at December 31, 2013. Our Tier 1 ratio was in line with the prior year and up compared to the prior quarter. The increase in our Tier 1 ratio since September 30, 2013 reflects growth in our capital that was driven by strong earnings. Our Total capital ratio was down by 1.1% from December 31, 2012 mainly due to the redemption of $37.7 million of subordinated debentures in Q1 2013 and the high rate of asset growth in our Core Lending business.

Our Assets-to-Capital Multiple ("ACM") increased by 1.0x, from 12.8x at December 31, 2012 to 13.8x at December 31, 2013. The change was partly attributable to the maturity and renewal of $283 million of 'grandfathered' Securitization Financing assets that were previously exempt from inclusion in our ACM calculation. We expect that a similar amount of 'grandfathered' assets will be renewed in 2014 and that our ACM could increase as a result. In certain transactions, we may be able to achieve derecognition of the underlying assets, and therefore the assets would not impact our ACM. Notwithstanding this potential increase, management believes that the Company's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth.

On a regular basis, we stress test our mortgage portfolio in order to understand the potential impact of extreme but plausible adverse economic scenarios. We use the tests to analyze the impact that an increase in unemployment, rise in interest rates, decline in real estate prices, and other factors could have on our financial position. Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the Company has sufficient capital to absorb the potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 16: Capital measures of Equitable Bank[1]

($ THOUSANDS, EXCEPT ACM)	Basel III[2] 2013	Basel II[2] 2012
Total risk-weighted assets ("RWA")	**$ 4,328,555**	$ 3,767,442
Common Equity Tier 1 capital ("CET1")[3]:		
Common shares	**140,997**	137,303
Contributed surplus	**4,911**	4,589
Non-cumulative preferred shares	**-**	50,000
Retained earnings	**398,493**	317,754
Accumulated other comprehensive loss[4]	**(4,574)**	(1,767)
Less: Regulatory adjustments	**(1,188)**	-
Common Equity Tier 1 capital:	**538,639**	
Additional Tier 1 Capital:		
Non-cumulative preferred shares[5]	**45,000**	-
Tier 1 capital:	**583,639**	507,879
Tier 2 capital:		
Collective allowance	**28,097**	21,960
Subordinated debentures	**92,483**	125,781
Tier 2 capital	**120,580**	147,741
Total capital	**$ 704,219**	$ 655,620
Capital ratios and multiples:		
Common Equity Tier 1 capital ratio[3]	**12.4%**	N/A
Tier 1 capital ratio	**13.5%**	13.5%
Total capital ratio	**16.3%**	17.4%
Assets to capital multiple ("ACM")	**13.8**	12.8

(1) See Non-GAAP Financial Measures section of this MD&A.

(2) Effective the first quarter of 2013, we calculate capital ratios and ACM using the Basel III framework. The capital ratios are calculated on the "all-in" basis and the ACM is calculated on the "transitional basis". The 2012 capital ratios and ACM were calculated using the Basel II framework. Basel III and Basel II are not directly comparable.

(3) Common Equity Tier 1 capital ("CET1") is a new regulatory measure under the Basel III framework. CET1 is not applicable for the prior year as Basel III was adopted prospectively, effective the first quarter of 2013.

(4) As prescribed by OSFI (under Basel III rules), Accumulated other comprehensive income ("AOCI") is part of the CET1 in its entirety, however, the amount of cash flow hedge reserves that relates to the hedging of items that are not fair valued are derecognized.

(5) Under Basel III rules, Equitable Bank's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.

Table 17: Risk-weighted assets of Equitable Bank[1]

($ THOUSANDS)			2013 Basel III
	Amounts	**Risk Weighting**	**Risk-weighted Amounts**
On balance sheet:			
Cash and cash equivalents	**$ 314,517**	**17%**	**$ 52,899**
Securities purchased under reverse repurchase agreements	**56,349**	**0%**	**-**
Investments	**254,932**	**47%**	**120,581**
Mortgage receivables – Core Lending:			
Single Family Lending Services	**3,812,306**	**35%**	**1,327,175**
Commercial Lending Services	**2,403,953**	**97%**	**2,330,310**
Mortgage receivables – Securitization Financing	**4,941,704**	**0%**	**270**
Securitization retained interests	**30,784**	**100%**	**30,784**
Other assets	**28,386**	**92%**	**26,144**
Total Equitable Bank assets subject to risk weighting	**$ 11,842,931**		**$ 3,888,163**
Less: Collective allowance	**(28,096)**		**-**
Total Equitable Bank assets	**$ 11,814,835**		**$ 3,888,163**
Off-balance sheet:			
Loan commitments			**130,953**
Derivatives			**4,639**
Total credit risk			**$ 4,023,755**
Operational risk[2]			**304,800**
Total			**$ 4,328,555**

($ THOUSANDS)			2012 Basel II
	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	$ 442,785	20%	$ 88,558
Securities purchased under reverse repurchase agreements	78,551	0%	-
Investments	439,480	39%	172,885
Mortgage receivables – Core Lending:			
Single Family Lending Services	3,038,724	35%	1,062,608
Commercial Lending Services	2,138,374	96%	2,061,207
Mortgage receivables – Securitization Financing	5,454,334	0%	333
Securitization retained interests	7,263	100%	7,270
Other assets	22,288	92%	20,555
Total Equitable Bank assets subject to risk weighting	$ 11,621,799		$ 3,413,416
Less: Collective allowance	(21,960)		-
Total Equitable Bank assets	$ 11,599,839		$ 3,413,416
Off-balance sheet:			
Loan commitments			92,380
Derivatives			5,958
Total credit risk			$ 3,511,754
Operational risk[2]			255,688
Total			$ 3,767,442

[1] *Effective the first quarter of 2013, we calculate risk-weighted assets using the Basel III framework. The risk-weighted assets are calculated on the "all-in" basis. The 2012 risk-weighted assets were calculated using the Basel II framework. Basel III and Basel II are not directly comparable.*

[2] *For operational risk, Equitable Bank uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.*

SUMMARY OF QUARTERLY RESULTS

Table 18 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

Table 18: Summary of quarterly results

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**2013**				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2[1]	Q1
OPERATIONS								
Net income	**26,492**	23,226	22,898	20,914	20,140	21,054	22,073	17,940
Net income available to common shareholders	**25,586**	22,319	21,992	20,008	19,234	20,147	21,167	17,034
EPS – basic	**$ 1.67**	$ 1.46	$ 1.44	$ 1.32	$ 1.27	$ 1.34	$ 1.41	$ 1.13
EPS – diluted	**$ 1.65**	$ 1.44	$ 1.43	$ 1.30	$ 1.26	$ 1.33	$ .40	$ 1.13
Net interest income	**47,264**	44,705	42,406	40,162	40,555	40,640	38,451	36,524
NIM – TEB:[2][3][4]								
Total Assets	**1.60%**	1.50%	1.46%	1.42%	1.44%	1.49%	1.49%	1.45%
Core Lending	**2.49%**	2.38%	2.39%	2.32%	2.30%	2.38%	2.50%	2.54%
Securitization Financing	**0.47%**	0.44%	0.42%	0.47%	0.52%	0.57%	0.50%	0.46%
Total revenues[5]	**128,813**	127,861	127,380	124,511	125,824	123,211	117,739	116,425
ROE – annualized[4]	**19.2%**	17.5%	18.2%	17.5%	17.3%	18.9%	21.1%	17.7%
Return on assets – annualized[4]	**0.9%**	0.8%	0.8%	0.7%	0.7%	0.8%	0.8%	0.7%
Productivity ratio – TEB[3][4]	**28.4%**	31.8%	30.3%	30.3%	30.3%	29.1%	30.6%	30.8%
MORTGAGE PRODUCTION								
Single Family Lending Services	**506,244**	463,961	400,403	284,718	393,486	428,423	429,850	287,872
Commercial Lending Services	**183,008**	265,383	210,694	172,992	185,623	207,969	153,498	118,407
Core Lending	**689,252**	729,344	611,097	457,710	579,109	636,392	583,348	406,279
Securitization Financing	**365,771**	190,537	280,932	166,376	475,146	288,442	104,785	110,553
BALANCE SHEET								
Total assets	**11,816,453**	11,831,155	11,837,872	11,602,293	11,601,440	11,228,030	10,867,531	10,470,238
Mortgages receivable	**11,129,867**	10,970,223	10,806,401	10,737,609	10,609,472	10,221,518	9,978,718	9,687,879
Total liquid assets	**704,012**	858,349	845,033	770,516	965,969	971,477	975,994	836,770
Shareholders' equity	**588,318**	565,506	545,919	521,829	501,571	481,673	462,473	443,457
SHARE CAPITAL								
Weighted average basic number of common shares outstanding	**15,326,042**	15,294,743	15,262,648	15,204,757	15,261,497	15,086,513	15,051,825	15,030,234
Weighted average diluted number of common shares outstanding	**15,526,253**	15,480,627	15,417,784	15,368,873	15,263,800	15,198,472	15,141,181	15,133,205
Book value per common share	**$ 35.14**	$ 33.77	$ 32.55	$ 31.07	$ 29.83	$ 28.69	$ 27.46	$ 26.26

(1) The Company recorded an after-tax investment gain of $3.6 million or $0.24 per share in the second quarter of 2012. Excluding the investment gain, net income in the period was $18.5 million, or $1.16 per diluted share; and ROE was 17.5%.

(2) NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.

(3) For purposes of improving comparability across periods, the Q2 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio holdings. Including the investment gain, the productivity ratio – TEB was 27.3%.

(4) See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

(5) See Additionally Generally Accepted Accounting Principles Financial Measures section of this MD&A.

FOURTH QUARTER OVERVIEW

Equitable produced record quarterly earnings in the fourth quarter of 2013. This was achieved in a quarter where there were no items of note. It was a fitting finish to the year and provides Equitable with momentum as we head into 2014.

During the three months ended December 31, 2013, Equitable:

- delivered record diluted EPS of $1.65, up by 31% over Q4 of the prior year and up by 15% sequentially;
- produced an ROE of 19.2% compared to 17.3% in the fourth quarter of 2012 and 17.5% in the prior quarter; and
- declared common share dividends of $0.16, up 14% from Q4 2012.

NET INTEREST INCOME

Table 19 details the Company's net interest income and NIM for the three months ended December 31, 2013, with comparisons to the prior quarter and the corresponding quarter of the prior year, by product and business.

Table 19: Net interest income

						Three months ended
		Dec 31, 2013		Sep 30, 2013		Dec 31, 2012
($ THOUSANDS)	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]	Revenue/ expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 74,799**	**4.91%**	$ 71,633	4.97%	$ 64,253	5.04%
Liquidity investments	**1,672**	**1.45%**	2,053	1.35%	2,306	1.42%
Equity securities – TEB[2]	**1,787**	**7.06%**	819	3.41%	2,850	7.15%
	78,258	**4.70%**	74,505	4.60%	69,409	4.70%
Expenses related to:						
Deposits	**34,953**	**2.35%**	34,035	2.35%	33,360	2.54%
Debentures and bank facilities	**1,423**	**5.66%**	1,437	5.50%	1,824	5.87%
	36,376	**2.40%**	35,472	2.40%	35,184	2.62%
Net interest income – TEB[2][3]	**41,882**	**2.49%**	39,033	2.38%	34,225	2.30%
Taxable equivalent adjustment[2]	**(794)**		(421)		(975)	
Core Lending	**$ 41,088**		$ 38,612		$ 33,250	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 46,725**	**3.67%**	$ 49,498	3.77%	$ 54,002	4.01%
Liquidity investments	**806**	**1.72%**	961	1.57%	1,200	2.40%
	47,531	**3.60%**	50,459	3.67%	55,202	3.95%
Expenses related to:						
Securitization liabilities	**38,535**	**3.25%**	41,800	3.35%	45,609	3.54%
Deposits and secured funding facility	**2,820**	**2.43%**	2,566	2.35%	2,288	2.54%
	41,355	**3.18%**	44,366	3.27%	47,897	3.47%
Securitization Financing	**$ 6,176**	**0.47%**	$ 6,093	0.44%	$ 7,305	0.52%
Total assets – TEB[2][3]	**$ 48,058**	**1.60%**	$ 45,126	1.50%	$ 41,530	1.44%

[1] *Average rates are calculated based on the average of the month-end balances outstanding during the period.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[3] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A*

Q4 2013 v Q4 2012

NIM increased 16 bps to 1.60% from 1.44% in Q4 2012, as our asset base shifted more towards our higher margin Core Lending business and margins increased within Core Lending.

NIM earned on Core Lending assets increased 19 bps to 2.49% due to more efficient management of our low margin liquidity portfolio and our efforts to optimize renewal pricing in Single Family. NIM was also helped by gains on interest rate swaps related to our GIC book relative to a loss in the prior year. These favourable effects were offset, in part, by the high growth of our Single Family business, which generally earns lower spreads than Commercial but provides a higher return on capital.

Securitization Financing NIM was down 5 bps in 2013 primarily because recent renewals and originations have been at lower spreads and we held higher levels of liquidity (related to the timing of mortgage maturities and securitization liability repayments).

Q4 2013 v Q3 2013

Net interest income was up by 6% sequentially due to higher NIMs. The growth in NIM was driven primarily by an 11 bp increase in the NIM in our Core Lending business. The increase in Core Lending NIM resulted from a reduction in the size of our lower margin liquidity portfolio and an increase in income on our equity securities.

Securitization Financing NIM was up by 3 bps, as higher levels of mortgage prepayment income offset the impact of recent originations and renewals being at lower margins.

Table 20: Factors affecting NIM

(IN BASIS POINTS)	Q4 2013 vs. Q4 2012	Q4 2013 vs. Q3 2013
Core Lending NIM:		
Mortgage prepayment income	(1)	(4)
Size and rate of liquidity investments	15	10
Size and rate of equity securities holdings	(3)	6
Size and rate of debentures and bank facilities	1	-
Derivative financial instruments – Interest rate swaps	7	1
Other[(1)]	-	(2)
Total change in NIM	19	11
Securitization Financing NIM:		
Mortgage prepayment income	-	4
Size and rate of liquidity investments	(2)	2
Other[(1)]	(3)	(3)
Total change in NIM	(5)	3

[(1)] *Other includes various effects including the effect of the shift in mix of the mortgage portfolio, pricing refinements, the timing of new originations and renewals, the timing of securitizations, and the number of days in the period.*

PROVISION FOR CREDIT LOSSES

The Company's provision for credit losses was $1.3 million in the quarter, down from $1.7 million in the prior quarter and $2.2 million in the same period last year, reflecting the credit quality of our mortgage portfolio.

During Q4 2013, the Company recorded an impairment recovery of $0.4 million, compared to an impairment provision of $0.4 million in Q3 2013 and an impairment provision of $1.0 million in corresponding period of the prior year.

OTHER INCOME

Table 21: Other income

				Three months ended	
($ THOUSANDS)	**Dec 31, 2013**	Sep 30, 2013	% Change	Dec 31, 2012	% Change
Fees and other income	**$ 1,467**	$ 1,654	(11%)	$ 1,001	47%
Net gain (loss) on investments	**357**	(13)	2846%	(63)	667%
Securitization activities:					
Gains on securitization and income from retained interests	**1,924**	1,385	39%	1,153	67%
Fair value gains on derivative financial instruments	**70**	292	(76%)	97	(28%)
Total	**$ 3,818**	$ 3,318	15%	$ 2,188	74%

Q4 2013 v Q4 2012

Other income increased by 74% to $3.8 million in Q4 2013, compared to $2.2 million in 2012. The $1.6 million increase is attributable mainly to:

- an additional $0.8 million of gains recorded on the securitization and derecognition of insured residential mortgages;
- a $0.4 million increase in mortgage administration fees, driven by growth of the mortgage portfolio; and
- additional investment gains of $0.4 million, related to the sale of certain common share investments in the quarter.

Q4 2013 v Q3 2013

Other income increased by $0.5 million or 15% sequentially mainly due to $0.5 million of additional gains recorded on securitization activities and a $0.4 million increase in investments gains. The increase occurred despite lower fair value gains on derivative financial instruments and the absence of $0.2 million of fee income related to an HST refund in Q3.

NON-INTEREST EXPENSES

Table 22: Non-interest expenses and productivity ratio

				Three months ended	
($ THOUSANDS, EXCEPT FTE)	**Dec 31, 2013**	Sep 30, 2013	% Change	Dec 31, 2012	% Change
Compensation and benefits	**$ 8,742**	$ 8,738	0%	$ 7,413	18%
Premises, equipment and systems costs	**1,813**	2,417	(25%)	1,346	35%
Mortgage servicing	**1,049**	1,065	(2%)	1,071	(2%)
Other	**1,042**	1,476	(29%)	1,356	(23%)
Marketing, travel and communications	**903**	588	54%	668	35%
Licenses, regulatory fees and insurance	**818**	624	31%	1,044	(22%)
Legal, audit and related services	**357**	389	(8%)	352	1%
Total	**$ 14,724**	$ 15,297	(4%)	$ 13,250	11%
Productivity ratio – TEB	**28.4%**	31.6%	(3.2%)	30.3%	(1.9%)
Full-time employee ("FTE") – period average	**291**	283	3%	253	15%

Q4 2013 v Q4 2012

The Company continues to operate efficiently. Our productivity ratio decreased to 28.4% in the fourth quarter of 2013 from 30.3% in 2012 despite an 11% increase in non-interest expenses.

The majority of the net increase in our expenses relates to FTE growth and the costs to support our incremental staff, such as premises and equipment.

Q4 2013 v Q3 2013

Our productivity ratio improved by 3.2 percentage points, driven by both a 4% decrease in non-interest expenses and higher income. The decrease in expenses is largely due to the absence of costs incurred in Q3 associated with the renegotiation of our core technology systems contract.

INCOME TAXES

Q4 2013 v Q4 2012

The Company's effective income tax rate in the quarter was 24.4%, compared to 26.2% in the same quarter last year. The 1.8% decrease is largely due to a higher level of tax exempt income in Q4 2013.

Q4 2013 v Q3 2013

Our effective income tax rate decreased 0.9% from 25.3% in the prior quarter. The decrease resulted from a higher level of tax-exempt dividend income from our securities portfolio.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2013 and Q4 2012:

Table 23: Mortgage principal continuity schedule

	Three months ended December 31, 2013						
($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal(2)	Securitization Financing MUM(3)
Q3 2013 closing balance	$ 3,526,983	$ 2,371,029	$ 5,898,012	$ 5,047,184	$ 10,945,196	$ 792,535	$ 5,839,719
Production	506,244	183,008	689,252	365,771	1,055,023	-	365,771
Core Lending securitized(1)	(69,338)	-	(69,338)	69,338	-	-	69,338
Securitized and derecognized	-	-	-	(214,263)	(214,263)	214,263	-
Net repayments	(165,890)	(155,106)	(320,996)	(357,912)	(678,908)	(7,878)	(365,790)
Q4 2013 closing balance	$ 3,797,999	$ 2,398,931	$ 6,196,930	$ 4,910,118	$ 11,107,048	$ 998,920	$ 5,909,038
% Change from Q3 2013	8%	1%	5%	(3%)	1%	26%	1%
Net repayments percentage(4)	4.7%	6.5%	5.4%	7.1%	6.2%	1.0%	6.3%

($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
							Three months ended December 31, 2012
Q3 2012 closing balance	$ 2,841,420	$ 2,169,780	$ 5,011,200	$ 5,177,313	$ 10,188,513	$ 164,019	$ 5,341,332
Production	393,486	185,623	579,109	475,146	1,054,255	-	475,146
Core Lending securitized[1]	(113,528)	-	(113,528)	113,528	-	-	113,528
Securitized and derecognized	-	-	-	(170,907)	(170,907)	170,907	-
Net repayments	(94,855)	(221,141)	(315,996)	(179,307)	(495,303)	(2,004)	(181,311)
Q4 2012 closing balance	$ 3,026,523	$ 2,134,262	$ 5,160,785	$ 5,415,773	$ 10,576,558	$ 332,922	$ 5,748,695
% Change from Q3 2012	7%	(2%)	3%	5%	4%	103%	8%
Net repayments percentage[4]	3.3%	10.2%	6.3%	3.5%	4.9%	1.2%	3.4%

(1) *Core Lending securitized represents Single Family mortgages that were securitized in the period and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the period as part of Single Family Lending Services (i.e. not securitized again at the time of renewal).*

(2) *Derecognized Mortgage Principal represents mortgages under administration that are not reported on Equitable's consolidated balance sheet. These mortgages were securitized using transaction structures that transferred substantially all the risks and rewards or control associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages.*

(3) *Securitization Financing MUM includes Securitization Financing and Derecognized Mortgage Principal.*

(4) *Net repayment percentage is calculated by dividing net repayments by the previous quarter's closing balance.*

Q4 2013 v Q3 2013

Core Lending principal increased $0.3 billion or 5% and total mortgage balances were up 1%.

Within Core Lending, Single Family was up 8% due to high levels of production, and despite the securitization of $69.3 million of Single Family mortgages in the quarter.

Securitization Financing MUM increased by 1%, as net repayments and production offset each other, and $69.3 million of Core Lending mortgages were securitized in the quarter.

MORTGAGE ASSET PRODUCTION

Mortgage production levels are seasonal, particularly in Single Family Lending Services, and as such, we do not focus on quarter over quarter production comparisons. The table below provides mortgage production for Q4 2013 and Q4 2012.

Table 24: Mortgage production – by lending business

						Three months ended
	Dec 31, 2013		Dec 31, 2012		Change from 2012	
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Mortgage principal funded	% of total
Single Family Lending Services	**$ 506,244**	**48.0%**	$ 393,486	37.3%	$ 112,758	29%
Commercial Lending Services	**183,008**	**17.3%**	185,623	17.6%	(2,615)	(1%)
Core Lending	**689,252**	**65.3%**	579,109	54.9%	110,143	19%
Securitization Financing	**365,771**	**34.7%**	475,146	45.1%	(109,375)	(23%)
Total mortgage production	**$ 1,055,023**	**100.0%**	$ 1,054,255	100.0%	$ 768	0%

The Company delivered record quarterly mortgage production of $1.1 billion, which was just ahead of the fourth quarter of 2012. Single Family production was at all-time record levels and up by 29%, with this performance reflecting the strength of the Canadian housing market and our continued high levels of service quality.

Securitization Financing production was down by 23% compared to the same quarter of the prior year. The decrease reflects our focus on renewing a large volume of maturing mortgages and the volume limits imposed by our quarterly CMB allocation – specifically, our capacity for net new originations is effectively our CMB allocation remaining after our renewal volumes are securitized.

SECURITIZATION

The table below provides a summary of the mortgages securitized and derecognized in the quarter, as well as the associated retained interests and gains on sale amounts:

Table 25: Securitization and derecognition activity

				Three months ended	
($ THOUSANDS)	**Dec 31, 2013**	Sep 30, 2013	% Change	Dec 31, 2012	% Change
Securitized and derecognized – retained interests recorded	**$ 214,263**	$ 206,199	4%	$ 116,731	84%
Securitized and derecognized – no retained interests recorded[1]	**-**	-	N/A	54,175	(100%)
Total principal derecognized	**$ 214,263**	$ 206,199	4%	$ 170,906	25%
Retained interests recorded	**7,485**	7,514	(0%)	5,255	42%
Gains on sale	**1,423**	1,570	(9%)	1,159	23%
Gains on sale – percentage[2]	**0.66%**	0.76%	(0.10%)	0.68%	(0.02%)

(1) Securitizations that result in derecognition with no retained interests recorded on the consolidated balance sheet occur when the Company sells its residual interests in the securitizations (commonly referred to as interest-only strips) to third parties.

(2) Gains on sale – percentage represents the gains on sale as a percentage of total principal derecognized.

Q4 2013 v Q4 2012

We securitized and derecognized $214 million of mortgages during the fourth quarter of 2013, which represents an increase of 25% from a year ago. Volumes were up because of higher demand for non-prepayable mortgage products this year (non-prepayable mortgages are derecognized from the Company's consolidated balance sheet when securitized).

We recorded gains on sale of $1.4 million on these transactions. The gains recognized in the quarter relative to the principal derecognized were 66 bps, consistent with the 68 bps realized in Q4 2012.

Q4 2013 v Q3 2013

The volume of mortgages securitized and derecognized increased by 4% or $8.1 million sequentially. Gains on sale as a percentage of the assets derecognized were down 10 bps from Q3 2013. The decrease was primarily due to changes in hedging gains and losses that are included in the gains on sale amount and the timing of various securitization related cash flows. The spreads on the underlying mortgages remained relatively consistent period over period.

Table 26: Unaudited interim consolidated statements of income

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)			Three months ended
	Dec 31, 2013	Sep 30, 2013	Dec 31, 2012
Interest income:			
Mortgages – Core Lending	**$ 74,799**	$ 71,633	$ 64,253
Mortgages – Securitization Financing	**46,725**	49,498	54,002
Investments	**1,577**	1,141	2,872
Other	**1,894**	2,271	2,509
	124,995	124,543	123,636
Interest expense:			
Deposits	**37,360**	36,601	35,648
Securitization liabilities	**38,535**	41,800	45,609
Bank facilities	**413**	-	205
Debentures	**1,403**	1,403	1,597
Other	**20**	34	22
	77,731	79,838	83,081
Net interest income	**47,264**	44,705	40,555
Provision for credit losses	**1,332**	1,650	2,200
Net interest income after provision for credit losses	**45,932**	43,055	38,355
Other income:			
Fees and other income	**1,467**	1,654	1,001
Net gain (loss) on investments	**356**	(13)	(63)
Gains on securitization activities and income from securitization retained interests	**1,995**	1,677	1,250
	3,818	3,318	2,188
Net interest and other income	**49,750**	46,373	40,543
Non-interest expenses:			
Compensation and benefits	**8,742**	8,738	7,413
Other	**5,982**	6,559	5,836
	14,724	15,297	13,249
Income before income taxes	**35,026**	31,076	27,294
Income taxes			
Current	**7,752**	6,795	8,058
Deferred	**782**	1,055	(904)
	8,534	7,850	7,154
Net income	**$ 26,492**	$ 23,226	$ 20,140
Earnings per share			
Basic	**$ 1.67**	$ 1.46	$ 1.27
Diluted	**$ 1.65**	$ 1.44	$ 1.26

Table 27: Unaudited interim consolidated statements of comprehensive income

($ THOUSANDS)	Three months ended Dec 31, 2013	Sep 30, 2013	Dec 31, 2012
Net income	**$ 26,492**	$ 23,226	$ 20,140
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized (losses) gains from change in fair value	**(1,494)**	(2,456)	54
Reclassification of net gains to income	**(299)**	15	(123)
	(1,793)	(2,441)	(69)
Income tax recovery	**472**	643	18
	(1,321)	(1,798)	(51)
Cash flow hedges:			
Net unrealized (losses) gains from change in fair value	**(298)**	172	(210)
Reclassification of net losses to income	**469**	512	624
	171	684	414
Income tax expense	**(45)**	(180)	(108)
	126	504	306
Total other comprehensive (loss) income	**(1,195)**	(1,294)	255
Total comprehensive income	**$ 25,297**	$ 21,932	$ 20,395

Table 28: Unaudited interim consolidated statements of cash flows

	Three months ended		
($ THOUSANDS)	**Dec 31, 2013**	Sep 30, 2013	Dec 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	**$ 26,492**	$ 23,226	$ 20,140
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	**(2,355)**	12,320	(2,417)
Amortization of premiums/discounts on investments	**613**	636	1,187
Depreciation of capital assets	**343**	308	297
Provision for credit losses	**1,332**	1,650	2,200
Securitization gains	**(1,423)**	(1,570)	(1,159)
Net loss on sale or redemption of investments	**785**	13	964
Stock-based compensation	**233**	216	261
Income taxes	**8,533**	7,850	7,083
Changes in operating assets and liabilities:			
Restricted cash	**(20,258)**	8,823	36,273
Securities purchased and sold under reverse repurchase agreements	**7,948**	85,525	(18,724)
Mortgages receivable	**(378,685)**	(375,153)	(563,039)
Other assets	**4,692**	(3,018)	(1,961)
Deposits	**89,741**	275,780	105,357
Securitization liabilities	**(149,014)**	(293,133)	160,698
Obligations related to investments sold under repurchase agreements	**2,572**	(10,130)	7,918
Other liabilities	**12,837**	(3,366)	11,669
Income taxes paid	**(3,099)**	(2,322)	(4,653)
Net interest income, excluding non-cash items	**(73,009)**	(56,428)	(38,157)
Interest received	**125,475**	126,841	121,768
Interest paid	**(54,712)**	(71,617)	(86,366)
Dividends received	**2,246**	1,204	2,751
Proceeds from loan securitizations	**213,896**	201,602	170,474
Securitization retained interests	**1,067**	779	174
Cash flows used in operating activities	**(183,750)**	(69,694)	(67,262)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debentures	**-**	-	65,000
Dividends paid on preferred shares	**(906)**	(907)	(906)
Dividends paid on common shares	**(2,287)**	(1,990)	(1,561)
Proceeds from issuance of common shares	**635**	340	2,034
Cash flows (used in) from financing activities	**(2,558)**	(2,557)	64,567
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	**(19,824)**	(2,500)	(50,174)
Proceeds on sale or redemption of investments	**57,972**	38,639	72,634
Net change in Canada Housing Trust re-investment accounts	**18,187**	(6,812)	4,012
Purchase of capital assets	**(376)**	(214)	(412)
Cash flows from investing activities	**55,959**	29,113	26,060
Net (decrease) increase in cash and cash equivalents	**(130,349)**	(43,408)	23,365
Cash and cash equivalents, beginning of period	**373,994**	417,402	356,082
Cash and cash equivalents, end of period	**$ 243,645**	$ 373,994	$ 379,447

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. A summary of the Company's significant accounting policies is presented in Note 3 to the consolidated financial statements.

IFRS 10 Consolidated Financial Statements

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its entities. IFRS 10 introduces a new control model that is applicable to all entities. Accordingly, the Company controls an entity when it is exposed to and has rights to variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entity.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its entities as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

IFRS 13 Fair Value Measurement

IFRS 13 provides a revised definition of fair value and sets out a framework for measuring fair value in a single standard. IFRS 13 also requires additional disclosures about fair value measurement.

The change had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13. These new disclosure requirements are not included in the comparative information.

IFRS 7 Financial Instruments: Disclosures

As a result of the amendments to IFRS 7, the Company has expanded disclosures about offsetting financial assets and financial liabilities (See Note 11 to the consolidated financial statements).

IAS 1 Presentation of Financial Statements

As a result of the amendments to IAS 1, the Company has modified the presentation of items of Other Comprehensive Income ("OCI") in its consolidated statements of comprehensive income to present items that would be reclassified to income in the future separately from those that would never be reclassified. Comparative information has been presented on the same basis.

FUTURE ACCOUNTING CHANGES

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In 2010, the IASB released an updated version that introduces additional changes relating to financial liabilities. In 2013, the IASB issued a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, in line with the decision made in the July 2013 IASB meeting. The IASB also tentatively decided at its November 2013 meeting that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2017. The Company continues to monitor all of these developments and continues to assess the impact.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Company's consolidated financial statements affect the assessment of the allowance for credit losses on mortgages, the impairment of other financial instruments, the fair values of financial assets and liabilities, derecognition of financial assets transferred in securitization transactions, effectiveness of financial hedges for accounting purposes and income taxes.

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgages receivable, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management relies on external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges interest rate risk associated with CMHC-insured multi-unit residential mortgages and mortgage commitments intended for securitization, certain other mortgages and GICs designated as at fair value through income.

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company enters into bond forwards to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

For non-prepayable insured residential mortgages, where the transferred assets qualify for derecognition, the Company uses bond forwards to protect itself from fluctuations in interest rates between the time the Company commits to funding these mortgages and the time they are securitized. The change in value of the commitments and the funded mortgages before securitization are substantially offset by the change in value of the bond forwards and the Company does not apply hedge accounting to these derivative instruments.

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income. The hedging instruments used to manage these exposures are interest rate swaps and short sale and repurchase agreements of Government of Canada guaranteed debt securities.

The Company also hedges its interest rate exposure on certain GICs designated as at fair value through income, and used to fund its floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps. For some hedging relationships, the Company applies hedge accounting.

For more information on derivative financial instruments see Notes 3, 4, 5, 6 and 10 to the consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements) and letters of credit issued in the normal course of business.

Securitization of financial assets:

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $1 billion at December 31 2013 (December 31, 2012 – $333 million). The securitization retained interests recorded with respect to certain securitization transactions was $30.5 million (December 31, 2012 – $7.3 million) and the associated servicing liability was $7.9 million at December 31, 2013 (December 31, 2012 – $1.5 million).

Commitments and letters of credit:

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $486 million of mortgages in the ordinary course of business at December 31, 2013 (December 31, 2012 − $445 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $2.7 million were outstanding at December 31, 2013 (December 31, 2012 – $0.8 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in GIC deposits and/or subordinated debentures of the Company in the ordinary course of business, on market terms and conditions. Related party transactions, including shareholdings and options, are described in Note 23 to the consolidated financial statements.

RISK MANAGEMENT

Through its wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect its business, financial condition and operating results. These factors may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board of Directors (the "Board") plays an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, liquidity and funding risk, and interest rate risk.

The Risk Management Framework, Credit Risk Management, Liquidity and Funding Risk Management, and Interest Rate Risk Management sections below form an integral part of the 2013 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework. The ERM framework covers the type and amount of risk that the Company is capable and willing to take on in support of business operations and strategy, known as our Risk Appetite. The framework is designed to actively monitor all current and emerging risks on a continuous basis, and to provide the Board with timely periodic updates on risk management practices and economic capital requirements. The framework sets out our approach for identifying, assessing, managing and reporting risk, including the establishment of roles, responsibilities, processes and tools to be used in relation to our appetite for risk as established by the Board.

The Risk and Capital Committee ("RCC") of the Board of Directors assists the Board in fulfilling its oversight and governance responsibilities for the management of the Company's core and emerging risks and the adequacy of its capital plan. The RCC also has primary oversight responsibility for operational risk. At present, the RCC is comprised of the Chair of the Board of Directors and the Chairs of the Investment Committee, Audit Committee, and Human Resources and Compensation Committee. It meets quarterly with the Chief Executive Officer and the Chief Risk Officer.

The Company's ERM Committee, which is chaired by the Chief Risk Officer ("CRO") and consists of members of senior management, reports to the RCC and assists the Board in fulfilling its oversight and governance responsibilities vis-à-vis the Company's risk management practices and capital adequacy assessment process. To ensure that all significant risks that the Company faces are actively managed and monitored, the ERM Committee reviews the risk profile of the Company with respect to each of its key risks on a continuous basis, and reports to the Board at least quarterly.

The Investment Committee of the Board of Directors assists the Board in fulfilling its oversight role with regard to credit, liquidity and funding, and interest rate risks. The Investment Committee has established the Asset and Liability Committee ("ALCO") to identify and analyze the liquidity/funding and interest rate risks faced by the Company, to set appropriate risk limits and controls, and to monitor those risks and adherence to Board approved limits. The ALCO is chaired by the Chief Executive Officer and is comprised of members of senior management.

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the quality and integrity of the Company's financial statements, the performance of the internal audit function, and the Company's compliance with legal and regulatory requirements. The Audit Committee also has primary oversight responsibility for the Company's business and strategic risk, and reputational risk. The Audit Committee is assisted in fulfilling its mandate by the Company's Finance, Compliance and Internal Audit departments. Internal Audit undertakes regular and independent reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Human Resources and Compensation Committee of the Board of Directors assists the Board in ensuring that the Company's compensation policies and practices are aligned with its risk appetite and risk management framework.

Under the risk management framework, senior management reports on risk issues to the four above mentioned committees of the Board on a quarterly basis.

The Bank follows the three lines of defense approach to managing risk. Business Unit Leaders are the first line, and are primarily accountable for identifying, assessing, managing and reporting risk. The Risk Oversight functions, including the Finance, Risk Policy and Compliance departments, are accountable for independent oversight of the Business Unit operations. Internal Audit is accountable for independent assurance as the third line of defense.

To ensure capital management and risk management are aligned, the Company has a robust Internal Capital Adequacy Assessment Process (ICAAP) that determines the capital needs of the business and reviews those needs in the context of the strategic plan and the operating environment. Risks are regularly stress tested to determine the impact on capital and to set internal capital ratios.

CREDIT RISK

Credit risk is defined as the possibility that the Company will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honour their obligations to the Company. Credit risk arises principally from the Company's lending activities and its investment in debt and equity securities. The Company's exposure to credit risk is monitored by senior management and the Investment Committee of the Board of Directors, which undertakes the approval and monitoring of the Company's investment and lending policies.

The Company's primary lending business is providing first mortgages on real estate. All mortgages are individually evaluated by underwriters using internal and external credit risk assessment tools and are assigned risk ratings, in accordance with the level of credit risk attributed to each loan. This underwriting approach places a strong emphasis on security evaluation and judgmental analysis of the risks in the transaction rather than being formulaic in nature. Each transaction is approved independently in accordance with the authorization structure set out in the Company's policies. As a result, the Company can underwrite mortgages on terms favourable to the Company to borrowers who have good equity and debt service ratios in situations where other lenders may not be able to reach a satisfactory business transaction.

A key component of credit risk that is closely monitored and measured within the unsecuritized mortgage portfolio is credit concentration risk. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment. On a regular basis, with the approval of the Investment Committee and the Board of Directors, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage and investment portfolios.

The Company categorizes credit exposures in its mortgage portfolio using an internal risk rating system that rates the assets in the portfolio on the basis of risk of financial loss, in order to focus management on monitoring higher risk mortgages. The risk rating is determined during the underwriting process and confirmed or revised thereafter as a result of certain trigger events, using customized risk grids applicable to the property type supporting the loans. In the case of mortgage impairment, probable recovery is determined using a combination of updated property specific information, historical cost experience and management judgment to determine the impairment provision that may be required.

The Company also invests in preferred share securities to generate returns that meet an acceptable ROE threshold. These securities represent a potential source of liquidity for the Company. However, such investments expose the Company to credit risk if the issuer of the preferred shares cannot make dividend payments, or in the worst case scenario, if the issuer becomes insolvent. To limit exposure to credit risk, the Company establishes policies with exposure limits by credit rating and investment type. Securities rated P-2 and higher comprised 50.1% of the preferred share equity securities portfolio at December 31, 2013, compared to 63.2% a year earlier.

The Company's rating scale for the credit quality of its counterparties is based on both internal and external credit grading systems. Table 29 below maps those grading systems against the categories on the Company's credit risk exposure ratings scale. It presents the long-term Standard & Poor's equivalent grades for the Company's cash and cash equivalents, debt and equity securities, and derivative counterparties. Low risk denotes that there is a very low risk of either default or loss, standard risk that there is a low risk of default or loss, and high risk that there is some concern that default or loss could occur.

Cash and cash equivalents and derivatives ratings are based on the issuer grade of the respective financial institution, their subsidiaries or other financial intermediaries. Debt securities are categorized based on short-term or long-term issue grades, depending on the maturity dates of the securities. Preferred share securities are categorized based on the DBRS preferred share rating scale used in the Canadian securities market. Mortgages are categorized according to the Company's internal risk rating framework, which is based on the expected degree of financial loss caused by default.

Equitable assigns economic and regulatory capital for its counterparty credit exposures in accordance with OSFI's Capital Adequacy Requirements CAR Guideline, which are based on standards issued by the BCBS. All deemed credit exposures, such as counterparty credit risk that may arise through deposits placed with banks, derivatives contracts and other activities that create such risk, are regularly assessed to ensure that such activities are consistent with the Bank's Risk Appetite Framework and do not expose the Bank to undue risk of loss. All related counterparty credit limits are approved by Senior Management and monitored on an ongoing basis to ensure that all such exposures are maintained within approved limits.

Table 29: Credit risk exposure ratings scale

	Low risk	Standard risk	High risk
Cash and cash equivalents, investments, and derivatives:			
S&P equivalent grade	**AAA – BBB-**	**BB+ – B**	**B- – CC**
Mortgages receivable:			
Mortgage risk rating	**0 – 3**	**4 – 5**	**6 – 7**

Management has assessed the credit quality of the Company's assets as at December 31, 2013 and 2012, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Company's credit risk exposure rating scale.

Table 30: Asset credit quality

($ THOUSAND)	Neither past due nor impaired						2013
	Low risk	Standard risk	High risk	Past due but not Impaired	Individually impaired	Allowance	Total
Cash and cash equivalents	$ 243,645	$ -	$ -	$ -	$ -	$ -	$ 243,645
Restricted cash	87,319	-	-	-	-	-	87,319
Securities purchased under reverse repurchase agreements	54,860	-	-	-	-	-	54,860
Investments:							
Debt securities[1]	95,813	-	-	-	-	-	95,813
Equity securities – preferred shares	46,491	46,388	-	-	-	-	92,879
Canada Housing Trust re-investment accounts	38,396	-	-	-	-	-	38,396
Mortgages receivable – Core Lending	828,856	5,093,818	221,415	46,717	28,949	31,477	6,188,278
Mortgages receivable – Securitization Financing	4,922,574	1,165	-	16,844	1,006	-	4,941,589
Securitization retained interests	30,455	-	-	-	-	-	30,455
Other assets:							-
Receivables related to securitization activities	2,512	-	-	-	-	-	2,512
Accrued interest and dividends on non-mortgage assets	388	242	-	-	-	-	630
Derivatives – securitization activities	705	-	-	-	-	-	705
Other	908	-	-	-	-	-	908
	$ 6,352,922	$ 5,141,613	$ 221,415	$ 63,561	$ 29,955	$ 31,477	$ 11,777,989

($ THOUSAND)	Neither past due nor impaired						2012
	Low risk	Standard risk	High risk	Past due but not Impaired	Individually impaired	Allowance	Total
Cash and cash equivalents	$ 379,447	$ -	$ -	$ -	$ -	$ -	$ 379,447
Restricted cash	63,601	-	-	-	-	-	63,601
Securities purchased under reverse repurchase agreements	78,551	-	-	-	-	-	78,551
Investments:							
Debt securities[1]	244,228	-	-	-	-	-	244,228
Equity securities – preferred shares	83,958	48,938	-	-	-	-	132,896
Canada Housing Trust re-investment accounts	54,452	-	-	-	-	-	54,452
Mortgages receivable – Core Lending	704,647	4,261,629	147,573	31,604	36,110	26,620	5,154,943
Mortgages receivable – Securitization Financing	5,436,873	1,355	-	16,003	298	-	5,454,529
Securitization retained interests	7,263	-	-	-	-	-	7,263
Other assets:							
Receivables related to securitization activities	2,772	-	-	-	-	-	2,772
Accrued interest and dividends on non-mortgage assets	1,138	255	-	-	-	-	1,393
Derivatives – hedges	20	-	-	-	-	-	20
Derivatives – securitization activities	323	-	-	-	-	-	323
Other	1,312	-	-	-	-	-	1,312
	$ 7,058,585	$ 4,312,177	$ 147,573	$ 47,607	$ 36,408	$ 26,620	$ 11,575,730

[1] *Includes debt securities issued by regulated financial institutions and guaranteed by Government of Canada.*

COLLATERAL HELD AS SECURITY

All mortgages are secured by real estate property in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated except when a mortgage is individually assessed as impaired. At December 31, 2013, the appraised values of collateral held for mortgages past due but not impaired, as determined when the mortgages were originated, was $82.8 million (2012 – $61.1 million). For impaired mortgages, the most recent appraised value of collateral at December 31, 2013 was $48.8 million (2012 – $51.9 million). It is the Company's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2013 amounted to $7.7 million (2012 – $0.2 million) and are included in Other assets (Note 12). The Company does not use the real estate obtained through foreclosure for its own operations.

The Company does not hold collateral against investments in debt and equity securities, however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by owner. The Company has a commitment to return collateral to the counterparty in accordance with the terms and conditions stipulated by the master repurchase agreement. At December 31, 2013, the fair value of securities received under reverse repurchase agreements that have been sold to facilitate hedging transactions was nil (2012 – $14.7 million).

Equitable has no agreements that require increased collateral linked to a credit rating downgrade of Equitable Bank.

CONCENTRATION RISK

Concentration of credit exposure may arise when a group of counterparties have similar economic characteristics such as property type or are located in the same geographical region. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. Management believes that it is adequately diversified by borrower, property type, and geography. At December 31, 2013, no individual borrower represented more than $66.3 million (2012 – $58.3 million) or 1.1% (2012 – 1.1%) of uninsured mortgage principal outstanding. See Table 34 and Table 36 in the MD&A for a breakdown of mortgage principal outstanding by property type and geography, respectively.

LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and Funding risk is defined as the possibility that the Company will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet its financial obligations as they come due. These financial obligations mainly arise from the maturity of deposits, maturity of mortgage backed securities and commitments to extend credit. The objective of liquidity risk management is to protect the Company's ability to meet all payment obligations as they come due.

The Board of Directors defines the Company's liquidity and funding risk tolerance, based on recommendations made by the Investment Committee of the Board, the Risk and Capital Committee of the Board and the ERM Committee of the Bank. The Board of Directors reviews and approves the limits to measure and control liquidity and funding risk at least annually.

The Bank's ALCO has management oversight responsibility for liquidity and funding risk management. The Bank also maintains a Treasury Committee that reviews liquidity reports on a daily basis and reports to the ALCO. The ALCO reviews positions regularly and recommends changes to limits when necessary to the ERM Committee and the Investment Committee.

The treasury function is responsible for measuring, managing and reporting structural liquidity risk and contingent liquidity risk, as well as managing the liquidity portfolio. Treasury also monitors longer-term liquidity needs, primarily through rigorous stress testing. It also maintains a Contingency Funding Plan, which would guide the Company's actions and responses to a potential liquidity crisis. Treasury reports liquidity indicators to ALCO, which include the Company's overall liquidity and funding position (including limit reporting) and liquidity stress indicators.

The Company has a low tolerance for liquidity and funding risk. It has established a variety of limit-based measures, metrics and stress tests to avoid a liquidity event. The Company adheres to a Liquidity and Funding Risk Management Policy that requires it to maintain a pool of high quality liquid assets. The Policy also specifies the parameters for asset eligibility, limits for liquidity ratios, concentration

limits, liquidity stress testing and an approved contingency plan. The Company's liquidity position and adherence to the requirements of this policy are monitored daily by management, and reported quarterly to the Investment Committee of the Board of Directors. Any exceptions to established limits are reported immediately to the appropriate internal governance committee or the Board, as specified by the Policy.

During 2013, the Bank developed and implemented a new cash flow-based policy metric to manage near-term liquidity. The approach is to hold a percentage of expected 8-week cash flows in liquid assets. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. The Company was in compliance with its Liquidity and Funding Risk Management Policy at December 31, 2013 and at the date of this MD&A.

Table 31: Assets held for liquidity protection

($ THOUSANDS)	Policy minimum	2013	2012
Liquidity assets held		**$ 597,259**	$ 824,905
Liquidity assets as a % of minimum required policy liquidity[1]	100%	**162%**	171%

[1] *For purposes of this calculation, Equitable's Liquidity and Funding Risk Management Policy requires the value of assets held for liquidity protection to be reduced to reflect their estimated liquidity value.*

As defined in the Company's Liquidity and Funding Risk Management Policy, the Company's stress testing models consider scenarios that incorporate institution-specific, market-specific and combination events. These scenarios model cash flows over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an immediate redemption of notice deposits. In each scenario, the Company must hold sufficient liquid assets and have a deposit raising capacity sufficient to meet all obligations for a period of one year while maintaining normal business activities. In order to establish these scenarios, the Company assesses its deposit raising capacity and establishes assumptions related to the cash flow behavior of each type of asset and liability. As at December 31, 2013, the Company held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all scenarios.

The following table summarizes contractual maturities of the Company's financial liabilities.

Table 32: Contractual obligations

		Payments due by period			
($ THOUSANDS)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Deposits principal and interest[1]	**$ 6,661,323**	**$ 3,495,986**	**$ 2,595,529**	**$ 569,808**	**$ -**
Securitization liabilities principal and interest[1]	**5,085,054**	**1,477,192**	**1,329,057**	**1,002,308**	**1,276,497**
Debentures principal and interest[1]	**118,976**	**5,214**	**10,357**	**72,367**	**31,038**
Other liabilities	**54,835**	**48,249**	**3,904**	**953**	**1,729**
Total 2013 contractual obligations	**$ 11,920,188**	**$ 5,026,641**	**$ 3,938,847**	**$ 1,645,436**	**$ 1,309,264**
Total 2012 contractual obligations	$ 11,855,147	$ 4,863,836	$ 4,197,795	$ 1,599,571	$ 1,193,945

[1] *The balance for financial liabilities will not agree with those in our consolidated balance sheet as this table incorporates all cash flows, on an undiscounted basis, including both principal and interest.*

See Note 22 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2013 and 2012.

INTEREST RATE RISK MANAGEMENT

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at December 31, 2013, see Note 24 to the consolidated financial statements.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters. The Company's primary method of managing interest rate risk involves managing, within well-defined boundaries, the potential negative impact of interest rate changes on the Company's earnings and capital. It does this by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity and on net interest income. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect the Company's net interest income and its economic value of equity ("EVE") beyond approved thresholds. EVE is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

The Company hedges the interest rate risk for all insured multi-unit residential mortgages that are to be securitized through CMHC MBS and CMB programs. Hedging protects the Company from losses due to changes in interest rates during the relevant period. The Company also holds replacement assets in the form of MBS in order to reduce the interest rate and reinvestment risk inherent in its participation in the CMB Program.

The table below illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and net interest income during the 12-month period following December 31, 2013. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 33: Interest rate sensitivity

($ THOUSANDS)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 6,393	$ (3,405)
Impact on EVE	$ 539	$ 2,365
EVE impact as a % of common shareholders' equity	0.14%	0.60%
200 basis point shift		
Impact on net interest income	$ 12,980	$ (3,373)
Impact on EVE	$ 993	$ 1,275
EVE impact as a % of common shareholders' equity	0.25%	0.32%

[1] *Interest rate is not allowed to decrease beyond a floor of 0% and is therefore not allowed to be negative.*

OPERATIONAL RISK

Operational risk is the possibility that a loss will result from inefficient, inadequate or failed internal processes, people or systems, or from external events. As a minimum, operational risk includes:

- fraud;
- employee practices and workplace safety;
- client, product and business practices;
- damage to physical assets;
- business disruptions and system failures; and
- execution, delivery and process management.

The Bank has an Operational Risk Management Policy that was approved by the ERM Committee, the RCC Committee and the Board of Directors. In 2013 this Policy was revised to incorporate the content of the Business Continuity Policy and a new comprehensive Operational Risk Management Framework was approved by the Board. Also in 2013, the Bank introduced a Risk and Control Self-Assessment to the Business Units and enhanced monthly reporting on operational risk.

The Policy and Framework are supported by procedures and programs designed to mitigate operational risk. The ERM Committee is responsible for monitoring operational risk. Business units are responsible for managing the Company's operational risk in accordance with approved policies and procedures, and reporting on operational risk to the ERM Committee, which in turn reports on operational risk to the RCC of the Board of Directors.

LEGAL AND REGULATORY RISK

Legal and Regulatory Risk refers to the potential non-compliance with laws, rules, regulations, contractual obligations or ethical standards, including changes in their interpretation or application, that could affect the Company, limit the products or services it may provide and increase the ability of other institutions to compete with Equitable's products or services. Failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could materially and adversely impact earnings, operations, our ability to achieve our corporate initiatives, or damage the Company's reputation.

Management uses a risk-based approach to identify and manage legal and regulatory requirements and undertakes reasonable and prudent measures designed to achieve compliance with governing laws and regulations and promote a strong culture of compliance. Business units are engaged in the identification and proactive management of legal and regulatory risks while the Compliance, Law, Anti-Money Laundering and Risk Management teams assist them by providing guidance and oversight. Management of these risks includes the timely escalation of issues to senior management and to the Board of Directors.

In addition, the Company's Legislative Compliance Management Program provides a control framework to mitigate exposure to regulatory risk consistent with OSFI's expectations of our establishing and maintaining an enterprise-wide framework of regulatory risk management controls, including oversight by functions that are independent of the activities they oversee.

BUSINESS AND STRATEGIC RISK

Business and Strategic risk is defined as the possibility that the Company could experience material losses or reputational damage as a result of its business plans and/or strategies, the implementation of those strategies, or the failure to properly respond to changes in the external business environment.

The residential and commercial first mortgage business is highly competitive and Equitable Bank's products compete with those offered by other banks, trust companies, insurance companies, and other financial services companies in the jurisdictions in which it operates, especially in Ontario and Alberta. Many of these companies are strongly capitalized and hold a larger percentage share of the Canadian residential and commercial mortgage business. There is always a risk that there will be new entrants in the market with more efficient systems and operations that could impact the Company's market share in its mortgage lending and deposit-taking activities.

The Company does not use proprietary retail branches to originate GICs or mortgages. Equitable Bank relies on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada (IIROC) and the Registered Deposit Brokers Association ("RDBA") to distribute its deposit products. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerage firms and other mortgage banking organizations. Under adverse circumstances, it may be difficult to attract enough new deposits from agents or mortgage business from brokers to sustain current operating requirements. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company.

The Company manages business and strategic risk through a comprehensive annual strategic planning process, which includes establishing Board-approved business growth strategies and quantifiable performance targets for each business unit over the three-to-five year horizon. Management of this risk includes regular monitoring of actual versus forecasted performance and reporting to senior management and to the Board of Directors.

REPUTATIONAL RISK

Reputational risk is the possibility that current and potential customers, counterparties, analysts, shareholders, investors, regulators or others will have an adverse opinion of the Company – irrespective of whether these opinions are based on facts or merely public perception. Such an event could result in potential losses to the Company arising from a decline in business volumes, challenges accessing funding markets, or increased funding costs. The Company has established a number of policies and procedures to manage this risk.

UPDATED SHARE INFORMATION

At February 27, 2014, the Company had 15,368,538 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were also 513,873 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $14.7 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements. Equitable has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2013. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2013 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the Integrated (1992) Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO'), a recognized control model, and the requirements of National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the Company's Internal Control over Financial Reporting was effective as of December 31, 2013.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

Management uses a variety of financial measures to evaluate the Company's performance. In addition to GAAP prescribed measures, management uses certain non-GAAP measures that it believes provide useful information to investors regarding the Company's financial condition and results of operations. Readers are cautioned that non-GAAP measures do not have any standardized meaning, and therefore, are unlikely to be comparable to similar measures presented by other companies. Management believes that adjusted results can enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. The primary non-GAAP measures used in this MD&A are:

- **Adjusted results:** in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.
- **Assets-to-capital multiple ("ACM"):** is measured by dividing Equitable Bank's gross adjusted assets by total regulatory capital.
- **Book value per common share:** is calculated by dividing common shareholder's equity by the number of common shares outstanding.
- **Capital Ratios:**
  - **Common Equity Tier 1 capital ratio ("CET1"):** this key measure of capital strength is defined as CET1 as a percentage of total risk-weighted assets. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI. CET1 is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income.
  - **Tier 1, Tier 2 and Total capital ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1, Tier 2 or Total capital by total risk-weighted assets.
- **Economic Value of Shareholders' Equity ("EVE"):** is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.
- **Impairment provision:** is the portion of the total provision for credit losses recorded during the year that relates only to loans that have been identified as impaired by management.
- **Impairment provision rate:** is the impairment provision as a percentage of the average loan portfolio.
- **Liquid assets:** is a measure of the Company's liquid resources, held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.
- **Mortgages Under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.
- **Net Interest Margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets – TEB for the period. The assets used in the calculation represent assets employed to generate the income.
- **Net revenue:** is calculated as the sum of net interest income; other income; and the TEB adjustment.
- **Productivity ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower productivity ratio reflects a more efficient cost structure.
- **Return on average assets:** this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.

- **Return on Shareholders' Equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- **Risk-weighted assets:** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company.
- **Taxable Equivalent Basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the year ended December 31, 2013, the TEB adjustment was $2.1 million as compared to $3.4 million for 2012. For 2012 reporting periods, the TEB adjustment has been calculated excluding the investment gain associated with one of the Company's security portfolio holdings. For the three months ended December 31, 2013, the TEB adjustment was $0.8 million as compared to $0.4 million for Q3 2013 and $1.0 million for Q4 2012.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

In addition to GAAP and non-GAAP financial measures, management also uses additional GAAP financial measures it believes provide useful information to investors regarding the Company's financial results of operations. Readers are cautioned that additional GAAP measures do not have any standardized meaning, and therefore, may not be comparable to similar measures presented by other companies. Management believes that these measures enhance comparability of the Company's results between reporting periods and helps the reader better understand how management views the Company's performance. The primary additional GAAP measures used in this MD&A are:

- **Net interest income:** this additional GAAP measures is defined as total revenues derived from interest or dividend generating assets less total expenses related to interest bearing liabilities.
- **Total revenue:** is defined as total interest income plus other income.

SUPPLEMENTARY INFORMATION

The following section provides additional quantitative disclosures related to the Company's mortgage portfolio. Some of these disclosures relate to disclosure requirements outlined in OSFI's Guideline B-20, 'Residential Mortgage Underwriting Practices and Procedures', which became effective for Equitable Bank on January 1, 2013.

Table 34: Mortgage principal outstanding – by property type

				2013
($ THOUSANDS)	Uninsured	Insured	Total	% of total
Single family dwelling	$ 3,725,852	$ 71,968	$ 3,797,820	34.2%
Mixed-use property	352,610		352,610	3.2%
Multi-unit residential	600,544	772	601,316	5.4%
Commercial	1,168,587	-	1,168,587	10.5%
Construction	276,597	-	276,597	2.5%
Mortgage principal – Core Lending	6,124,190	72,740	6,196,930	55.8%
Single family dwelling	-	489,316	489,316	4.4%
Multi-unit residential	-	4,420,802	4,420,802	39.8%
Mortgage principal – Securitization Financing	-	4,910,118	4,910,118	44.2%
Total mortgage principal outstanding	$ 6,124,190	$ 4,982,858	$ 11,107,048	100.0%
	55.1%	44.9%	100.0%	

				2012
($ THOUSANDS)	Uninsured	Insured	Total	% of total
Single family dwelling	$ 2,977,425	$ 48,974	$ 3,026,399	28.6%
Mixed-use property	345,986	-	345,986	3.3%
Multi-unit residential	495,200	836	496,036	4.7%
Commercial	996,862	-	996,862	9.4%
Mortgages held for sale	-	4,807	4,807	0.0%
Construction	290,695	-	290,695	2.7%
Mortgage principal – Core Lending	5,106,168	54,617	5,160,785	48.8%
Single family dwelling	-	443,462	443,462	4.2%
Multi-unit residential	-	4,972,311	4,972,311	47.0%
Mortgage principal – Securitization Financing	-	5,415,773	5,415,773	51.2%
Total mortgage principal outstanding	$ 5,106,168	$ 5,470,390	$ 10,576,558	100.0%
	48.3%	51.7%	100.0%	

Table 35: Mortgage principal by interest rate type

	2013	2012
Fixed rate mortgages	88%	89%
Floating rate mortgages with interest rate floors	6%	6%
Floating rate mortgages without interest rate floors	6%	5%
Total	100%	100%

The following table provides a summary of our total mortgage portfolio by province:

Table 36: Mortgage principal by province

	2013		2012	
($ THOUSANDS)	Total	%	Total	%
Ontario	$ 6,600,369	59%	$ 6,201,094	59%
Alberta	1,777,155	16%	1,556,473	15%
Quebec	1,276,446	11%	1,309,037	12%
British Columbia	646,586	6%	701,590	7%
Other Provinces	806,492	8%	808,364	7%
Total Canada	$ 11,107,048	100%	$ 10,576,558	100%

The following table presents a geographical breakdown of our single family residential mortgage portfolio:

Table 37: Residential mortgage principal by location

								2013
			Insured[1]		Uninsured[2]		Total	
($ THOUSANDS)	Core Lending	Securitization Financing	Total	%	Total	%	Total	%
Ontario	$ 47,355	$ 299,436	$ 346,791	8%	$ 2,892,670	67%	$ 3,239,461	76%
Alberta	16,238	101,304	117,542	3%	572,396	13%	689,938	16%
British Columbia	3,624	47,419	51,043	1%	128,704	3%	179,747	4%
Manitoba	2,671	7,533	10,204	0%	61,653	1%	71,857	2%
Other Provinces	2,080	33,624	35,704	1%	70,429	2%	106,133	2%
Total residential	$ 71,968	$ 489,316	$ 561,284	13%	$ 3,725,852	87%	$ 4,287,136	100%
Downtown Toronto condominiums[3]	$ 1,138	$ 5,652	$ 6,790	0.2%	$ 50,175	1.2%	$ 56,965	1.3%
								2012
Total residential	$ 48,974	$ 443,462	$ 492,436	14%	$ 2,977,425	86%	$ 3,469,861	100%
Downtown Toronto condominiums[3]	$ 820	$ 5,097	$ 5,917	0.2%	$ 52,389	1.5%	$ 58,306	1.7%

(1) *Insured by either CMHC or Genworth.*
(2) *There are no uninsured mortgages in the Company's Securitization Financing business.*
(3) *Represents single family residential condominium mortgages and are included in Ontario totals above.*

The following table provides a summary of the percentage of single family residential mortgages that fall within various amortization period ranges as at December 31, 2013 and December 31, 2012:

Table 38: Residential mortgage portfolio by remaining amortization

($ THOUSANDS)									**2013**
	<5 years	**5 - <10 years**	**10 - <15 years**	**15 - <20 years**	**20 - <25 years**	**25 - <30 years**	**30 - <35 years**	**>=35 years**	**Total**
Total residential mortgages	**$ 2,322**	**$ 5,840**	**$ 23,709**	**$ 92,590**	**$ 386,146**	**$ 3,176,233**	**$ 571,090**	**$ 29,206**	**$ 4,287,136**
	0%	**0%**	**1%**	**2%**	**9%**	**74%**	**13%**	**1%**	**100%**

									2012
	<5 years	5 - <10 years	10 - <15 years	15 - <20 years	20 - <25 years	25 - <30 years	30 - <35 years	>=35 years	Total
Total residential mortgages	$ 15,537	$ 4,055	$ 21,370	$ 86,579	$ 329,669	$ 2,178,845	$ 741,147	$ 92,659	$ 3,469,861
	0%	0%	1%	2%	10%	63%	21%	3%	100%

The Company's residential mortgages are secured by residential properties in Canada. The following table provides a summary of the average LTV ratios for uninsured residential mortgages newly originated in 2013 and 2012 and also the average LTV ratios of our total uninsured residential portfolio as at December 31, 2013 and 2012, by province:

Table 39: Average loan-to-value of newly originated and existing residential mortgages

		2013		2012
Province	**Average LTV % newly originated residential mortgages**	**Average LTV % total residential mortgages[(1)]**	Average LTV % newly originated residential mortgages	Average LTV % total residential mortgages[(1)]
Ontario	**75%**	**69%**	75%	69%
Alberta	**74%**	**68%**	74%	70%
British Columbia	**70%**	**69%**	71%	72%
Manitoba	**73%**	**67%**	71%	67%
Other Provinces	**72%**	**71%**	71%	74%
Total Canada	**75%**	**69%**	75%	70%
Downtown Toronto condominiums[(2)]	**64%**	**57%**	69%	60%

(1) *Based on current property values. Current values are estimated using the Teranet Housing Price Index.*
(2) *Included in Ontario totals above.*

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Equitable Group Inc. (the "Company") are prepared by management, which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared, within reasonable limits of materiality, using appropriate accounting policies that are in accordance with International Financial Reporting Standard ("IFRS") as well as the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") as these apply to its subsidiary, Equitable Bank. The consolidated financial statements reflect amounts which must, of necessity, be based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains and monitors a system of internal control to meet its responsibility for the integrity of the consolidated financial statements. These controls are designed to provide reasonable assurance that the Company's consolidated assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written corporate code of conduct. Management responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The Board of Directors of the Company (the "Board") oversees management's responsibility for the consolidated financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the consolidated financial statements with management and internal and external auditors before recommending their approval to the Board.

The Company's subsidiary, Equitable Bank, is a Schedule I Bank under the Bank Act (Canada) and is regulated by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of Equitable Bank and its compliance with statutory requirements and sound business practices.

KPMG LLP has been appointed as external auditors by the shareholders to examine the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards. The external auditors are responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS. The auditors have unrestricted access to and periodically meet with the Audit Committee, with and without management present, to discuss their audits and related matters.

Andrew Moor
President and Chief Executive Officer

Tim Wilson
Chief Financial Officer

February 27, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

We have audited the accompanying consolidated financial statements of Equitable Group Inc., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equitable Group Inc. as at December 31, 2013 and December 31, 2012 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 27, 2014

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31		2013		2012
Assets				
Cash and cash equivalents *(Note 6)*	$	**243,645**	$	379,447
Restricted cash *(Note 6)*		**87,319**		63,601
Securities purchased under reverse repurchase agreements		**54,860**		78,551
Investments *(Note 7)*		**240,614**		439,480
Mortgages receivable – Core Lending *(Note 8)*		**6,188,278**		5,154,943
Mortgages receivable – Securitization Financing *(Notes 8 & 9)*		**4,941,589**		5,454,529
Securitization retained interests *(Note 9)*		**30,455**		7,263
Other assets *(Note 12)*		**29,693**		23,626
	$	**11,816,453**	$	11,601,440
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits *(Note 13)*	$	**6,470,029**	$	5,651,717
Securitization liabilities *(Note 9)*		**4,591,404**		5,261,670
Obligations under repurchase agreements *(Note 9)*		**8,143**		9,882
Deferred tax liabilities *(Note 14)*		**10,826**		5,498
Other liabilities *(Note 15)*		**55,250**		40,931
Bank facilities *(Note 16)*		**-**		12,500
Debentures *(Note 17)*		**92,483**		117,671
		11,228,135		11,099,869
Shareholders' equity:				
Preferred shares *(Note 18)*		**48,494**		48,494
Common shares *(Note 18)*		**137,969**		134,224
Contributed surplus *(Note 19)*		**5,326**		5,003
Retained earnings		**404,467**		323,737
Accumulated other comprehensive loss		**(7,938)**		(9,887)
		588,318		501,571
	$	**11,816,453**	$	11,601,440

See accompanying notes to the consolidated financial statements.

Austin Beutel
Chairman

Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31		**2013**		2012
Interest income:				
Mortgages – Core Lending	**$**	**278,921**	$	242,459
Mortgages – Securitization Financing		**200,522**		217,276
Investments		**6,473**		10,272
Other		**8,263**		6,520
		494,179		476,527
Interest expense:				
Deposits		**142,431**		131,042
Securitization liabilities *(Note 9)*		**170,110**		184,260
Bank facilities		**420**		813
Debentures		**6,578**		4,212
Other		**103**		30
		319,642		320,357
Net interest income		**174,537**		156,170
Provision for credit losses *(Note 8)*		**6,732**		7,992
Net interest income after provision for credit losses		**167,805**		148,178
Other income:				
Fees and other income		**5,815**		3,970
Net gain on investments		**987**		629
Gains on securitization activities and income from securitization retained interests *(Note 9)*		**7,584**		2,073
		14,386		6,672
Net interest and other income		**182,191**		154,850
Non-interest expenses:				
Compensation and benefits		**33,870**		28,246
Other *(Note 12)*		**23,644**		21,930
		57,514		50,176
Income before income taxes		**124,677**		104,674
Income taxes *(Note 14)*				
Current		**25,819**		25,759
Deferred		**5,328**		(2,292)
		31,147		23,467
Net income	**$**	**93,530**	$	81,207
Earnings per share *(Note 20)*				
Basic	**$**	**5.89**	$	5.15
Diluted	**$**	**5.82**	$	5.11

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	**2013**	2012
Net income	**$ 93,530**	$ 81,207
Other comprehensive income – items that may be reclassified subsequently to income:		
Available for sale investments:		
Net unrealized (losses) gains from change in fair value	**(4,241)**	1,492
Reclassification of net gains to income	**(1,143)**	(1,709)
	(5,384)	(217)
Income tax recovery	**1,418**	57
	(3,966)	(160)
Cash flow hedges: *(Note 10)*		
Net unrealized gains (losses) from change in fair value	**5,768**	(1,521)
Reclassification of net losses to income	**2,261**	2,365
	8,029	844
Income tax expense	**(2,114)**	(222)
	5,915	622
Total other comprehensive income	**1,949**	462
Total comprehensive income	**$ 95,479**	$ 81,669

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

2013	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss): Cash flow hedges**	**Accumulated other comprehensive income (loss): Available for sale investments**	**Accumulated other comprehensive income (loss): Total**	**Total**
Balance, beginning of year	**$ 48,494**	**$ 134,224**	**$ 5,003**	**$ 323,737**	**$ (9,279)**	**$ (608)**	**$ (9,887)**	**$ 501,571**
Net income	**-**	**-**	**-**	**93,530**	**-**	**-**	**-**	**93,530**
Other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**5,915**	**(3,966)**	**1,949**	**1,949**
Reinvestment of dividends	**-**	**849**	**-**	**-**	**-**	**-**	**-**	**849**
Exercise of stock options	**-**	**2,379**	**-**	**-**	**-**	**-**	**-**	**2,379**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(3,625)**	**-**	**-**	**-**	**(3,625)**
Common shares	**-**	**-**	**-**	**(9,175)**	**-**	**-**	**-**	**(9,175)**
Stock-based compensation	**-**	**-**	**840**	**-**	**-**	**-**	**-**	**840**
Transfer relating to the exercise of stock options	**-**	**517**	**(517)**	**-**	**-**	**-**	**-**	**-**
Balance, end of year	**$ 48,494**	**$ 137,969**	**$ 5,326**	**$ 404,467**	**$ (3,364)**	**$ (4,574)**	**$ (7,938)**	**$ 588,318**

2012	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Available for sale investments	Accumulated other comprehensive income (loss): Total	Total
Balance, beginning of year	$ 48,494	$ 129,771	$ 4,718	$ 254,006	$ (9,901)	$ (448)	$ (10,349)	$ 426,640
Net income	-	-	-	81,207	-	-	-	81,207
Other comprehensive income (loss), net of tax	-	-	-	-	622	(160)	462	462
Reinvestment of dividends	-	817	-	-	-	-	-	817
Exercise of stock options	-	3,068	-	-	-	-	-	3,068
Dividends:								
Preferred shares	-	-	-	(3,625)	-	-	-	(3,625)
Common shares	-	-	-	(7,851)	-	-	-	(7,851)
Stock-based compensation	-	-	853	-	-	-	-	853
Transfer relating to the exercise of stock options	-	568	(568)	-	-	-	-	-
Balance, end of year	$ 48,494	$ 134,224	$ 5,003	$ 323,737	$ (9,279)	$ (608)	$ (9,887)	$ 501,571

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 93,530	$ 81,207
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	7,784	11,930
Amortization of premiums/discounts on investments	2,373	2,808
Depreciation of capital assets	1,215	1,015
Provision for credit losses	6,732	7,992
Securitization gains	(5,613)	(2,005)
Net loss on sale or redemption of investments	154	823
Stock-based compensation	840	853
Income taxes	31,147	23,467
Changes in operating assets and liabilities:		
Restricted cash	(23,718)	19,555
Securities purchased under reverse repurchase agreements	23,691	(68,584)
Mortgages receivable	(1,228,321)	(1,380,351)
Other assets	(3,581)	(942)
Deposits	818,312	1,023,813
Securitization liabilities	(670,266)	160,749
Obligations under repurchase agreements	(1,739)	9,882
Other liabilities	5,200	6,854
Income taxes paid	(22,557)	(18,791)
Net interest income, excluding non-cash items	(216,586)	(192,678)
Interest received	500,708	474,547
Interest paid	(290,194)	(305,303)
Dividends received	6,072	23,434
Proceeds from loan securitizations	683,844	335,661
Securitization retained interests	2,721	212
Cash flows (used in) from operating activities	(278,252)	216,148
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank term loan	(12,500)	-
Issuance of debentures	-	65,000
Redemption of debentures	(25,188)	-
Dividends paid on preferred shares	(3,625)	(3,625)
Dividends paid on common shares	(7,997)	(6,709)
Proceeds from issuance of common shares	2,379	3,068
Cash flows (used in) from financing activities	(46,931)	57,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(57,877)	(230,037)
Proceeds on sale or redemption of investments	232,892	185,456
Net change in Canada Housing Trust re-investment accounts	16,056	(19,901)
Purchase of capital assets	(1,690)	(798)
Cash flows from (used in) investing activities	189,381	(65,280)
Net (decrease) increase in cash and cash equivalents	(135,802)	208,602
Cash and cash equivalents, beginning of year	379,447	170,845
Cash and cash equivalents, end of year	$ 243,645	$ 379,447

Note 1 – Reporting Entity

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, Equitable Bank. The Company is listed on the Toronto Stock Exchange ("TSX") and domiciled in Canada with its registered office located at 30 St. Clair Avenue West, Suite 700, Toronto, Ontario. Equitable Bank is a Schedule I Bank under the Bank Act (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Equitable Bank offers savings and mortgage lending products to retail and commercial customers across Canada.

Note 2 – Basis of Preparation

(a) Statement of Compliance:

The consolidated financial statements of Equitable Group Inc. have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Financial Reporting Interpretations Committee, as published by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2014.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following items which are stated at fair value: derivative financial instruments, financial assets and liabilities that are classified or designated as at fair value through income and available for sale financial assets.

(c) Functional currency:

The functional currency of the Company is Canadian dollars, which is also the presentation currency of the consolidated financial statements.

(d) Use of estimates and accounting judgments in applying accounting policies:

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Company's consolidated financial statements affect the assessment of the allowance for credit losses on mortgages, the impairment of other financial instruments, the fair values of financial assets and liabilities, derecognition of financial assets transferred in securitization transactions, effectiveness of financial hedges for accounting purposes and income taxes.

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgages receivable, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

(e) Consolidation:

The consolidated financial statements as at and for the year ended December 31, 2013 and December 31, 2012 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

The following note describes the Company's significant accounting policies. Except as otherwise noted in Note 3 (u) for new standards adopted in 2013, these accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial instruments:

The Company's consolidated balance sheet consists primarily of financial instruments and the majority of net income is derived from income and expenses, as well as gains and losses related to the respective financial instruments.

Financial instrument assets include cash and cash equivalents, restricted cash, securities purchased under reverse repurchase agreements, investments, mortgages receivable – core lending, mortgages receivable – securitization financing, securitization retained interests and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, obligations under repurchase agreements, obligations related to securities sold short, bank facilities, debentures and derivative financial instruments.

(i) Classification of financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value in the consolidated balance sheets. Subsequent to initial recognition financial assets and liabilities are measured at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments.

Financial instruments at fair value through income

Financial instruments are classified in this category if they are held for trading or designated by management under the fair value option. They are carried at fair value and any related realized and unrealized gains and losses are recognized in the consolidated statements of income.

Classified as held for trading

An instrument is classified as held for trading if it is acquired principally for the purposes of selling or repurchasing in the near term or if it is a derivative (except for a derivative that is a designated and effective hedging instrument in an accounting hedge). Upon initial recognition, transaction costs are expensed as incurred.

Designated as at fair value through income

Instruments designated as at fair value through income must meet one of the following criteria: (a) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (b) a group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (c) the instrument contains one or more embedded derivatives unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis that separation is prohibited.

Held to maturity

Held to maturity financial assets are non-derivative financial assets and are classified in this category if management has the intent and ability to hold the instrument to maturity. Held to maturity financial assets are recognized initially at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less allowance for credit losses.

Note 3 – Significant Accounting Policies (continued)

Available for sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the categories described above. They are initially recognized at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, available for sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are recognized in Other comprehensive income ("OCI"), net of income taxes. When the instrument is derecognized, the cumulative gain or loss in OCI is transferred to income.

Financial liabilities

Financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost, except for liabilities designated as at fair value through income.

(ii) Determination of fair value

When a financial instrument is initially recognized, its fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which maximize use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques. See Note 5 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Company has transferred its rights to receive future cash flows of the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients and either:
  - (i) the Company has transferred substantially all the risks and rewards of ownership of the financial asset; or
  - (ii) the Company has neither retained nor transferred substantially all the risks and rewards of ownership in the financial asset, but has transferred control of the asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability in the consolidated balance sheets. On derecognition of a financial asset the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in the consolidated statements of income.

If the transfer of assets does not meet the criteria for derecognition, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received upon the transfer in the consolidated balance sheets.

The derecognition criteria is also applied to the transfer of part of an asset, rather than a whole, or to a group of similar financial assets in their entirety, when applicable. When it is applied to part of an asset, the part comprises of specifically identified cash flows, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow from the asset.

Financial liabilities

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

Note 3 – Significant Accounting Policies (continued)

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions.

(v) Risks associated with financial instruments

The use of financial instruments exposes the Company to credit risk, interest rate risk, and liquidity risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of Company's December 31, 2013 Management's Discussion and Analysis and Note 4 to these consolidated financial statements.

(b) Interest:

Interest income and interest expense for all financial instruments not designated as at fair value through income are recognized in income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flow payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, management estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at the date of purchase is less than three months and are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Interest earned on cash and cash equivalents is included in Interest income – other in the consolidated statements of income.

(d) Investments:

Investments are accounted for at settlement date and initially measured at fair value plus, in the case of investments not at fair value through income, incremental direct transaction costs, and subsequently accounted for depending upon their classification as either available for sale, held for trading, held to maturity or fair value through income.

Investments that are designated as available for sale, are reported on the consolidated balance sheets at fair value. Unrealized gains and losses, net of income taxes, are reported in OCI, until the investment is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to Other income in the consolidated statements of income. Available for sale investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive.

Investments designated as held for trading or as at fair value through income are reported at fair value on the consolidated balance sheets, with unrealized gains and losses, reported in the consolidated statements of income.

Held to maturity investments are recorded at amortized cost, net of any impairment losses on the consolidated balance sheets.

Investments are assessed for impairment at the end of each reporting period, or more frequently, if events or changes in circumstances indicate the existence of objective evidence of impairment.

For available for sale securities that are considered to be impaired, the cumulative loss in OCI is transferred to Other income. Fair value increases in available for sale debt securities that are objectively related to an event occurring after impairment loss was recognized and recorded as reversals of impairment loss in Other income. Impairment losses on available for sale equity instruments are not subsequently reversed through net income.

For held to maturity investments that are determined to be impaired, the write-down to net realizable value (i.e. present value of estimated future cash flows discounted using the original effective interest rate) is reported in Other income in the consolidated statements of income. For held to maturity securities, where an impairment loss subsequently reverses, the carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Note 3 – Significant Accounting Policies (continued)

Interest income and dividends earned, net of amortization of premiums and discounts, are included in Interest income − investments in the consolidated statements of income. Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for the equity securities. The fair value of investments are generally based on quoted market prices.

(e) Securities purchased under reverse repurchase agreements:

Securities purchased under reverse repurchase agreements represent purchases of Government of Canada guaranteed debt securities and are treated as collateralized lending transactions as they represent the purchase of securities with a simultaneous agreement to sell them back at a specified price on a specified future date, which is generally short term. These receivables in respect of the amount advanced are classified as loans and receivables and are held at amortized cost plus accrued interest on the consolidated balance sheets. The interest income related to these investments is recorded on an accrual basis using the effective interest method and is included in Interest income – investments in the consolidated statements of income.

(f) Mortgages receivable:

Classification

(i) Mortgages receivable classified as loans and receivables:

Mortgages are initially recognized at fair value and subsequently measured at amortized cost, plus accrued interest, using the effective interest rate method, and are reported net of unamortized origination fees, commitment income, premiums or discounts and an allowance for credit losses. Net fees relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income – mortgages in the consolidated statements of income.

(ii) Mortgages designated as at fair value through income:

Certain mortgages designated as at fair value through income are carried at fair value with changes in fair value included in Interest income – mortgages in the consolidated statements of income. Net fees relating to mortgage origination are recognized in income as incurred, and are included in Interest income – mortgages in the consolidated statements of income.

(iii) Mortgages classified as held for trading:

Certain mortgages held for securitization and classified as held for trading are carried at fair value with changes in fair value included in Other income – Gains on securitization and income from securitization retained interests in the consolidated statements of income. Net fees relating to mortgage origination are expensed as incurred and are included in Other income – Gains on securitization activities and income from securitization retained interests in the consolidated statements of income.

Impairments

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest. A conventional mortgage is deemed to be impaired at the earlier of the date it has been individually provided for or when contractual payments are past due 90 days. Mortgages guaranteed by the Government of Canada are considered impaired when they are contractually past due 365 days. However, management does not anticipate credit losses on such mortgages as they are insured.

When an impaired mortgage is identified, an individual allowance is recorded to reduce the carrying value of the mortgage to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the mortgage's effective interest rate. The impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. When a mortgage is classified as impaired, interest income continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the allowance for credit losses.

A mortgage is no longer considered impaired when all past due amounts including interest have been recovered and it is determined that the principal and interest are fully collectible, at which time the individual allowance is reversed.

Note 3 – Significant Accounting Policies (continued)

Mortgage losses are recorded when the proceeds from realization of the security are less than the carrying amount of the mortgage. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses.

Foreclosed assets retained in settlement of an impaired loan and held for sale are accounted for at fair value less estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the mortgage before foreclosure and the estimated realizable value of the asset is recorded as a loss in the consolidated statements of income.

For any subsequent change in fair value, gains and losses are recognized in Fees and other income in the consolidated statements of income.

(g) Allowance for credit losses:

Allowance for credit losses on mortgage assets consists of both individually and collectively assessed impairment allowances.

Individual allowance

At each reporting date, the Company assesses whether objective evidence of impairment exists for individual mortgage assets. For mortgages assessed as impaired, an individual allowance is recorded, measured as the difference between the mortgage's carrying amount and the present value of estimated future cash flows discounted at the mortgage's original effective interest rate. The calculation of the estimated future cash flows of the mortgage reflects management's judgement relating to the timing of future cash flow amounts that can be reasonably expected from the borrowers and/or guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated costs of realization.

Collective allowance

If no objective evidence of impairment exists for an individual mortgage, the Company includes the mortgage in a group of mortgage assets with similar credit risk characteristics and collectively assesses them for impairment using a statistical model. Assets that are individually assessed for impairment and for which an individual allowance has been recognized are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, mortgage assets are grouped on the basis of similar credit risk characteristics which include security and mortgage type, risk rating, geographical exposure, loan-to-value ratios and other relevant factors. The collective allowance estimated by the Company's statistical model may be adjusted for management's judgement as to whether current economic conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that calculated by the model.

(h) Securitizations:

In the normal course of business, the Company securitizes insured residential mortgages through the Government of Canada's National Housing Act ("NHA") Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which are facilitated by Canada Mortgage and Housing Corporation ("CMHC"). The Company securitizes the mortgages through the creation of MBS and the ultimate sale of MBS to third party investors or through the CMB program.

Securitized mortgages and securitization liabilities

Sales of MBS that do not qualify for derecognition result in the related mortgages being reclassified as Mortgages receivable – Securitized Financing on the consolidated balance sheets, which are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income and premiums or discounts. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – securitization financing in the consolidated statements of income.

In addition, these transactions are considered secured financing and result in the recognition of Securitization liabilities. Securitization liabilities are recorded at amortized cost, plus accrued interest, and are reported net of any unamortized premiums or discounts and transaction costs incurred in obtaining the secured financing. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability.

Securitization retained interests and servicing liability

In certain securitization transactions that qualify for derecognition, the Company has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. The Securitization

Note 3 – Significant Accounting Policies (continued)

retained interests are classified as available for sale securities in the consolidated balance sheets and are carried at fair value with changes in fair value reported in OCI, net of income taxes. The servicing liability is reported as part of Other liabilities. During the life of the securitization, as cash is received, the retained interests and the servicing liability are amortized and recognized in the consolidated statements of income under Gains on securitization activities and income from securitization retained interests.

Gains on securitization

When an asset is derecognized, the related mortgages are removed from the consolidated balance sheets and a gain or loss is recognized in the consolidated statements of income under Gains on securitization activities and income from securitization retained interests.

(i) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are bond forwards, short sale and repurchase agreements and interest rate swaps. Short sale and repurchase agreements and interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposures resulting from changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the NHA MBS and CMB program, and the date of securitization.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when the following conditions are met:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined contract is not held for trading or designated as at fair value through income.

Separated embedded derivatives are presented with other derivative assets and liabilities in the consolidated balance sheets.

Cash flow hedges

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the amount of future cash flows being hedged.

The Company's cash flow hedges are hedges of anticipated cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, Financial Instruments: Recognition and Measurement. The Company enters into bond forwards (including certain embedded derivatives) to sell government guaranteed debt securities and applies hedge accounting to these derivative financial instruments. To the extent that changes in the fair value of the derivative offset changes in the fair value of the hedged item (anticipated issuance of a securitization liability), they are recorded in OCI, net of tax. The cumulative amounts deferred in Accumulated Other Comprehensive Income ("AOCI") are reclassified to Interest expense – securitization liabilities in the consolidated statements of income, over the term of the securitization liability.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. The change in the fair value of the hedging item will be recorded on the consolidated balance sheet under AOCI as either deferred gains or losses during the hedge term only to the extent of the effective portion of the hedge. Any ineffectiveness in the hedging relationship is included in Other income – gains on securitization activities and income from securitization retained interests in the consolidated statements of income as it occurs.

For cash flow hedges that are discontinued before the end of the original hedge term and for which the designated hedge cash flows are probable of occurring, the unrealized gain or loss recorded in OCI is amortized to Gains on securitization activities and income from securitization retained interests, in the consolidated statements of income.

Note 3 – Significant Accounting Policies (continued)

Fair value hedges

The Company enters into interest rate swap agreements and short sale and repurchase agreements of Government of Canada guaranteed debt securities to manage interest rate exposures on certain mortgages designated as at fair value through income. The Company does not currently apply hedge accounting to these derivative instruments. The fair value of these interest rate swap agreements and short sale and repurchase agreements are included in Other assets and/or Other liabilities with changes in fair value recorded in Interest income – mortgages. Changes in the fair value of mortgages designated as at fair value through income are also included in Interest income – mortgages.

The Company enters into interest rate swap agreements to manage interest rate exposures on fixed rate Guaranteed Investment Certificates ("GIC"s) used to fund floating rate mortgages. The fair value of these interest rate swap agreements are included in Other assets and/or Other liabilities with changes in fair value recorded in Interest expense – deposits. Changes in the fair value of GICs designated as at fair value through income are also included in Interest expense – deposits. For some hedging relationships, the Company has applied hedge accounting.

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation.

The Company uses bond forwards to manage fluctuations in interest rates between the time the Company commits to funding non-prepayable insured residential mortgages and the time these mortgages are securitized. The fair value of these bond forwards are included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from securitization retained interests. Changes in the fair value of the related mortgages and mortgage commitments are also included in Other income – gains on securitization activities and income from securitization retained interests. The Company does not apply hedge accounting to these derivative instruments.

The Company's hedging activities are transacted with approved counterparties, which are limited to Canadian chartered banks, their subsidiaries and other financial intermediaries.

(j) Compensation plans:

The Company offers several benefit programs to eligible employees. These benefits include a deferred profit sharing plan, employee stock purchase plan, annual bonuses, and compensation in the form of share-based payments.

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Deferred profit sharing ("DPS") plan

The Company has a DPS plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions are recognized as an expense in income when they are due in respect of service rendered before the end of the reporting period.

(iii) Stock-based compensation

Stock option plan:

The Company has a stock option plan for Directors and eligible employees of Equitable Bank. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares or

Note 3 – Significant Accounting Policies (continued)

the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the date the options were granted. As a matter of practice, commencing in 2009, the Company no longer awards grants of options to non-management Directors. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in Contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Compensation expense related to the stock-based compensation plan is included in Non-interest expense – Compensation and benefits in the consolidated statements of income.

Restricted share unit ("RSU") plan:

The Company has an RSU plan for eligible employees. The expense related to the award of these units is included in Non-interest expense – Compensation and benefits in the consolidated statements of income over the vesting period and any corresponding liability is included in Other liabilities in the consolidated balance sheets. Since each RSU represents a notional common share, any changes in unit value and re-invested notional dividend amounts are recognized in the consolidated statements of income. Each RSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting.

Deferred share unit ("DSU") plan:

The Company has a DSU plan for Directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in Other liabilities in the consolidated balance sheets. The change in the obligation attributable to the change in stock price and dividends paid on common shares is recognized in Non-interest expense – Compensation and benefits in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days immediately prior to the date the individual ceases to be a Director.

Employee stock purchase ("ESP") plan:

The Company has an ESP plan for its employees. Under this plan, employees have the option of directing a portion of their gross salary towards the purchase of the Company's common shares. The Company matches a fixed portion of employee share purchases up to a specified maximum. Employer contributions are recognized in Non-interest expense – Compensation and benefits in the period incurred.

(k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in OCI or equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amounts of the assets and liabilities and their values for tax purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the years that include the date of enactment or substantive enactment.

Note 3 – Significant Accounting Policies (continued)

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, usually in respect of income taxes levied by the same tax authority on the same taxable entity, and the Company intends to settle current tax liabilities and assets on a net basis or settle the tax assets and liabilities simultaneously.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off the deferred tax assets and liabilities related to income taxes levied by the same tax authority on either the same taxable entity; or different taxable entities, but the entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously for each future period in which these differences reverse.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

(l) Capital assets:

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using a declining balance method over the estimated useful lives of the assets at the following annual rates as this most closely reflects the pattern of consumption of the future economic benefits:

Capital asset categories	Rate of depreciation
Furniture, fixtures and office equipment	20%
Computer hardware and software	30%

Leasehold improvements are depreciated on a straight-line basis over the lesser of the lease term and the estimated useful life of the asset.

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

(m) Leases:

Operating leases

Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the property is available for use. Free rent periods are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis.

(n) Deposits:

Deposits are comprised of GICs and High Interest Savings Accounts ("HISA"s). Deposits, with the exception of those designated as at fair value through income, are recorded on the consolidated balance sheets at amortized cost plus accrued interest, using the effective interest rate method. Deferred deposit agent commissions are accounted for as a component of deposits with the amortization of these commissions – with the exception of commissions relating to deposits designated as at fair value through income, which are expensed as incurred – being calculated on an effective yield basis as a component of interest expense.

(o) Obligations under repurchase agreements:

Investments sold under repurchase agreements represent sales of Government of Canada guaranteed debt securities by the Company effected with a simultaneous agreement to purchase the assets back at a specified price on a specified future date, which is generally short term. Repurchase agreements are treated as borrowings and are carried at amortized cost, plus accrued interest, using the effective interest rate method, recorded in the consolidated balance sheets at the respective prices at which the investments were originally sold plus accrued interest. Interest expense relating to repurchase agreements is recorded in Interest expense – other in the consolidated statements of income.

Note 3 – Significant Accounting Policies (continued)

(p) Bank facilities and debentures:

Bank facilities and debentures are recorded in the consolidated balance sheets at amortized cost using the effective interest method.

(q) Share capital:

Issuance costs

Incremental costs directly attributable to the issuance of an equity instrument are deducted from the initial measurement of the equity instruments and is presented net of tax.

(r) Fees:

Other income includes ancillary fees related to the administration of the mortgage portfolio. These fees are accrued and recognized as the related services are rendered.

(s) Earnings per share:

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the year. Net income available to common shareholders is determined by deducting the dividend entitlements of preferred shareholders from net income. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share calculations is determined using the treasury stock method. Under this method, stock options which exercise price is less than the average market price of the Company's common shares are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the year. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of diluted earnings per share.

(t) Liability provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

(u) Changes in accounting policies:

(i) IFRS 10 Consolidated Financial Statements

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its entities. IFRS 10 introduces a new control model that is applicable to all entities. Accordingly, the Company controls an entity when it is exposed to and has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its entities as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

(ii) IFRS 13 Fair Value

The Company has adopted IFRS 13 effective January 1, 2013. IFRS 13 provides a revised definition of fair value and sets out a framework for measuring fair value in a single standard. IFRS 13 also requires additional disclosures about fair value measurement.

The change in the definition of fair value had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13. As this standard is adopted prospectively, the new disclosure requirements are not included in the comparative information.

Note 3 – Significant Accounting Policies (continued)

(iii) IFRS 7 Financial Instruments: Disclosures

As a result of the amendments to IFRS 7, the Company has expanded disclosures about offsetting financial assets and financial liabilities (See Note 11).

(iv) IAS 1 Presentation of Financial Statements

As a result of the amendments to IAS 1, the Company has modified the presentation of items reported in OCI in its consolidated statements of comprehensive income to present items that would be reclassified to income in the future separately from those that would never be reclassified. Comparative information has been presented on the same basis.

(v) Future accounting changes:

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In 2010, the IASB released an updated version that introduces additional changes relating to financial liabilities. In 2013, the IASB issued a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, in line with the decision made in the July 2013 IASB meeting. The IASB also tentatively decided at its November 2013 meeting that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2017. The Company continues to monitor all of these developments and continues to assess the impact thereof on the Company's financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 51 to 60.

Note 5 – Financial Instruments

The Company's business activities result in a consolidated balance sheet that consists primarily of financial instruments. The majority of the Company's net income is derived from gains, losses, income and expenses related to these financial assets and liabilities.

(a) Valuation methods and assumptions:

Valuation methods and assumptions used to estimate fair values of financial instruments are as follows:

(i) Financial instruments whose cost or amortized cost approximates fair value

The fair value of Cash and cash equivalents and restricted cash approximate their cost due to their short term nature.

Securities purchased under reverse repurchase agreements, obligations under repurchase agreements, and certain other financial assets and liabilities are carried at cost or amortized cost, which approximates fair value.

(ii) Financial instruments classified as available for sale and as at fair value through income

These financial assets and financial liabilities are measured on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value that are not traded in an active market, fair value estimates are determined using valuation methods which maximize the use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

(iii) Mortgages receivable

The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates offered for mortgages with similar terms and credit risk.

(iv) Deposits

The estimated fair value of deposits is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Deposit liabilities include GICs that are measured at fair value through income and are guaranteed by Canada Deposit Insurance Corporation ("CDIC"). This guarantee from CDIC is reflected in the fair value measurement of the deposit liabilities.

(v) Securitization liabilities

The estimated fair value of securitization liabilities is determined by discounting expected future contractual cash flows using market interest rates offered for similar terms.

(vi) Bank facilities and debentures

The estimated fair value of the bank term loan and debentures are determined by discounting expected future contractual cash flows using market interest rates offered for similar terms.

(vii) Derivatives

Fair value estimates of derivative financial instruments are determined based on commonly used pricing methodologies (primarily discounted cash flow models) that incorporate observable market data. Frequently applied valuation techniques incorporate various inputs such as bond prices and interest rate curves into present value calculations.

Note 5 – Financial Instruments (continued)

The following table presents the carrying values for each category of financial assets and liabilities and their estimated fair values as at December 31, 2013 and December 31, 2012. The table does not include assets and liabilities that are not considered financial instruments.

2013	Financial instruments required to be classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financials liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 243,645	$ -	$ -	$ -	$ -	$ 243,645	$ 243,645
Restricted cash	87,319	-	-	-	-	87,319	87,319
Securities purchased under reverse repurchase agreements	-	-	-	-	54,860	54,860	54,860
Investments	5,702	-	38,396	196,516	-	240,614	240,614
Mortgages receivable – Core Lending	-	50,503	-	-	6,137,775	6,188,278	6,202,270
Mortgages receivable – Securitization Financing	17,698	-	-	-	4,923,891	4,941,589	4,995,574
Securitization retained interests	-	-	-	30,455	-	30,455	30,455
Other assets:							
Derivative financial instruments – interest rate swaps	1,650	-	-	-	-	1,650	1,650
Derivative financial instruments – bond forwards	705	-	-	-	-	705	705
Other	-	-	-	-	5,002	5,002	5,002
Total financial assets	$ 356,719	$ 50,503	$ 38,396	$ 226,971	$ 11,121,528	$ 11,794,117	$ 11,862,094
Financial liabilities:							
Deposits	$ -	$ 320,557	$ -	$ -	$ 6,149,472	$ 6,470,029	$ 6,479,621
Securitization liabilities	-	-	-	-	4,591,404	4,591,404	4,674,097
Obligations under repurchase agreements	-	-	-	-	8,143	8,143	8,143
Other liabilities:							
Mortgage Commitments	19	-	-	-	-	19	19
Other	-	-	-	-	54,816	54,816	54,816
Debentures	-	-	-	-	92,483	92,483	92,483
Total financial liabilities	$ 19	$ 320,557	$ -	$ -	$ 10,896,318	$ 11,216,894	$ 11,309,179

Note 5 – Financial Instruments (continued)

2012	Financial instruments required to be classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financials liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 379,447	$ -	$ -	$ -	$ -	$ 379,447	$ 379,447
Restricted cash	63,601	-	-	-	-	63,601	63,601
Securities purchased under reverse repurchase agreements	-	-	-	-	78,551	78,551	78,551
Investments	5,912	-	54,252	379,316	-	439,480	439,480
Mortgages receivable – Core Lending	-	52,379	-	-	5,102,564	5,154,943	5,172,888
Mortgages receivable – Securitization Financing	-	-	-	-	5,454,529	5,454,529	5,632,366
Securitization retained interests	-	-	-	7,263	-	7,263	7,263
Other assets:							
Derivative financial instruments – hedges	20	-	-	-	-	20	20
Derivative financial instruments – bond forwards	323	-	-	-	-	323	323
Other	-	-	-	-	5,478	5,478	5,478
Total financial assets	$ 449,303	$ 52,379	$ 54,252	$ 386,579	$ 10,641,122	$ 11,583,635	$ 11,779,417
Financial liabilities:							
Deposits	$ -	$ 517,079	$ -	$ -	$ 5,134,638	$ 5,651,717	$ 5,669,486
Securitization liabilities	-	-	-	-	5,261,670	5,261,670	5,467,345
Obligations under repurchase agreements	-	-	-	-	9,882	9,882	9,882
Other liabilities:							
Derivative financial instruments – interest rate swaps	2,301	-	-	-	-	2,301	2,301
Other	-	-	-	-	38,298	38,298	38,298
Bank term loan	-	-	-	-	12,500	12,500	12,516
Debentures	-	-	-	-	117,671	117,671	118,983
Total financial liabilities	$ 2,301	$ 517,079	$ -	$ -	$ 10,574,659	$ 11,094,039	$ 11,318,811

(b) Fair value hierarchy:

Financial instruments recorded on the consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1: valuation based on quoted prices (unadjusted) observed in active markets for identical assets and liabilities.

Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3: valuation techniques with significant unobservable market inputs.

Note 5 – Financial Instruments (continued)

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded in the consolidated balance sheets, classified using the fair value hierarchy:

2013	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/ financial liabilities at fair value**
Financial assets:				
Investments	**$ 131,632**	**108,982**	**-**	**$ 240,614**
Mortgages receivable – Core lending	**-**	**50,503**	**6,151,767**	**6,202,270**
Mortgages receivable – Securitization financing	**-**	**17,698**	**4,977,876**	**4,995,574**
Securitization retained interests	**-**	**30,455**	**-**	**30,455**
Other assets:				
Derivative financial instruments – interest rate swaps	**-**	**1,650**	**-**	**1,650**
Derivative financial instruments – bond forwards	**-**	**705**	**-**	**705**
Total financial assets	**$ 131,632**	**$ 209,993**	**$ 11,129,643**	**$ 11,471,268**
Financial liabilities:				
Deposits	**$ -**	**$ -**	**$ 6,479,621**	**$ 6,479,621**
Securitization liabilities	**-**	**3,127,854**	**1,546,243**	**4,674,097**
Other liabilities:				
Mortgage commitments	**-**	**-**	**19**	**19**
Debentures	**-**	**92,483**	**-**	**92,483**
Total financial liabilities	**$ -**	**$ 3,220,337**	**$ 8,025,883**	**$ 11,246,220**

2012[(1)]	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 379,447	$ -	$ -	$ 379,447
Restricted cash	63,601	-	-	63,601
Investments	167,519	217,709	-	385,228
Mortgages receivable – Core lending	-	52,379	-	52,379
Securitization retained interests	-	7,263	-	7,263
Other assets:				
Derivative financial instruments – hedges	-	20	-	20
Derivative financial instruments – securitization activities	-	323	-	323
Total financial assets	$ 610,567	$ 277,694	$ -	$ 888,261
Financial liabilities:				
Deposits	$ -	$ 517,079	$ -	$ 517,079
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	2,301	-	2,301
Total financial liabilities	$ -	$ 519,380	$ -	$ 519,380

(1) IFRS 13 is applied prospectively and as a result the comparatives for 2012 do not include additional disclosures related to loans and receivables and financial liabilities which are carried at amortized cost.

Note 6 – Cash and Cash Equivalents and Restricted Cash

	2013	2012
Deposits with regulated financial institutions	$ 243,645	$ 379,447
Cash and cash equivalents	$ 243,645	$ 379,447
Restricted cash – securitization	$ 77,250	$ 46,698
Restricted cash – interest rate swaps	10,069	16,903
Restricted cash	$ 87,319	$ 63,601

Restricted cash – securitization represents deposits held in trust in connection with the Company's securitization activities. These deposits include cash accounts held at a Canadian Schedule I Bank that hold principal and interest payments collected from mortgages securitized through the NHA MBS program awaiting payment to their respective investors, deposits held as collateral by third parties for the Company's securitization hedging activities, deposits held in interest reinvestment accounts and treasury bills held in principal reinvestment accounts in connection with the Company's participation in the CMB program.

Restricted cash – interest rate swaps represent deposits held as collateral by third parties for the Company's interest rate swap transactions. The terms and conditions of these arrangements with counterparties are governed by the International Swaps and Derivatives Association, Inc. (ISDA) agreements.

Note 7 – Investments

Carrying value of investments, categorized by type and maturity are as follows:

	2013						2012
	Maturities						
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	With no specific maturity	Total	Total
Debt securities issued by regulated financial institutions	$ 70,586	$ -	$ -	$ -	$ -	$ 70,586	$ 217,709
Debt securities guaranteed by Government of Canada	-	8,279	-	16,948	-	25,227	26,519
Equity securities – preferred shares	18,168	-	4,020	-	70,691	92,879	132,896
Equity securities – common shares	-	-	-	-	13,526	13,526	7,904
Canada Housing Trust re-investment accounts[1][2]	23,775	12,100	-	2,521	-	38,396	54,452
	$ 112,529	$ 20,379	$ 4,020	$ 19,469	$ 84,217	$ 240,614	$ 439,480

(1) *Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB Program.*

(2) *Excludes reverse repurchase agreements of $34.8 million (2012 – $68.0 million) which are reclassified to Securities purchased under reverse repurchase agreements.*

Net unrealized gains (losses) on available for sale investments recorded in the consolidated statements of comprehensive income are as follows:

	2013	2012
Debt securities issued by regulated financial institutions	$ 9	$ 182
Debt securities guaranteed by Government of Canada	660	1,257
Equity securities – preferred shares	(7,347)	(2,968)
Equity securities – common shares	88	-
	$ (6,590)	$ (1,529)

Note 7 – Investments (continued)

During the year ended December 31, 2013, the Company also recognized an impairment loss of $1,140 (2012 – $386) related to a common share which is classified as available for sale. This loss has been offset by a dividend received of $1,076 (2012 - $518) in the consolidated statements of income.

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2013	Gross amount	Allowance for credit losses – Individual	Allowance for credit losses – Collective	Allowance for credit losses – Total	Net amount
Mortgages – Core Lending	$ 6,196,540	$ 3,381	$ 28,096	$ 31,477	$ 6,165,063
Mortgages – Securitization Financing	4,927,763	-	-	-	4,927,763
Accrued interest	37,041	-	-	-	37,041
	$ 11,161,344	$ 3,381	$ 28,096	$ 31,477	$ 11,129,867

2012	Gross amount	Allowance for credit losses – Individual	Allowance for credit losses – Collective	Allowance for credit losses – Total	Net amount
Mortgages – Core Lending	$ 5,160,114	$ 4,660	$ 21,960	$ 26,620	$ 5,133,494
Mortgages – Securitization Financing	5,437,783	-	-	-	5,437,783
Accrued interest	38,195	-	-	-	38,195
	$ 10,636,092	$ 4,660	$ 21,960	$ 26,620	$ 10,609,472

Included in Mortgages – Securitization Financing are mortgages held for securitization which consist of Government of Canada insured residential mortgages of $198,432 (2012 – $111,470), of which mortgages of $17,698 (2012 – $30,218) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment as at December 31, 2013 is ($107) (2012 – ($102)).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at December 31, 2013, mortgage principal outstanding for these mortgages was $48,184 (2012 – $49,135) and the fair value adjustment was $2,319 (2012 – $3,244).

The impact of changes in fair value for mortgages as at fair value through income is as follows:

	2013	2012
Changes in fair value included in Gains on securitization and income from securitization retained interests	$ (23)	$ (102)
Changes in fair value included in Interest income – Mortgages – Core Lending	(925)	(883)

Mortgages receivable that are scheduled to be settled within one year are as follows:

	2013	2012
Mortgages – Core Lending	$ 2,529,953	$ 2,207,803
Mortgages – Securitization Financing	1,273,515	1,145,563
	$ 3,803,468	$ 3,353,366

Note 8 – Mortgages Receivable (continued)

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest. As a matter of practice, a conventional mortgage is deemed to be impaired at the earlier of the date it has been individually provided for or when contractual payments are past due 90 days. Mortgages guaranteed by the Government of Canada are considered impaired when they are contractually past due 365 days; however, management does not anticipate credit losses on such mortgages as they are insured.

As at December 31, 2013, accrued interest on impaired mortgages amounted to $1,387 (2012 – $2,858).

Outstanding impaired mortgages, net of individual allowances are as follows:

			2013	2012
	Gross	Individual allowance	Net	Net
Mortgages – Core Lending	$ 28,949	$ 3,381	$ 25,568	$ 31,450
Mortgages – Securitization Financing – Insured	1,006	-	1,006	298
	$ 29,955	$ 3,381	$ 26,574	$ 31,748

Outstanding mortgages that are past due but not classified as impaired are as follows:

				2013
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 29,972	$ 15,310	$ -	$ 45,282
Mortgages – Core Lending – Insured	720	-	265	985
Mortgages – Securitization Financing – Insured	1,294	2,152	12,926	16,372
	$ 31,986	$ 17,462	$ 13,191	$ 62,639

				2012
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 19,506	$ 10,958	$ -	$ 30,464
Mortgages – Core Lending – Insured	80	228	557	865
Mortgages – Securitization Financing – Insured	1,366	906	13,230	15,502
	$ 20,952	$ 12,092	$ 13,787	$ 46,831

(c) Allowance for credit losses:

			2013
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 4,660	$ 21,960	$ 26,620
Provision for credit losses	691	6,041	6,732
Allowance for credit losses on acquired portfolio	(95)	95	-
Realized losses	(2,020)	-	(2,020)
Recoveries	145	-	145
Balance, end of year	$ 3,381	$ 28,096	$ 31,477

Note 8 – Mortgages Receivable (continued)

			2012
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 3,865	$ 15,785	$ 19,650
Provision for credit losses	1,858	6,134	7,992
Allowance for credit losses on acquired portfolio	(41)	41	-
Realized losses	(1,149)	-	(1,149)
Recoveries	127	-	127
Balance, end of year	$ 4,660	$ 21,960	$ 26,620

Note 9 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. In accordance with Note 3 (a) (iii) and 3 (h), transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities.

(a) Transferred financial assets that are not derecognized in their entirety:

Obligations under repurchase agreements

Obligations under repurchase agreements are transactions in which the Company sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Company continues to recognize the securities in their entirety in the consolidated balance sheets because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and the obligation to pay the repurchase price is recognized as a financial liability.

Securitizations

The Company securitizes insured residential mortgages by selling its issued MBS to third party investors or predominantly to a CMHC sponsored trust (Canada Housing Trust – "CHT") under the CMB program. The Company may also retain certain issued MBS as part of its liquidity management strategy, as well as to manage interest rate risk associated with the Company's participation in the CMB program. The CHT periodically issues CMB, which are guaranteed by the government, and sells them to third party investors. Proceeds from the CMB issuances are used by CHT to purchase MBS from eligible MBS issuers who participate in the issuance of a particular CMB series.

Most of the Company's securitization transactions do not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets or it neither transfers nor retains substantially all the risks and rewards and retains control of the asset. A key risk associated with transferred mortgages to which the Company remains exposed after the transfer in such securitization transactions is the prepayment risk. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and are accounted for as secured financing transactions, with the mortgages transferred pledged as collateral for these securitization liabilities.

MBS securitizations

For MBS securitization liabilities, principal payments collected from the underlying mortgages are passed on to the MBS investors, reducing the amount of the liability outstanding on a monthly basis. Accrued interest on the MBS securitization liability is based on the MBS coupon and is paid monthly to the MBS investors.

CMB securitizations

As part of a CMB transaction, the Company may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to the CHT. Any excess or shortfall in these cash flows is absorbed by the Company. These swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. As at December, 31, 2013, the notional amount of these swaps was $3,019,555 (2012 – $3,744,217).

Note 9 – Derecognition of Financial Assets (continued)

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the CHT on a monthly basis where they are held and invested in eligible investments until the maturity of the bond. To the extent that these eligible investments are not the Company's own issued MBS, the investments are recorded on the Company's consolidated balance sheets under Investments – Canada Housing Trust re-investment accounts. Accrued interest on the CMB securitization liabilities is based on the CMB coupon. MBS accrued interest is paid to swap counterparties on a monthly basis and is recorded on the Company's consolidated balance sheets as Restricted cash – securitization. At the time of CMB coupon settlements, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by the Company.

The following table provides information on the carrying amount and the fair values related to transferred financial assets that are not derecognized in their entirety and the associated liabilities:

	2013		2012	
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	$ 4,742,851	$ 8,143	$ 5,342,881	$ 9,882
Carrying amount of associated liability	4,591,404	8,143	5,261,670	9,882
Fair value of assets	4,797,412	8,143	5,520,893	9,882
Fair value of associated liability	4,674,097	8,143	5,467,345	9,882
Fair value, net position	$ 123,315	$ -	$ 53,548	$ -

The carrying amount of assets include securitized assets that were not transferred to third parties of $247,514 (2012 – $205,704). The fair value of these assets are $248,670 (2012 – $210,422).

The carrying amount of assets excludes mortgages held for securitization of $198,845 (2012 – $111,648).

The Company estimates that the principal amount of securitization liabilities will be paid as follows:

	MBS liability	CMB liability	Total liability
2014	$ 54,286	$ 1,219,506	$ 1,273,792
2015	91,818	461,731	553,549
2016	84,802	411,305	496,107
2017	449,982	76,346	526,328
2018	393,204	42,302	435,506
Thereafter	503,295	808,364	1,311,659
	$ 1,577,387	$ 3,019,554	$ 4,596,941

(b) Transfers that are derecognized in their entirety:

Certain securitization transactions undertaken by the Company result in the Company derecognizing transferred assets in their entirety. This is the case where the Company has securitized and sold pools of residential mortgages with no pre-payment option to third parties. The Company has not substantially retained any of the risk or rewards of ownership and has transferred control in the assets. The Company has retained some continuing involvement in the transaction which is represented by the retained interests and the associated servicing liabilities.

The Company has also achieved derecognition on the securitization and sale of certain pools of residential mortgages with a pre-payment option. In these transactions, the Company has securitized and sold pools of residential mortgages as well as all its rights in the excess interest spreads, thereby transferring substantially all the risks and rewards of ownership in the asset and derecognizing the asset in its entirety.

Note 9 – Derecognition of financial assets (continued)

The following table provides information on the Company's securitization activities and transfers that are derecognized in their entirety:

	2013	2012
Mortgages securitized and sold	$ 690,154	$ 335,349
Carrying value and fair value of securitization retained interests	30,455	7,263
Carrying value of securitized mortgage servicing liability	7,921	1,518
Fair value of securitized mortgage servicing liability	7,851	1,525
Gains on mortgages securitized and sold	5,613	2,005
Income from securitization activities and retained interests	1,971	68

The expected undiscounted cash flows payable to the MBS holders on the Company's securitization activities and transfers that are derecognized in their entirety are as follows:

	MBS liabilities
2014	$ 49,927
2015	49,388
2016	49,621
2017	229,350
2018	389,461
Thereafter	360,368
	$ 1,128,115

Note 10 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond forwards to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

Fair value hedges

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income, mortgage commitments and GICs. The hedging instruments used to manage these exposures are interest rate swaps, bond forwards and short sale and repurchase agreements of Government of Canada guaranteed debt securities. The Company does not apply hedge accounting to these hedging relationships.

The Company has also entered into hedging transactions to manage interest rate exposure on certain GICs and applies hedge accounting to these relationships.

Note 10 – Derivative Financial Instruments (continued)

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at December 31, 2013 and 2012 are as follows:

							2013
					Fair value		
Derivative instrument and term (years)	**Notional amount**	**Positive current replacement cost[1]**	**Credit equivalent amount[2]**	**Risk-weighted balance[3]**	**Assets**	**Liabilities**	**Net[4]**
Cash flow hedges:							
Hedging bond forwards							
1 or less	**$ 54,200**	**$ 572**	**$ 572**	**$ 572**	**$ 572**	**$ -**	**$ 572**
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	**140,000**	**55**	**55**	**11**	**55**	**-**	**55**
1 to 5	**407,000**	**1,354**	**3,389**	**678**	**1,334**	**-**	**1,334**
Interest rate swaps							
1 or less	**185,000**	**120**	**120**	**24**	**120**	**-**	**120**
1 to 5	**90,000**	**141**	**591**	**118**	**141**	**-**	**141**
Bond forwards							
1 or less	**24,000**	**133**	**133**	**133**	**133**	**-**	**133**
	$ 900,200	**$ 2,375**	**$ 4,860**	**$ 1,536**	**$ 2,355**	**$ -**	**$ 2,355**

							2012
					Fair value		
Derivative instrument and term (years)	Notional amount	Positive current replacement cost[1]	Credit equivalent amount[2]	Risk-weighted balance[3]	Assets	Liabilities	Net[4]
Cash flow hedges:							
Hedging bond forwards							
1 or less	$ 62,100	$ 540	$ 540	$ 540	$ 540	$ -	$ 540
Fair value hedges:							
Interest rate swaps							
1 or less	335,000	-	-	-	-	(128)	(128)
1 to 5	221,612	-	1,108	222	-	(2,173)	(2,173)
Bond forwards							
1 or less	52,600	-	-	-	-	(217)	(217)
Short sale and repurchase agreements							
1 or less	13,445	20	20	4	20	-	20
	$ 684,757	$ 560	$ 1,668	$ 766	$ 560	$ (2,518)	$ (1,958)

[1] *Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments.*

[2] *Credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline.*

[3] *Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.*

[4] *Derivative financial assets are included in Other assets (Note 12) and derivative financial liabilities are included in Other liabilities (Note 15).*

Note 10 – Derivative Financial Instruments (continued)

Cash flow hedges

The impact of cash flow hedges on the Company's consolidated financial results are as follows:

	2013	2012
Fair value changes recorded in Other comprehensive income	$ 8,029	$ 844
Fair value changes recorded in income	1,379	63
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(2,261)	(2,365)

The time periods in which the undiscounted hedged cash outflows are expected to occur and affect the consolidated statements of income are as follows:

Time period	2013	2012
Less than 1 year	$ 45,630	$ 39,519
1 - 3 years	86,939	78,227
4 - 5 years	58,368	55,394
Greater than 5 years	71,337	53,228
	$ 262,274	$ 226,368

Fair value hedges:

The impact of fair value hedges on the Company's consolidated financial results are as follows:

	2013	2012
Interest rate swaps	$ 921	$ (153)
Interest rate swaps – hedge accounting	1,389	-
Bond forwards	350	(217)
Short sale and repurchase agreement	22	(16)
Changes in fair value recognized in income	$ 2,682	$ (386)

Note 11 – Offsetting Financial Assets and Financial Liabilities

The disclosures in the table below include financial assets and financial liabilities that may or may not be offset in the consolidated financial statements but are subject to agreements with netting arrangements which cover similar financial instruments irrespective of whether they are offset in the consolidated financial statements. Such agreements include derivative agreements, collateral support agreements and repurchase agreements. Financial instruments include derivatives, securities purchased under reverse repurchase agreements and obligations under repurchase agreements.

The Company's derivative transactions are entered into under ISDA master agreements. In general, amounts owed by each counterparty under an agreement are aggregated into a single net amount being payable by one party to the other. In certain cases all outstanding transactions under an agreement may be terminated and a single net amount including pledges is due or payable in settlement of these transactions.

The Company's securities purchased under reverse repurchase agreements and obligations under repurchase agreements are covered by master agreements with netting terms similar to those of ISDA agreements. Both types of agreements generally contain set-off clauses.

Note 11 – Offsetting Financial Assets and Financial Liabilities (continued)

The Company pledges and in certain cases receives collateral in the form of cash or securities in respect of the following transactions:

- derivatives;
- securities purchased under reverse repurchase agreements; and
- obligations under repurchase agreements.

Such collateral is subject to the credit support agreement associated with ISDA agreements, or subject to standard industry terms of repurchase agreements. This means that cash or securities pledged/received as collateral can be sold during the term of the transaction but must be returned when the collateral is no longer required and/or on maturity. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

						2013
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 1,670	$ (20)	$ 1,650	$ -	$ (1,870)	$ (220)
Securities purchased under reverse repurchase agreements	54,860	-	54,860	-	(54,860)	-
	$ 56,530	$ (20)	$ 56,510	$ -	$ (56,730)	$ (220)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

						2013
				Related amounts not offset on the consolidated balance sheets		
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral pledged)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 20	$ (20)	$ -	$ -	$ -	$ -
Obligations under repurchase agreements	8,143	-	8,143	(8,143)	-	-
	$ 8,163	$ (20)	$ 8,143	$ (8,143)	$ -	$ -

Note 11 – Offsetting Financial Assets and Financial Liabilities (continued)

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

				Related amounts not offset on the consolidated balance sheets		2012
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Hedging bond forwards and Bond forwards	$ 540	$ (217)	$ 323	$ -	$ -	$ 323
Interest rate swaps	143	(143)	-	-	-	-
Securities purchased under reverse repurchase agreements	78,551	-	78,551	-	(78,551)	-
	$ 79,234	$ (360)	$ 78,874	$ -	$ (78,551)	$ 323

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

				Related amounts not offset on the consolidated balance sheets		2012
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral pledged)	Net amount
Derivatives held for risk management:						
Hedging bond forwards and Bond forwards	$ 217	$ (217)	$ -	$ -	$ -	$ -
Interest rate swaps	2,444	(143)	2,301	-	(2,528)	(227)
Obligations under repurchase agreements	9,882	-	9,882	(9,882)	-	-
	$ 12,543	$ (360)	$ 12,183	$ (9,882)	$ (2,528)	$ (227)

Note 12 – Other Assets

	2013	2012
Prepaid expenses and other	$ 12,472	$ 15,343
Real estate owned	7,703	227
Capital assets	4,021	3,547
Receivables relating to securitization activities	2,512	2,773
Derivative financial instruments – interest rate swaps	1,650	-
Derivative financial instruments – bond forwards	705	323
Accrued interest and dividends on non-mortgage assets	630	1,393
Derivative financial instruments – hedges	-	20
	$ 29,693	$ 23,626

In September 2013, the Company entered into an agreement to resolve the litigation related to an alleged fraud that was identified in 2011. The agreement resulted in a recovery of $5.2 million in October 2013. In addition to this settlement, we are pursuing a further claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable. During the year the Company also recovered $0.4 million from other counterparties and the net outstanding receivable amount as at December 31, 2013 is $3.2 million (2012 – $8.8 million), and is included in Prepaid expenses and other.

Note 13 – Deposits

	2013	2012
Term and other deposits	$ 6,377,987	$ 5,567,037
Accrued interest	110,347	99,530
Deferred deposit agent commissions	(18,305)	(14,850)
	$ 6,470,029	$ 5,651,717

Included in Term and other deposits are $320,727 (2012 – $518,213) of GICs designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. The fair value is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued, and the fair value adjustment as at December 31, 2013 is ($170) (2012 – ($1,134)).

The impact of changes in fair value for GICs designated as at fair value through income is as follows:

	2013	2012
Changes in fair value recognized in income	$ (964)	$ 1,134

Term and other deposits also include $545,713 (2012 – nil) of GICs designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued and the fair value adjustment as at December 31, 2013 is $1,246 (2012 – nil).

Note 13 – Deposits (continued)

The impact of changes in fair value attributable to the hedged risks for GICs designated in hedging relationships is as follows:

	2013	2012
Changes in fair value recognized in income	$ (1,246)	$ -

Note 14 – Income Taxes

(a) Income tax provision:

	2013	2012
Current tax expense:		
Current year	$ 29,248	$ 24,248
Adjustments for prior years	(3,429)	1,511
	25,819	25,759
Deferred tax expense:		
Reversal of temporary differences	2,401	(2,207)
Adjustments for prior years	2,930	(284)
Reduction in tax rate	(3)	199
	5,328	(2,292)
Total income tax expense	$ 31,147	$ 23,467

The provision for income taxes shown in the consolidated statements of income differs from that obtained by applying statutory income tax rates to income before the provision for income taxes due to the following reasons:

	2013	2012
Canadian statutory income tax rate	26.3%	26.3%
Increase (decrease) resulting from:		
Tax-exempt income	(1.3%)	(5.7%)
Future tax rate changes	0.1%	0.2%
Non-deductible expenses and other	(0.1%)	1.6%
Effective income tax rate	25.0%	22.4%

Note 14 – Income Taxes (continued)

(b) Deferred taxes:

The net deferred income tax liabilities are comprised of:

	2013	2012
Deferred income tax assets:		
Allowance for credit losses	$ 7,384	$ 5,788
Share issue expenses	-	176
Other	577	-
	7,961	5,964
Deferred income tax liabilities:		
Securitization activities	10,060	2,283
GIC commissions	4,821	3,910
Net mortgage fees	3,836	5,058
Other	70	211
	18,787	11,462
Net deferred income tax liabilities	$ 10,826	$ 5,498

Note 15 – Other Liabilities

	2013	2012
Mortgagor realty taxes	$ 26,335	$ 22,340
Accounts payable and accrued liabilities	12,092	10,102
Income taxes payable	8,883	4,670
Securitized mortgage servicing liability	7,921	1,518
Mortgage commitments	19	-
Derivative financial instruments – interest rate swaps	-	2,301
	$ 55,250	$ 40,931

Note 16 – Bank Facilities

(a) Operating credit facility:

The Company has a $35,000 credit facility in place with a major Schedule I Canadian Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance as at December 31, 2013 (2012 – nil).

(b) Term loan:

On January 3, 2013, the Company repaid its non-revolving term loan of $12,500 together with all accrued and unpaid interest. The loan balance was repayable in full at the option of the Company at any time during its term.

2013

Interest rate	Date loan received	Maturity date	Outstanding December 31, 2012	Issued during the year	Repaid during the year	Outstanding December 31, 2013
6.41%	March 2007	January 2013	$ 12,500	$ -	$ 12,500	$ -

2012

Interest rate	Date loan received	Maturity date	Outstanding December 31, 2011	Issued during the year	Repaid during the year	Outstanding December 31, 2012
6.41%	March 2007	January 2013	$ 12,500	$ -	$ -	$ 12,500

Note 16 – Bank Facilities (continued)

c) Secured funding facility:

During the year, the Company secured a $300,000 credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. There is no outstanding balance on this facility as at December 31, 2013.

Note 17 – Debentures

Equitable Group Inc. has three series of debentures outstanding at December 31, 2013, compared with four series outstanding at the end of the prior year. The Company can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements, including any applicable penalties, and our liquidity position.

The Company has used the proceeds from Equitable Group Inc.'s debentures to provide regulatory capital to Equitable Bank, and has done so by issuing subordinated debentures from Equitable Bank. These intercompany debentures are subordinated to the rights of Equitable Bank's depositors and other creditors. Equitable Bank can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements, including any applicable penalties, and the prior approval of OSFI.

On January 3, 2013, the Company redeemed its 7.1% Series 7 debentures of $9,450 with all accrued and unpaid interest. In addition, on March 5, 2013, the Company partially redeemed $15,738 of its 6.5% Series 8 debentures with all accrued and unpaid interest, which were redeemable at par any time on or after December 18, 2014. On redemption, the Company paid a 5% prepayment penalty of $787.

All series of the Company's debentures may be redeemed at any time at the option of the Company, subject to the terms and conditions of the debenture agreements, including any applicable penalties. The Series 8 debentures are redeemable at par any time on or after December 18, 2014 and the Series 9 debentures are redeemable at par at any time on or after December 15, 2015.

Interest on Series 8 debentures is payable semi-annually at a fixed rate of 6.50% per annum for the first five years of their 10-year term. Thereafter, the Series 8 debentures will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 480 basis points, payable quarterly.

Interest on Series 9 debentures is payable monthly at a fixed rate of 6.09% per annum for the first five years of their 10-year term. Thereafter, Series 9 debentures will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 338 basis points, payable quarterly.

Interest on Series 10 debentures is paid semi-annually at a fixed rate of 5.399% per annum.

2013

Debenture	Interest rate	Issue date	Maturity date	**Outstanding December 31, 2012**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2013**
Series 7	7.10%	2007	January 2017	**$ 9,450**	**$ -**	**$ 9,450**	**$ -**
Series 8	6.50%	2009	December 2019	**23,221**	**-**	**15,738**	**7,483**
Series 9	6.09%	2010	December 2020	**20,000**	**-**	**-**	**20,000**
Series 10	5.40%	2012	October 2017	**65,000**	**-**	**-**	**65,000**
				$ 117,671	**$ -**	**$ 25,188**	**$ 92,483**

2012

Debentures	Interest rate	Issue date	Maturity date	Outstanding December 31, 2011	Issued during the year	Repaid during the year	Outstanding December 31, 2012
Series 7	7.10%	2007	January 2017	$ 9,450	$ -	$ -	$ 9,450
Series 8	6.50%	2009	December 2019	23,221	-	-	23,221
Series 9	6.09%	2010	December 2020	20,000	-	-	20,000
Series 10	5.40%	2012	October 2017	-	65,000	-	65,000
				$ 52,671	$ 65,000	$ -	$ 117,671

Note 18 – Shareholders' Equity

(a) Capital stock:

Authorized:

Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1, par value $25.00 per share
Unlimited number of non-cumulative floating rate preferred shares, Series 2, par value $25.00 per share
Unlimited number of common shares, no par value

Issued and outstanding shares:

			2013			2012
	Number of shares	**Amount**	**Dividends per share**[1]	Number of shares	Amount	Dividends per share[1]
Preferred shares, Series 1:	**2,000,000**	**$ 48,494**	**$ 1.81**	2,000,000	$ 48,494	$ 1.81

			2013			2012
	Number of shares	**Amount**	**Dividends per share**[1]	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of year	**15,189,983**	**$ 134,224**		15,018,401	$ 129,771	
Contributions from reinvestment of dividends	**23,699**	**849**		29,222	817	
Contributions from exercise of stock options	**141,723**	**2,379**		142,360	3,068	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**517**		-	568	
Balance, end of year	**15,355,405**	**$ 137,969**	**$ 0.60**	15,189,983	$ 134,224	$ 0.52

[1] *Dividends per share represents dividends declared by the Company during the year.*

(b) Preferred shares:

Series 1 - 5-year rate reset preferred shares

Holders of Series 1 preferred shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 7.25% per share for an initial period ending September 30, 2014. Thereafter, the dividend rate will reset every five years at a level of 4.53% over the then five-year Government of Canada bond yield. Series 1 preferred shares are redeemable in cash at the Company's option, subject to Equitable Bank receiving prior regulatory approval, on September 30, 2014 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 1 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 2 (the "Series 2 preferred shares"), subject to certain conditions, on September 30, 2014 and on September 30 every five years thereafter.

Series 2 - floating rate preferred shares

Holders of the Series 2 preferred shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.53%, as and when declared by the Board of Directors. Series 2 preferred shares are redeemable in cash at the Company's option, subject to Equitable Bank receiving prior regulatory approval, on (i) September 30, 2019 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2014. Series 2 preferred shares are convertible at the holder's option to non-cumulative 5-year rate reset preferred shares, Series 1 (the "Series 1 preferred shares"), subject to certain conditions, on September 30, 2019 and on September 30 every five years thereafter.

Note 18 – Shareholders' Equity (continued)

(c) Common shares:

Issuances of common shares

During the year, 141,723 (2012 − 142,360) common shares were issued as a result of the exercise of stock options for cash consideration of $2,379 (2012 − $3,068) and $517 (2012 − $568) was transferred from Contributed surplus to Common shares as a result of these exercises. In addition, 23,699 (2012 − 29,222) common shares were issued under the Company's dividend reinvestment plan.

(d) Dividend reinvestment plan:

The Company has a dividend reinvestment plan. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume-weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price.

(e) Dividend restrictions:

The Company's subsidiary, Equitable Bank, is subject to minimum capital requirements, as prescribed by OSFI under the Bank Act. The Company must notify OSFI prior to the declaration of any dividend and must ensure that any such dividend declaration is done in accordance with the provisions of the Bank Act, and those OSFI guidelines relating to capital adequacy and liquidity.

Note 19 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As at December 31, 2013, the maximum number of common shares available for issuance under the plan was 1,475,570 (2012 – 985,381). The outstanding options expire on various dates to November 2020. A summary of the Company's stock option activity and related information for the years ended December 31, 2013 and 2012 is as follows:

	2013		2012	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**518,817**	**$ 22.96**	733,950	$ 24.36
Granted	**144,537**	**37.03**	137,927	23.17
Exercised	**(141,723)**	**16.79**	(142,360)	21.55
Forfeited/cancelled	**-**	**-**	(210,700)	32.66
Outstanding, end of year	**521,631**	**$ 28.54**	518,817	$ 22.96
Exercisable, end of year	**173,172**	**$ 24.01**	179,075	$ 19.79

Note 19 – Stock-based Compensation (continued)

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2013:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 20.60	86,900	1.9	60,800
$ 24.75	83,400	2.9	37,200
$ 24.50	70,000	2.9	42,000
$ 26.01	7,500	5.0	3,750
$ 29.32	119,294	5.2	26,922
$ 27.23	10,000	5.4	2,500
$ 36.11	124,537	6.2	-
$ 37.43	6,500	6.4	-
$ 44.28	7,500	6.6	-
$ 46.65	6,000	6.9	-

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $840 (2012 – $853) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during 2013 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	2013	2012
Risk-free rate	**1.5%**	1.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**24.5%**	30.5%
Expected dividends	**1.7%**	1.9%
Weighted average fair value of each option granted	**$ 6.98**	$ 6.14

(b) ESP plan:

The Company has an ESP plan for eligible employees. Under the plan, eligible employees can contribute between 1% and 10% of their annual base salary towards the purchase of common shares of the Company. For each eligible contribution, the Company contributes 50% of the employee's contribution to purchase common shares of the Company.

During the period ended December 31, 2013, the Company expensed $266 (2012 – $73) under this plan.

(c) DSU plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. When an individual ceases to be a Director (the "Separation Date"), the DSUs shall be redeemed for cash no later than the end of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days prior to the Separation Date. In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU plan, any proportionate adjustment as it considers appropriate to reflect that change. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The DSU plan is administered by the Board or a committee thereof.

Note 19 – Stock-based Compensation (continued)

A summary of the Company's DSU activity for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**33,095**	23,409
Granted	**6,679**	9,181
Dividends reinvested	**502**	505
Exercised	**(7,522)**	-
Outstanding, end of year	**32,754**	33,095

In May 2013, 7,522 DSUs were exercised for a total value of $282 (2012 – nil). The liability associated with DSUs outstanding as at December 31, 2013 was $1,579 (2012 – $1,075). Compensation expense recorded in 2013, relating to DSUs outstanding during the year amounted to $787 (2012 – $483).

(d) RSU plan:

The Company has an RSU plan for eligible employees. Under the plan, RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the RSU plan, each RSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs when cash dividends are paid on the Company's common shares. Each RSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting date.

A summary of the Company's RSU activity for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
	Number of RSUs	Number of RSUs
Outstanding, beginning of year	**19,577**	-
Granted	**24,723**	20,940
Dividends reinvested	**424**	182
Forfeited/cancelled	**(348)**	(1,545)
Outstanding, end of year	**44,376**	19,577

Compensation expense recorded relating to RSUs outstanding during the year amounted to $787 (2012 – $188). The liability recorded associated with RSUs outstanding as at December 31, 2013 was $975 (2012 – $188).

Note 20 – Earnings Per Share

Diluted earnings per share is calculated based on net income available to common shareholders divided by the weighted average number of common shares outstanding during the year, taking into account the dilution effect of stock options using the treasury stock method.

	2013	2012
Earnings per common share – basic:		
Net income	$ 93,530	$ 81,207
Dividends on preferred shares	3,625	3,625
Net income available to common shareholders	$ 89,905	$ 77,582
Weighted average basic number of common shares outstanding	15,272,463	15,075,159
Earnings per common share – basic	$ 5.89	$ 5.15
Earnings per common share – diluted:		
Net income available to common shareholders	$ 89,905	$ 77,582
Weighted average basic number of common shares outstanding	15,272,463	15,075,159
Adjustment to weighted average number of common shares outstanding:		
Stock options	178,982	108,683
Weighted average diluted number of common shares outstanding	15,451,445	15,183,842
Earnings per common share – diluted	$ 5.82	$ 5.11

For the year ended December 31, 2013, the calculation of the diluted earnings per share excluded 60,727 (2012 – 226,944) average options outstanding with a weighted average exercise price of $40.40 (2012 – $28.72) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 21 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 36-38 of the MD&A.

Equitable Bank maintains capital management policies to govern the quality and quantity of capital utilized in its operations. During the year, Equitable Bank complied with all internal and external capital requirements.

Note 21 – Capital Management (continued)

Regulatory capital (relating solely to Equitable Bank) is as follows:

	Basel III[(1)] 2013	Basel II[(1)] 2012
Common Equity Tier 1 capital ("CET1")[(2)]:		
Common shares	$ 140,997	$ 137,303
Contributed surplus	4,911	4,589
Non-cumulative preferred shares	-	50,000
Retained earnings	398,493	317,754
Accumulated other comprehensive loss[(3)]	(4,574)	(1,767)
Less: Regulatory adjustments	(1,188)	-
Common Equity Tier 1 capital:	538,639	
Additional Tier 1 capital:		
Non-cumulative preferred shares[(4)]	45,000	-
Net Tier 1 capital:	583,639	507,879
Tier 2 capital:		
Collective allowance	28,097	21,960
Subordinated debentures	92,483	125,781
Tier 2 capital	120,580	147,741
Total capital	$ 704,219	$ 655,620

(1) *Effective the first quarter of 2013, we calculate capital using the Basel III framework on the "all-in" basis. The 2012 capital was calculated using the Basel II framework. Basel III and Basel II are not directly comparable.*

(2) *Common Equity Tier 1 capital ("CET1") is a new regulatory measure under the Basel III framework. CET1 is not applicable for the prior year as Basel III was adopted prospectively, effective the first quarter of 2013.*

(3) *As prescribed by OSFI (under Basel III rules), Accumulated other comprehensive income ("AOCI") is part of CET1 in its entirety, however, the amount of cash flow hedge reserves in AOCI corresponding to the hedged items that are not recognized in the balance sheet are excluded.*

(4) *Under Basel III rules, Equitable Bank's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.*

Note 22 – Commitments and Contingencies

(a) Lease commitments:

The Company is committed to operating leases for office premises located in Toronto, Calgary and Montreal. The future minimum lease payments under the leases are as follows:

	2013	2012
Less than 1 year	$ 983	$ 845
1-5 years	1,063	1,778
	$ 2,046	$ 2,623

In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the terms of the leases. Lease expense recognized in the consolidated statements of income for 2013 amounted to $1,844 (2012 – $1,711).

(b) Credit commitments:

As at December 31, 2013, the Company had outstanding commitments to fund $486,432 (2012 – $445,059) of mortgages in the ordinary course of business. Of these commitments, $302,065 (2012 – $383,114) are expected to be funded within one year and $184,367 (2012 – $61,945) remain open for various dates after one year.

Note 22 – Commitments and Contingencies (continued)

The Company has issued standby letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $2,714 were outstanding at December 31, 2013 (2012 – $788), none of which have been drawn upon at that date.

(c) Contingencies:

In September 2013, Equitable entered into an agreement to resolve the litigation related to an alleged fraud that was identified in 2011, details of which are outlined in Note 12. Subsequent to the recovery, the net outstanding receivable balance is $3.2 million (2012 – $8.8 million). In addition to this settlement, we are pursuing a further claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

The Company is subject to other various claims and litigation arising from time to time in the ordinary course of business. Management has determined that the aggregate liability, if any, which may result from other various outstanding legal proceedings would not be material and no other provisions have been recorded in these consolidated financial statements.

Note 23 – Related Party Transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. The Company's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. The Company considers the members of the Board of Directors as part of key management personnel.

(a) Key management personnel compensation table:

	2013	2012
Short-term employee benefits	$ 2,997	$ 2,853
Post-employment benefits	44	37
Share-based payments	1,467	1,001
	$ 4,508	$ 3,891

(b) Share transactions, shareholdings and options of key management personnel and related parties:

As at December 31, 2013, key management personnel held 2,296,647 (2012 – 2,429,974) common shares and 1,700 (2012 – 3,300) preferred shares. These shareholdings include common shares of 2,157,496 (2012 – 2,309,339) that were beneficially owned by the Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management personnel held 288,597 (2012 – 299,142) options to purchase common shares of the Company at prices ranging from $20.60 to $36.11.

(c) Other transactions:

Certain of the Company's key management personnel have invested in GIC deposits and/or debentures of the Company. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties. During the year, the Company issued $328 of GIC deposits to key management personnel, which were outstanding as at December 31, 2013 (2012 – $368). There were no debentures issued to key management personnel during the years ended 2013 and 2012. As at December 31, 2013, debentures held by key management were nil (2012 – $2,650). The GIC deposits and debentures held by key management personnel include holdings by related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the Directors.

Note 24 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at December 31, 2013.

Note 24 – Interest Rate Sensitivity (continued)

	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive	Total[(1)]
Assets:								
Cash and cash equivalents and restricted cash	$ 311,026	$ 19,938	$ -	$ 330,964	$ -	$ -	$ -	$ 330,964
Effective interest rate	*1.20%*	*0.89%*	*-*	*1.18%*	*-*	*-*	*-*	*1.18%*
Securities purchased under reverse repurchase agreements	-	54,860	-	54,860	-	-	-	54,860
Effective interest rate	*-*	*0.98%*	*-*	*0.98%*	*-*	*-*	*-*	*0.98%*
Investments	5,730	52,375	83,128	141,233	72,808	18,091	8,482	240,614
Effective interest rate	*4.15%*	*3.46%*	*4.69%*	*4.21%*	*5.05%*	*4.13%*	*-*	*4.31%*
Mortgages receivable – Core Lending	1,306,516	453,646	1,791,466	3,551,628	2,615,647	1,879	19,124	6,188,278
Effective interest rate	*4.95%*	*4.79%*	*4.77%*	*4.84%*	*4.88%*	*5.59%*	*-*	*4.84%*
Mortgages receivable – Securitization Financing	35,460	434,846	979,995	1,450,301	2,227,283	1,231,690	32,315	4,941,589
Effective interest rate	*2.70%*	*3.54%*	*3.64%*	*3.59%*	*3.42%*	*3.82%*	*-*	*3.55%*
Other assets	-	-	-	-	-	-	60,148	60,148
Total assets	$ 1,658,732	$ 1,015,665	$ 2,854,589	$ 5,528,986	$ 4,915,738	$ 1,251,660	$ 120,069	$ 11,816,453
Liabilities:								
Deposits[(2)]	$ 20,483	$ 945,503	$ 2,426,994	$ 3,392,980	$ 2,983,932	$ -	$ 93,117	$ 6,470,029
Effective interest rate	*1.51%*	*1.54%*	*2.05%*	*1.90%*	*2.36%*	*-*	*-*	*2.09%*
Securitization liabilities	-	406,553	929,126	1,335,679	2,024,183	1,237,075	(5,533)	4,591,404
Effective interest rate	*-*	*2.31%*	*3.06%*	*2.83%*	*2.72%*	*3.43%*	*-*	*2.95%*
Obligations under repurchase agreements	-	8,143	-	8,143	-	-	-	8,143
Effective interest rate	*-*	*1.00%*	*-*	*1.00%*	*-*	*-*	*-*	*1.00%*
Debentures[(3)]	-	-	7,483	7,483	85,000	-	-	92,483
Effective interest rate	*-*	*-*	*6.61%*	*6.61%*	*5.66%*	*-*	*-*	*5.74%*
Other liabilities and deferred taxes	-	-	-	-	-	-	66,076	66,076
Shareholders' equity	-	-	48,494	48,494	-	-	539,824	588,318
Total liabilities and shareholders' equity	$ 20,483	$ 1,360,199	$ 3,412,097	$ 4,792,779	$ 5,093,115	$ 1,237,075	$ 693,484	$ 11,816,453
Off-balance sheet items[(4)]	$ -	$ (894,548)	$ 343,290	$ (551,258)	$ 626,240	$ (74,983)	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	$ 1,638,249	$ (1,239,082)	$ (214,218)	$ 184,949	$ 448,863	$ (60,398)	$ (573,415)	$ -
Total assets – 2012	$ 1,648,208	$ 755,827	$ 2,702,526	$ 5,106,561	$ 5,339,394	$ 1,045,408	$ 110,077	$ 11,601,440
Total liabilities and shareholder's equity – 2012	$ 743,573	$ 748,313	$ 3,078,811	$ 4,570,697	$ 5,406,224	$ 1,031,961	$ 592,558	$ 11,601,440
Off-balance sheet items – 2012	$ -	$ (420,219)	$ 249,262	$ (170,957)	$ 213,868	$ (42,911)	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholder's equity and off-balance sheet items – 2012	$ 904,635	$ (412,705)	$ (127,023)	$ 364,907	$ 147,038	$ (29,464)	$ (482,481)	$ -

(1) *Accrued interest is included in "Non-interest sensitive" assets and liabilities.*

(2) *Cashable GIC deposits are included in the "0 to3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.*

(3) *Any prepayments of debentures, contractual or otherwise, have not been estimated as these would require Equitable Bank to receive regulatory pre-approval.*

(4) *Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.*

DIRECTORS

Austin Beutel
Chairman, Oakwest Corporation Limited,
an investment holding company

Eric Beutel
Vice-President, Oakwest Corporation Limited,
an investment holding company

Joseph Dickstein
Corporate Director

Eric Kirzner
Professor of Finance, Rotman School of Management,
University of Toronto

David LeGresley
Corporate Director

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer of the Company
and Equitable Bank

Katherine Rethy
Corporate Director and President, KAR Development Corp.,
a leadership consulting company

Rowan Saunders
President and Chief Executive Officer,
Royal & Sun Alliance Insurance Company of Canada

Vincenza Sera
Corporate Director

Morris Shohet
Principal, The Dorchester Corporation,
a real estate investment company

OFFICERS

Andrew Moor
President and Chief Executive Officer of the Company
and Equitable Bank

William Edmunds
Senior Vice-President and Chief Risk Officer of
Equitable Bank

Tim Wilson
Vice-President and Chief Financial Officer of the Company
and Equitable Bank

Dan Dickinson
Vice-President, Digital Banking of
Equitable Bank

David Downie
Vice-President, Commercial Origination of
Equitable Bank

Isabelle Farella
Vice-President, Internal Audit

Scott Fryer
Vice-President, Deposit Services of
Equitable Bank

Kimberly Kukulowicz
Vice-President, Residential Sales and Partner Relations of
Equitable Bank

Brian Leland
Vice-President, Residential Credit of
Equitable Bank

Tamara Malozewski
Vice-President, Finance of Equitable Bank

Dan Ruch
Vice-President and Chief Compliance Officer of
Equitable Bank

David Soni
Vice-President, Risk Policy of Equitable Bank

Jody Sperling
Vice-President, Human Resources of
Equitable Bank

Nicholas Strube
Vice-President and Treasurer of Equitable Bank

Ron Tratch
Vice-President, Commercial Credit of
Equitable Bank

Rajesh Raut
Controller of Equitable Bank

John Simoes
Senior Director, Financial Planning and Reporting of
Equitable Bank

David Yu
Vice-President, Information Technology of
Equitable Bank

SHAREHOLDER AND CORPORATE INFORMATION

Corporate Office
30 St. Clair Avenue West, Suite 700
Toronto, Ontario, Canada, M4V 3A1

Quebec Office
3333 Graham Boulevard, Suite 604
Town of Mount-Royal, Quebec, Canada, H3R 3L5

Western Region Office
600 - 1333 8th Street S.W, Suite 600
Calgary, Alberta, Canada, T2R 1M6

Website
www.equitablebank.ca

Transfer Agent and Registrar
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada, M5J 2Y1
1.800.564.6253

Stock Listings
TSX: EQB and EQB.PR.A

Annual Meeting of Shareholders
Wednesday, May 14, 2014, 4:15 p.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada

Investor Relations
Tim Wilson
Vice-President and Chief Financial Officer
416.515.7000
investor@equitablegroupinc.com

Dividend Reinvestment Plan
For information regarding Equitable Group's Dividend Reinvestment Plan, please contact the Plan Agent at www.computershare.com or toll free at 1.800.564.6253. To obtain a copy of the Offering Circular, Enrollment Form and to review commonly asked questions, please visit the Company's website at www.equitablebank.ca under Investor Relations.

www.equitablebank.ca