EQUITABLE | TSX.EQB
EQB.PR.C

2017
Q1

First Quarter Report

For the three months ended March 31, 2017

Canada's Challenger Bank. Money Well Banked.

EQUITABLE GROUP INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the three months ended March 31, 2017

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") ended March 31, 2017. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2017, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at May 1, 2017. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, 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", "Q1 2017 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "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.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total Assets Under Management(1) of approximately $23 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products, offered under the Equitable Bank and *EQ Bank* brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

Equitable operates with a branchless banking model and competes in niche lending and savings markets that are not well served by the larger Canadian banks or in which we have a unique advantage. Our strategy is to continue growing the Bank over time by delivering superior service to our customers and business partners across Canada, and to diversify by launching new offerings. With this approach, we aim to grow earnings, produce a Return on Equity ("ROE")(1) for our shareholders in the mid to high-teens, and maintain strong regulatory capital ratios.

Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadians with various saving options that offer security and attractive interest rates, including Guaranteed Investment Certificates ("GIC"s), High Interest Savings Accounts ("HISA"s), and deposit notes. We generally 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 their clients. Starting in 2016, Equitable provides select deposit products directly to Canadian savers through our digital banking platform, *EQ Bank*. The first deposit product offered through our digital bank was the *EQ Bank Savings Plus Account* which was received well by Canadian savers. We intend to expand the range of savings products and services that we offer through *EQ Bank*, while at the same time maintaining a strong commitment to our broker partners.

For further information on Equitable's strategy, capabilities, Business Lines, and key performance indicators please refer to our 2016 annual Management's Discussion and Analysis.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)				Three months ended	
	Mar 31, 2017	Dec 31, 2016	% Change	Mar 31, 2016	% Change
RESULTS OF OPERATIONS					
Net income	**$ 43,393**	$ 41,678	4%	$ 28,012	55%
Net income available to common shareholders	**42,202**	40,488	4%	26,821	57%
Net interest income[1]	**78,352**	77,926	1%	63,594	23%
Total revenue[1]	**181,525**	179,939	1%	151,691	20%
EPS – basic	**$ 2.56**	$ 2.58	(1%)	$ 1.73	48%
EPS – diluted	**$ 2.54**	$ 2.56	(1%)	$ 1.71	49%
ROE	**18.4%**	19.3%	(0.9%)	14.7%	3.7%
Return on average assets[2]	**0.9%**	0.9%	-%	0.7%	0.2%
NIM – TEB – total assets[2]	**1.66%**	1.70%	(0.04%)	1.62%	0.04%
Efficiency Ratio – TEB[2][3]	**33.2%**	33.9%	(0.7%)	43.2%	(10.0%)
BALANCE SHEET					
Total assets	**19,300,418**	18,973,588	2%	16,411,221	18%
Assets Under Management	**22,959,080**	22,277,769	3%	18,616,018	23%
Mortgages receivable	**18,164,958**	17,783,803	2%	15,540,241	17%
Mortgages Under Management ("MUM")	**21,743,431**	21,004,013	4%	17,668,821	23%
Shareholders' equity	**1,023,702**	977,150	5%	816,049	25%
CREDIT QUALITY					
Provision for credit losses	**738**	870	(15%)	227	225%
Provision for credit losses – rate	**0.02%**	0.02%	-%	0.01%	0.01%
Net impaired mortgages as a % of total mortgage assets[4]	**0.21%**	0.21%	-%	0.22%	(0.01%)
Allowance for credit losses as a % of total mortgage assets	**0.19%**	0.19%	-%	0.21%	(0.02%)
SHARE CAPITAL					
Common shares outstanding	**16,475,149**	16,460,142	-%	15,551,865	6%
Book value per common share[2]	**$ 57.73**	$ 54.96	5%	$ 47.81	21%
Common share price – close	**$ 69.37**	$ 60.46	15%	$ 50.76	37%
Common share market capitalization	**1,142,881**	995,180	15%	789,413	45%
EQUITABLE BANK CAPITAL RATIOS[2]					
Risk-weighted assets	**6,739,517**	6,385,825	2%	5,433,025	20%
CET1 Ratio	**13.9%**	14.0%	(0.1%)	13.5%	0.4%
Tier 1 Capital Ratio	**15.0%**	15.1%	(0.1%)	14.9%	0.1%
Total Capital Ratio	**16.4%**	16.6%	(0.2%)	16.7%	(0.3%)
Leverage Ratio	**5.3%**	5.1%	0.2%	5.0%	0.3%

(1) *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(3) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(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.*

Q1 2017 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Q1 2017 produced record quarterly earnings for Equitable and we successfully delivered on our key strategic priorities:

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	• Grew our Alternative Single Family assets by 22% with originations that were 24% higher than Q1 2016 • Grew our Commercial Lending portfolio by 30% over the prior year. Originated a record $380 million of Commercial mortgages. • Increased our Prime Single Family MUM by 59% over Q1 2016
Build our capabilities and brand	• Continued adding value to our customers through constant enhancements to our *EQ Bank* digital platform • Grew *EQ Bank Savings Plus Account* balances to over $1.2 billion • Furthered our AIRB initiative and risk modelling capabilities
Consistently create shareholder value	• Delivered a quarterly EPS of $2.54, 49% higher than last year • Produced an ROE of 18.4%, surpassing our 5-year average of 17.8% • Increased book value per share by 21% from Q1 of last year • Declared a common share dividend of $0.23 per share in April, 10% higher than the declaration in May 2016
Maintain a low risk profile	• Maintained a loan-to-value ratio of 62% on our uninsured residential mortgage portfolio, as compared to 67% in Q1 2016 • Recorded a provision for credit losses of $0.7 million or 2 bps of average loan balances, consistent with Q4 2016 • Reported a CET1 Ratio of 13.9%, which was well ahead of regulatory minimums and most competitive benchmarks

ITEMS OF NOTE

Our Q1 2017 financial results were impacted by the following item:

- $1.1 million of gains on investments acquired from Maple Bank GmbH's Toronto Branch ("Maple Bank")

Our Q4 2016 financial results were impacted by the following item:

- $1.3 million of gains on investments acquired from Maple Bank

Our Q1 2016 financial results were impacted by the following items:

- $1.2 million of fair value losses on derivative financial instruments related to securitization activities; and
- $2.6 million of advertising spending to support the launch of our *EQ Bank* platform.

DIVIDENDS

On May 1, 2017, the Company's Board of Directors declared a quarterly dividend in the amount of $0.23 per common share, payable on July 6, 2017, to common shareholders of record at the close of business on June 15, 2017. This dividend represents a 10% increase over dividends declared in May 2016 and the growth is indicative of Equitable's commitment to consistently growing its dividend each year.

In addition, on May 1, 2017, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on June 30, 2017, to preferred shareholders of record at the close of business on June 15, 2017.

SUBSEQUENT EVENT

On May 1, 2017, the Company obtained a letter of commitment for a two-year, $2.0 billion secured backstop funding facility from a syndicate of Canadian banks, including The Toronto-Dominion Bank, CIBC, and National Bank ("the Banks"). The terms of the facility include a 0.75% commitment fee, a 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the Bank's cost of funds plus 1.25%.

BUSINESS OUTLOOK

Equitable expects that its strategy, including its disciplined approach to capital allocation, will continue to deliver value for its shareholders and protect the money that our depositors have trusted to us. Our asset quality remains high and our core lending markets continue to present meaningful growth opportunities. 2017 EPS growth may decline to mid-single digit rates and our return on our equity may be up to several percentage points below its long-term average due to the recent disruptions in the market and the cost of our credit backstop facility (albeit reasonable).

Funding and Recent Market Developments

Over the past few years, Equitable has put a strategic focus on diversifying its sources of funding, and we are pleased with the progress we have made. In 2013, we had only two primary sources of funding whereas at the end of Q1 2017 we have eight – which represents a meaningful change in our funding and risk profile. In addition, within our core brokered GIC channel, we maintain a distribution network that is as broad as that of any non-big 6 bank.

We are confident in the fundamentals of our business and our funding model, but owing to the recent events with a Canadian trust company we have taken steps to reinforce our liquidity position. These additional steps are consistent with the conservative manner in which we manage our business and our low risk appetite. Specifically, we have:

- Maintained our traditional approach of managing a portfolio of assets and liabilities with matched terms
- Converted MBS in our liquidity portfolio into cash to ensure that it is immediately accessible if needed
- Developed plans to optimize usage of our various bank-sponsored funding facilities
- Focused on extending the term of our GIC portfolio
- Begun the process to obtain portfolio insurance on existing residential mortgages so that they may be securitized and also to pool additional insured mortgages for securitization
- Obtained a letter of commitment for a two-year, $2.0 billion secured backstop funding facility from a syndicate of Canadian banks, including The Toronto-Dominion Bank, CIBC, and National Bank ("the Banks"). The terms of the facility include a 0.75% commitment fee, a 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the Bank's cost of funds plus 1.25%. This interest rate is approximately 60 basis points over our GIC costs and competitive with the spreads on our most recent deposit note issuance, and as such will allow us to continue growing profitably.

There have not been any changes to the breadth of our distribution network in 2017, though some institutions have recently introduced caps on third-party deposit balances to keep them under the CDIC insurable limit and more may follow. We do not believe the impact of these changes will be material as only 10% of our brokered deposits are above this limit and the majority of those deposits mature over the course of the next 14 months .

We will continue to monitor our liquidity position carefully to ensure that we protect the money that Canadian investors and savers have trusted to us. Our deposits have been relatively stable and we did not notice any unusual trends until last Wednesday. As expected, after the trust company publicly announced its business challenges last Wednesday, April 26th we began to experience an elevated but manageable decrease in our deposit balances. Between Wednesday, April 26th and Friday, April 28th we had average daily net deposit outflows of $75 million, which in aggregate represents 2.4% of our total deposit balances and with the most significant daily outflows being on the Wednesday. Even after those outflows, our portfolio of liquid assets remained at approximately $1 billion.

Equitable's lending markets continue to present meaningful growth opportunities and those opportunities will likely increase as a result of the recent disruption with the trust company. We anticipate that our mortgage application volumes will increase over the coming weeks. We plan to absorb the potential volume opportunities prudently, within our operational capacity and leveraging our available sources of liquidity, and of course will maintain our adherence to quality underwriting. We have taken additional steps to tighten our underwriting standards to manage the flow and ensure that we approve only the highest quality of the applications.

Recent Regulatory Changes

Governments at all levels in Canada continue to focus on the stability of the domestic housing market. In October and November, the Federal Government implemented regulatory changes that tightened the qualification criteria for insured loans. The Federal Government has also proposed lender risk sharing arrangements that could further affect the insured mortgage market. Likewise, Provincial Governments in British Columbia and Ontario have introduced, and may introduce further, measures intended to curtail house price growth in those provinces.

It will take some time to assess the effect of the recent changes, but we believe that directionally these regulatory interventions will have a negative impact on the level of activity in certain segments of the housing market – namely the insured prime mortgage segment – and could potentially exert downward pressure on house price growth across the country. There is a great deal of uncertainty regarding the future of the market due to competitive and consumer behaviours, however, and as a result we may change our views over time.

Based on our industry experience and consultations with other industry participants, we do not believe that these regulatory changes will have a significant impact on our 2017 prospects or strategy. Our insured prime single family portfolio represents just over 2% of our earnings after tax, so even significant decreases in the business would not have a material impact on our overall profitability. A more significant and generalized decrease in house price growth rates would create growth headwinds for us, but we do not believe that would lead to material loan losses unless accompanied by an increase in unemployment.

We are monitoring house price and mortgage activity closely to ensure that the credit risk profile of our business stays within our risk appetite. At present, we are comfortable with the quality of our mortgage portfolio and our loss levels have remained low. All the same, we have reduced our maximum loan to value ratios in certain markets over the past eight months and will take further, targeted steps if current house price appreciation trends continue.

Asset Growth

The Bank operates lending businesses across a wide spectrum of secured real estate assets. This diversification improves the Company's long–term growth potential, reduces our risk profile, and increases the depth of our relationships with our customers and distribution partners.

As a result of our continued emphasis on service quality, we expect that year-over-year growth of our Mortgages under Management ("MUM")(1) will be in the range of 10% to 12% in 2017. Balance sheet assets should grow at slightly lower levels due to derecognition of some securitized mortgages in each of the next four quarters. We expect our reported balance sheet assets to grow at year-over-year rates in the high single digits throughout 2017, with growth of individual asset categories described in detail below. Given recent market dynamics, there is significant uncertainty to this growth outlook and our views will likely evolve over the course of the year.

(1) When discussing performance of our businesses, we generally refer to Mortgages Under Management rather than balance sheet assets because some of our securitized mortgages have been derecognized. In the opinion of management, MUM is a better indicator of the performance of our franchise.

Summary of Expectations for Mortgage Portfolio Growth for 2017

Portfolio	2017 Expectations(1)	Rationale and Assumptions(1)
Forecasting asset growth remains challenging given the magnitude of the recent regulatory changes, and competitors' and consumers' potential reactions thereto. The outlook and comments below reflect management's current views only and are subject to change over time.		
Core Lending: Alternative Single Family	• Assets grow in the range of 15% to 18%	• Recent regulatory changes will decrease overall housing market activity; house prices will remain constant or contract slightly from Q1 levels • The Bank achieves a higher market share in the Alternative segment due to our consistently superior levels of service and competitive disruptions • Previously insurable Prime volumes migrate to the conventional market and Equitable is able to capture a small share of that volume • The portfolio grows at high rates due to the absolute level of originations and improved renewal rates • Employment and benchmark interest rates are stable, and overall economic growth in Canada remains tepid • Our current sources of funding continue to deliver sufficient volumes to profitably support this level of growth
Core Lending: Commercial	• Assets will remain relatively flat or decline slightly	• Origination levels are reduced in the near-term until we have more clarity on the impact of recent market developments • Attrition rates likely increase slightly from 2016 levels due to a higher level of maturities
Securitization Financing: Prime Single Family	• Year-end MUM and balance sheet assets both grow at rates in the mid-single digits	• The economy and housing market grow as indicated above for Alternative Single Family • Regulatory changes will cause market-wide insured prime mortgage origination activity to decline by approximately 30% to 40% • We will focus on maintaining our market share by concentrating on niches in which we have a competitive advantage • Even though origination volumes fall, the assets still grow because of low maturity levels in this young portfolio
Securitization Financing: Multi-Unit Residential ("Multis")	• MUM grows at a rate in the low single digits • Balance sheet assets decline slightly due to asset derecognition	• Mortgages are renewed and originated in sufficient volume to use our quarterly fixed rate CMB capacity, which will increase to approximately $400 million • We will derecognize a lower volume of securitized mortgages than we did in 2016

(1) All growth rates listed in this table are with reference to the prior year unless noted otherwise

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, funding conditions, the regulatory environment, the housing market, or general economic conditions change, or if any of the other assumptions outlined in the table do not materialize in the amount or within the timeframes specified.

Revenue

Management believes that in 2017 Net Interest Income ("NII") should increase at year-over-year rates in the 10% to 12% range due to continued growth of the Bank's assets.

Total revenue growth will also be supported by Gains on Sale related to our securitization activities. When Securitization Financing assets are derecognized from our Balance Sheet, we cease recording NII on those mortgages and instead record an up-front gain on sale. Accounting standards dictate that we derecognize non-prepayable multi-unit residential mortgages when they are securitized, and we expect those volumes to be in the range of $100 to $150 million in each quarter of 2017. In light of reduced expectations for the growth of our insured prime businesses, we have updated our plans and will not execute transactions to derecognize additional mortgages this year. We believe that we will generate sufficient capital through our earnings to maintain our Leverage Ratio within our target range. By not derecognizing additional mortgages, we will realize the NII over the life of the mortgages instead of through an up-front gain on sale.

Summary of Expectations for Key Revenue Drivers for 2017

Driver	Expectations	Rationale and Assumptions
NIM: **Core Lending**	• Will decrease by up to 30 bps from Q1 2017	• The Government of Canada overnight rate and the Prime lending rate do not change through the end of 2017 • Pricing within the Alternative Single Family and Commercial markets remain stable • Our newly announced backstop funding facility increases our effective cost of funds and none of this cost is passed on to our borrowers • Rates in the brokered deposit market increase slightly due to competitive pressures and market dynamics • The portfolio mix shifts slightly more towards lower spread but higher ROE Single Family assets which will cause NIM to gradually decrease • *EQ Bank* deposit balances remain flat, as we maintain a highly attractive interest rate and add additional features to the platform in 2017
NIM: **Securitization Financing**	• Will remain consistent with Q1	• Multi margins are consistent with current levels • Prime margins will be highly dependent on the market's reaction to recent regulatory changes, with consistency being the most likely scenario
NIM: **Total**	• Will decrease by up to 15 bps basis points relative to Q1 2017 levels	• The growth rate of our higher margin Core Lending portfolio is greater than that of Securitization Financing in 2017, and that mix shift benefits overall margins • The mix effect is more than offset by a decrease in our Core Lending margin
Income from NHA-MBS Successor Issuer Rights	• Expect Maple income in the range of $0.06-$0.08 per share per quarter	• Equitable does not obtain renewal rights for the majority of the mortgages that mature during 2017
Securitization Gains on Sale	• Will be lower than 2016 levels	• Securitization and derecognition activity is between $100 and $150 million in each of the next three quarters • Overall gain on sale margins will be higher than the levels realized in 2016 and consistent with Q1

NIM is a function of portfolio mix, with that mix being influenced by both the level of asset derecognition that we achieve and the types of assets that we derecognize. Accordingly, any change to our current securitization and derecognition plans could cause NIM to differ from the expectations outlined above, particularly for the Securitization Financing portfolio.

Quarterly NIM may also fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors such as seasonal variations in the level of our liquidity holdings.

Non-Interest Expenses

We anticipate that during 2017 non-interest expenses will increase at year-over-year rates consistent with the growth rate of the overall business, as we continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. Expense growth will be lower than in 2016 partly because of the high but more consistent level of investment in our key strategic initiatives such as E*Q Bank*. These strategic investments reduce efficiency in the near-term but build a foundation for growth and productivity that will benefit our shareholders over the longer-term.

The Bank will continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model. Our Efficiency Ratio will become less favourable through the end of 2017,rising to the high 30 percent range as a result of an expected decline in our NII.

Strategic Initiatives

In 2017 management will continue to pursue our key strategic initiatives. We will invest to grow our lending businesses; enhance our digital banking platform; improve our servicing proficiency; and continue our efforts to migrate to the Advanced Internal Ratings Based ("AIRB") approach to improve the sophistication of our capital and risk management. The aggregate levels of capital investment and operating expenses in our strategic programs during 2017 will be consistent with the levels in 2016. We expect that all of these initiatives will deliver meaningful long-term value for our shareholders.

With respect to EQ Bank, we plan to continually enhance the functionality of the platform as we did in Q1 and will pursue opportunities to launch new products and services over time. We believe we can grow balances through the year as we invest in marketing campaigns, introduce innovative features not available with other institutions, and maintain a competitive interest rate.

Credit Quality

The Bank consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our arrears rates and credit loss provisions to be low in 2017, assuming that Canadian economic conditions stay within the range of broad market expectations. Loss and arrears rates may return to more normal levels from the exceptionally low rates experienced over the past several years, partly due to the challenging economic conditions in Alberta and Saskatchewan. As indicated in Table 20 of our Q1 2017 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca, the average credit score of our borrowers continued to be high and stable.

We discuss the details of our Alberta and Saskatchewan portfolios in the Credit Quality and Allowance for Credit Losses section of this report and have provided additional data regarding our mortgage portfolios in Table 21 of our Q1 2017 Supplemental Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca. We provide this additional disclosure as the economies of these two provinces are still adjusting to the current, low oil price environment. Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

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 1 of this MD&A.

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Mar 31, 2017	Dec 31, 2016	% Change	Mar 31, 2016	% Change
				Three months ended	
Net income	**$ 43,393**	$ 41,678	4%	$ 28,012	55%
EPS – diluted	**$ 2.54**	2.56	(1%)	$ 1.71	49%
Net interest income	**78,352**	77,926	1%	63,594	23%
Provision for credit losses	**738**	870	(15%)	227	225%
Non-interest expenses	**29,820**	29,750	-%	29,378	2%
Income taxes	**15,423**	14,916	3%	9,714	59%

NET INTEREST INCOME

NII is the main driver of profitability for the Company. Table 3 details the Company's NII by product and portfolio:

Table 3: Net interest income

	Mar 31, 2017		Dec 31, 2016		Mar 31, 2016	
($ THOUSANDS)	**Revenue/ Expense**	**Average rate[1]**	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 121,892**	**4.55%**	$ 120,714	4.63%	$ 101,419	4.60%
Liquidity investments	**1,604**	**0.84%**	1,611	0.84%	1,161	0.85%
Equity securities – TEB[2]	**1,828**	**6.43%**	2,197	7.55%	2,159	6.70%
	125,324	**4.32%**	124,522	4.40%	104,739	4.41%
Expenses related to:						
Deposits and bank facilities	**43,101**	**1.98%**	43,195	1.98%	41,080	2.15%
Debentures	**950**	**5.93%**	950	5.80%	950	5.88%
Securitization liabilities	**6,616**	**1.59%**	6,025	1.55%	3,306	1.53%
	50,667	**1.94%**	50,170	1.94%	45,336	2.11%
Net interest income – TEB	**74,657**	**2.55%**	74,352	2.64%	59,403	2.50%
Taxable Equivalent Basis – adjustment	**(485)**		(617)		(624)	
Core Lending	**$ 74,172**		$ 73,735		$ 58,779	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 45,155**	**2.54%**	$ 46,159	2.65%	$ 43,607	2.81%
Liquidity investments	**509**	**1.19%**	587	1.08%	232	1.01%
	45,664	**2.51%**	46,746	2.61%	43,839	2.79%
Expenses related to:						
Securitization liabilities	**37,317**	**2.43%**	37,907	2.51%	35,879	2.62%
Deposits and secured funding facility	**4,167**	**1.62%**	4,648	1.70%	3,145	1.64%
	41,484	**2.31%**	42,555	2.39%	39,024	2.50%
Securitization Financing	**$ 4,180**	**0.22%**	$ 4,191	0.24%	$ 4,815	0.31%
Total interest earning assets – TEB	**$ 78,837**	**1.66%**	$ 78,543	1.70%	$ 64,218	1.62%

Three months ended

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

Q1 2017 v Q1 2016

NII was up 23% due to growth in average interest earning asset balances in both our Core Lending and Securitization Financing businesses. Total NIM increased by 4 bps mainly due to growth in Core Lending NIM.

Table 4(a): Factors affecting Q1 2017 v Q1 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	4	• Higher levels of discharges in Single Family Lending
Asset mix	(4)	• Growth in the relative level of our lower yielding liquidity investments • A reduction in the relative level of our higher yielding equity securities
Funding mix	11	• A shift in mix towards our lower cost securitization funding options • Redemption of a higher cost deposit note • Partly offset by growth of our higher cost *EQ Bank* deposit product
Rates/spread[1]	(6)	• Slightly lower spreads within both our Single Family and Commercial Lending portfolios
Change in Core Lending NIM	5	
Securitization Financing NIM:		
Asset mix	(2)	• Growth in the relative size of our lower yielding liquidity investments
Other	(7)	• Low margins on Prime Single Family originations at times over the past twelve months
Change in Securitization NIM	(9)	
Change in Total NIM[2]	4	

(1) The rate effect is calculated after adjusting for the impact of asset and funding mix changes.
(2) Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

Q1 2017 v Q4 2016

NII increased 1% sequentially due to growth in average asset balances offset in part by a 4 bps decrease in NIM. The decrease in our overall NIM was mainly the result of lower mortgage prepayment income within both our portfolios.

Table 4(b): Factors affecting Q1 2017 v Q4 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(5)	• Lower levels of early discharges in Single Family Lending
Rates/spreads[1]	(4)	• Lower dividends recorded on our equity securities
Change in Core Lending NIM	(9)	
Securitization Financing NIM:		
Mortgage prepayment income	(2)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter-to-quarter
Change in Securitization NIM	(2)	
Change in Total NIM[2]	(4)	

(1) The rate effect is calculated after adjusting for the impact of asset and funding mix changes.
(2) Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

PROVISION FOR CREDIT LOSSES

Table 5: Provision for credit losses

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2017	Dec 31, 2016	% Change	Mar 31, 2016	% Change
				Three months ended	
Individual provision	**$ 738**	$ 870	(15%)	$ 227	225%
Collective provision	**-**	-	N/A	-	N/A
Provision for credit losses	**$ 738**	$ 870	(15%)	$ 227	225%
Provision for credit losses – rate	**0.02%**	0.02%	-%	0.01%	0.01%
Allowance for credit losses	**$ 34,923**	$ 34,426	1%	$ 33,155	5%

The credit quality of our mortgage portfolio remained strong. Our provision for credit losses during the first quarter was $0.7 million, $0.1 million lower than in the prior quarter and $0.5 million higher than in the same quarter of 2016. Relative to average mortgage principal outstanding during the period, the provision for credit losses was 2 bps, higher than in Q1 2016 but consistent with historical norms. Based on our normal extensive review of mortgage assets and credit allowances, management concluded that this level of provision would maintain allowances at an appropriate level and that no additions to our collective allowance were required during the period.

The provision for credit losses represents management's best estimate of loss formations during the period after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary from period-to-period based on impaired loan balances, our estimates of the credit losses on those loans, and economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: that aggregate amount is represented by the allowance for credit losses on our consolidated interim balance sheet. The allowance was $34.9 million or 19 bps of our total mortgage assets at March 31, 2017, which is in excess of our 10 year average annual loss rate of 4 bps.

OTHER INCOME

Table 6: Other income

($ THOUSANDS)	Mar 31, 2017	Dec 31 2016	% Change	Mar 31, 2016	% Change
				Three months ended	
Fees and other income:					
Fees and other income	**$ 5,217**	$ 5,279	(1%)	$ 3,177	64%
Income from successor issuer activities	**2,587**	1,529	69%	-	N/A
Net loss on investments	**-**	(557)	N/A	-	N/A
Securitization activities:					
Gains on securitization and income from retained interests	**3,961**	2,448	62%	1,797	120%
Fair value losses on derivative financial instruments	**(743)**	589	N/A	(1,237)	N/A
Total	**$ 11,022**	$ 9,288	19%	$ 3,737	195%

Q1 2017 v Q1 2016

Other income increased $7.3 million compared with Q1 2016, mainly due to increases in:

- Fees and other income, the majority of which resulted from growth in our mortgage assets, $1.1 million of gains recorded on certain investments acquired from Maple Bank, and $0.3 million of gains on the sale of certain foreclosed assets;
- Income from successor issuer activities, representing income earned from certain Maple Assets and which is expected to be recurring on a diminishing basis through 2020; and
- Gains on securitization and income from retained interests, driven by a higher volume of securitization transactions that qualified for derecognition.

Q1 2017 v Q4 2016

Other income increased sequentially primarily because of gains on securitization activities and income from successor issuer activities, offset in part by fair value losses on derivative financial instruments that were incurred during the quarter.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

									Three months ended
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)		**Mar 31, 2017**		Dec 31, 2016	% Change		Mar 31, 2016	% Change
Compensation and benefits	**$**	**16,423**	$	14,863	10%	$	14,650	12%
Technology and system costs		**4,809**		5,199	(8%)		4,413	9%
Product costs		**3,028**		2,967	2%		2,533	20%
Regulatory, legal and professional fees		**1,974**		2,259	(13%)		1,451	36%
Marketing and corporate expenses		**1,922**		3,057	(37%)		4,608	(58%)
Premises		**1,664**		1,405	18%		1,723	(3%)
Total non-interest expenses	**$**	**29,820**	$	29,750	0%	$	29,378	2%
Efficiency Ratio – TEB		**33.2%**		33.9%	(0.7%)		43.2%	(10.0%)
Full-time employee ("FTE") – period average		**565**		552	2%		507	11%

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. Overall, non-interest expenses were consistent with the prior quarter and up slightly from a year ago. Our Efficiency Ratio improved from 43.2% last year and 33.9% last quarter to 33.2% in Q1 2017, as revenue growth continued to outpace expense growth.

Q1 2017 v Q1 2016

Total non-interest expenses increased primarily because of:

- Higher Compensation and benefits costs as a result of FTE growth of 11%;
- An increase in Product costs due to growth in our originations and funding activities, and the outsourcing of our brokered HISA administration in Q4 2016; and
- An increase in Regulatory, legal and professional fees mainly because of an increase in CDIC's standard premium rates, higher deposit balances and business growth;

Offset by:

- An expected reduction in marketing expenses. We spent $2.6 million in Q1 2016 to support the public launch of *EQ Bank*.

Q1 2017 v Q4 2016

Overall expenses remained consistent with the preceding quarter. Within non-interest expenses:

- Compensation and benefits costs increased largely due to a seasonal increase in employee insurance premiums, growth in FTE, and annual inflationary salary adjustments that were effective in Q1;

Offset by:

- A decrease in marketing expenses due to an *EQ Bank* brand campaign held during the fourth quarter of 2016.

INCOME TAXES

Q1 2017 v Q1 2016

Our effective income tax rate for the quarter increased to 26.2% from 25.7% a year ago mainly due to an increase in non-deductible expenses and other adjustments. Our statutory income tax rate did not change from 2016 and remains at 26.5%.

Q1 2017 v Q4 2016

Our effective income tax rate decreased slightly from 26.3% in the preceding quarter, primarily due to a decrease in non-deductible expenses and other adjustments.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Total assets	**$ 19,300,418**	$ 18,973,588	2%	$ 16,411,221	18%
Mortgage principal – Core Lending	**11,216,207**	10,682,712	5%	9,064,350	24%
Mortgage principal – Securitization Financing	**6,868,562**	7,017,120	(2%)	6,399,674	7%
Deposit principal	**9,949,511**	9,680,163	3%	8,732,113	14%
Total liquid assets as a % of total assets[1]	**6.0%**	6.7%	(0.7%)	5.7%	0.3%

(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 both our Alternative and Prime Single Family Lending businesses. The following table provides mortgage principal continuity schedules by lending portfolio for Q1 2017 and Q1 2016:

Table 9: Mortgage principal continuity schedule

	Three months ended March 31, 2017						
($ THOUSANDS, EXCEPT PERCENTAGES)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[1]**	**Securitization Financing MUM[2]**
Q4 2016 closing balance	**$ 7,855,706**	**$ 2,827,006**	**$ 10,682,712**	**$ 7,017,120**	**$ 17,699,832**	**$ 3,304,181**	**$ 10,321,301**
Originations	**835,780**	**379,996**	**1,215,776**	**409,264**	**1,625,040**	**-**	**409,264**
Securitization derecognized	**-**	**-**	**-**	**(391,591)**	**(391,591)**	**391,591**	**-**
Net repayments	**(482,753)**	**(199,528)**	**(682,281)**	**(166,231)**	**(848,512)**	**(37,110)**	**(203,341)**
Q1 2017 closing balance	**$ 8,208,733**	**$ 3,007,474**	**$ 11,216,207**	**$ 6,868,562**	**$ 18,084,769**	**$ 3,658,662**	**$ 10,527,224**
% Change from Q4 2016	**4%**	**6%**	**5%**	**(2%)**	**2%**	**11%**	**2%**
% Change from Q1 2016	**22%**	**30%**	**24%**	**7%**	**17%**	**66%**	**22%**
Net repayments percentage[3]	**6.1%**	**7.1%**	**6.4%**	**2.4%**	**4.8%**	**1.1%**	**2.0%**

	Three months ended March 31, 2016						
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[1]	Securitization Financing MUM[2]
Q4 2015 closing balance	$ 6,449,663	$ 2,229,466	$ 8,679,129	$ 5,955,318	$ 14,634,447	$ 2,072,488	$ 8,027,806
Originations	674,417	201,849	876,266	693,127	1,569,393	-	693,127
Securitization derecognized	-	-	-	(151,544)	(151,544)	151,544	-
Net repayments	(373,067)	(117,978)	(491,045)	(97,227)	(588,272)	(19,235)	(116,462)
Q1 2016 closing balance	$ 6,751,013	$ 2,313,337	$ 9,064,350	$ 6,399,674	$ 15,464,024	$ 2,204,797	$ 8,604,471
% Change from Q4 2015	5%	4%	4%	7%	6%	6%	7%
Net repayments percentage[3]	5.8%	5.3%	5.7%	1.6%	4.0%	0.9%	1.5%

(1) *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 of the risks and rewards or control associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages.*

(2) *Securitization Financing MUM includes Securitization Financing balance sheet assets and Derecognized Mortgage Principal.*

(3) *Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.*

Q1 2017 v Q1 2016

Total MUM increased $4.1 billion or 23%, driven by growth in both Core Lending and Securitization Financing.

Within Core Lending, both the Alternative Single Family Lending and Commercial lending portfolios grew due to strong origination levels over the past four quarters.

Securitization Financing MUM increased primarily due to origination activity in our Prime Single Family business and low attrition. As our Prime business is still relatively new, loans are not maturing in any significant volumes yet and accordingly attrition rates are low. We expect that attrition rates will gradually increase over time as the portfolio seasons.

Q1 2017 v Q4 2016

Total MUM increased 4% as a result of growth in both Core Lending and Securitization Financing, primarily due to the same reasons cited above when comparing Q1 2017 to Q1 of last year.

Please refer to the Supplemental Information and Regulatory Disclosures Report available on our website for additional quantitative disclosures related to our mortgage portfolio.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly with our single family residential mortgage products, and as such we do not focus on sequential origination comparisons. The table below provides our mortgage originations for Q1 2017 and the comparable period in 2016:

Table 10: Mortgage originations – by lending business

							Three months ended
		Mar 31, 2017		Mar 31, 2016			
($ THOUSANDS, EXCEPT PERCENTAGES)		**Mortgage principal funded**	**% of total**		Mortgage principal funded	% of total	% Change
Core Lending:							
Single Family Lending	**$**	**835,780**	**51%**	$	674,417	43%	24%
Commercial Lending		**379,996**	**23%**		201,849	13%	88%
		1,215,776	**75%**		876,266	56%	39%
Securitization Financing:							
Multi-unit residential		**287,360**	**18%**		248,773	16%	16%
Prime single family residential		**121,904**	**8%**		444,354	28%	(73%)
		409,264	**25%**		693,127	44%	(41%)
Total mortgage originations	**$**	**1,625,040**	**100%**	$	1,569,393	100%	4%

Q1 2017 v Q1 2016

The Company delivered record first quarter mortgage origination volumes in Q1 2017, driven by our Core Lending business and despite a drop in Securitization Financing originations.

Core Lending origination volumes grew as a result of strong performances from both our Alternative Single Family Lending and Commercial Lending businesses. The strength in Single Family Lending was reflective of recent competitive dynamics and growth of the Canadian housing market. Commercial Lending originations almost doubled from last year, benefiting from one large structured loan that was originated at the end of the quarter and the continued strength of our relationships with brokers and business partners.

Securitization Financing originations were down as expected in the quarter mainly due to a decrease in Prime Single Family volumes. The decrease reflects an overall reduction in market activity, likely the result of regulatory changes announced last fall and a high level of competition. Since the margins on this portfolio are thin, we do not expect this decline to have a significant adverse impact on our overall business. Multi origination volumes were up 16% compared to the same quarter of the prior year, partly as a result of an increase in our CMB capacity.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. If the securitized mortgages or the transaction structure meet specific criteria, the mortgages may qualify for full or partial balance sheet derecognition and an upfront gain on sale. In some cases, we retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

The table below provides a summary of our securitization and derecognition activity in the reporting and comparative periods.

Table 11: Securitization and derecognition activity

	Three months ended				
($ THOUSANDS EXCEPT PERCENTAGES)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Securitization derecognized – non-prepayable Multis	**$ 242,542**	$ 172,778	40%	$ 151,544	60%
Securitization derecognized – prepayable mortgages[(1)]	**149,049**	198,364	(25%)	-	N/A
Total principal derecognized	**$ 391,591**	$ 371,142	6%	$ 151,544	158%
Gains on sale	**$ 3,570**	$ 2,117	69%	$ 1,619	121%
Gain on sale margin[(2)]	**0.91%**	0.57%	0.34%	1.07%	(0.16%)

(1) In order to derecognize prepayable mortgages, Equitable needs to securitize the mortgages through CMHC's CMB or NHA-MBS programs and also then engage in a transaction that transfers the residual risks and rewards to third parties. This additional transaction is not required to derecognize non-prepayable mortgages.
(2) Gains on sale margin represents the gains on sale as a percentage of total principal derecognized.

Q1 2017 v Q1 2016

Gains on sale increased from last year due to a higher volume of mortgages derecognized and despite a lower gain on sale margin. Derecognition volumes increased due to higher demand for non-prepayable Multis (the type which generally qualify for derecognition) and also because of transactions that we executed to effect the derecognition of prepayable mortgages. These transactions resulted in the derecognition of $149 million of prepayable Multis and produced $0.4 million of gains on sale (a margin of 0.29%). As a result of the shift in derecognized mortgage mix towards prepayable mortgages, the gain on sale margin for the quarter was lower than in Q1 2016 as these transactions generally have higher costs associated with them.

Q1 2017 v Q4 2016

Gains on sale were up sequentially due to both higher derecognition volumes, driven by higher demand for non-prepayable mortgages, and an increased gain on sale margin. The gain on sale margin increased due to the mix of mortgages derecognized (a lesser percentage of mortgages were lower margin pre-payable mortgages).

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management regularly evaluates the profile of Equitable's loan portfolio and our lending practices, taking into account borrower behaviours and external market variables including market values and employment conditions that prevail in the 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 maintain a low credit risk profile.

The Company's active management of credit risk and our workout efforts continue to yield positive results as highlighted in the metrics below in Table 12. We believe that these measures reflect the health of the Company's mortgage portfolio and indicate that our allowances adequately provide for the risk of loss.

Management is also watching the Toronto market carefully given the acceleration in price growth over the past several months. We recently made some adjustments to our underwriting criteria in order to reduce our activities in riskier segments of the market, and will make further adjustments if warranted.

Table 12: Mortgage credit metrics

($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2017**	Dec 31, 2016	Mar 31, 2016
Provision for credit losses	**$ 738**	$ 870	$ 227
Provision for credit losses – rate	**0.02%**	0.02%	0.01%
Gross impaired mortgage assets[1]	**41,200**	39,365	36,048
Net impaired mortgage assets[2]	**38,167**	36,829	34,783
Net impaired mortgage assets as a % of total mortgage assets	**0.21%**	0.21%	0.22%
Allowance for credit losses	**34,923**	34,426	33,155
Allowance for credit losses as a % of total mortgage assets	**0.19%**	0.19%	0.21%
Allowances for credit losses as a % of gross impaired mortgage assets	**85%**	87%	92%

(1) *Uninsured 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.*
(2) *Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.*

Q1 2017 v Q1 2016

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio continued to be high in Q1 2017:

- Our provision for credit losses in absolute dollars and relative to average mortgage principal increased but still remained low as a result of our consistently prudent risk management parameters and active monitoring processes.
- Impaired loans increased in dollar terms but were lower as a percentage of the total portfolio compared to the prior year and historical norms. The majority of the dollar increase was in our Single Family Lending portfolio in the provinces of Alberta and Saskatchewan. The impairment rate may return to more normalized levels in the future quarters.
- The allowance for credit losses increased in dollar terms but declined as a percentage of total mortgages assets. Despite the decline in percentage terms, the allowance remains sufficient in the opinion of management.

Q1 2017 v Q4 2016

Our key credit risk metrics were generally consistent with the prior quarter.

Alberta and Saskatchewan

Beginning in late 2014, management proactively adjusted lending criteria in Alberta and Saskatchewan, given the economic risks associated with low oil and gas prices. These adjustments have reduced Equitable's activity in both provinces. Management has also extensively examined and stress tested our exposure to the Alberta and Saskatchewan markets, and is comfortable that any credit losses from our current portfolios as a result of economic conditions in these provinces will be manageable, particularly since the economies are showing increasing signs of stabilization. We will continue to monitor these markets and review our risk management approach in order to maintain the risk of loss at an acceptably low level.

Overall, the Alberta and Saskatchewan portfolios have performed better than we had expected to date in the face of low energy prices. The highlights of our investments in Alberta and Saskatchewan at March 31, 2017 include:

- $2.9 billion or 15% of the Company's total mortgage principal is in these two provinces
    - $1.7 billion or 59% of those assets are insured. $1.0 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
    - $1.2 billion of the assets are uninsured, with $0.9 billion of that total being single family residential and $0.3 billion being commercial. These uninsured assets represent only 7% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, $1.0 billion or 87% are in the cities of greater Edmonton and Calgary. Similarly, $73 million or 6% are in Regina and Saskatoon. Those cities have relatively diversified economies and real estate markets that would be more resilient in the face of economic shocks.
- The average loan to value of our uninsured single family residential mortgages in these provinces is 66%
- Impaired mortgages in Alberta and Saskatchewan were $16.3 million or 0.09% of our total mortgage principal, up from $14.6 million in the preceding quarter and $9.1 million in the prior year
- Early stage delinquencies in Alberta and Saskatchewan were $10.3 million or 0.06% of our total mortgage principal outstanding at the end of Q1 2017, down from $12.2 million in the preceding quarter and from $19.0 million in the prior year

The table below provides our Alberta and Saskatchewan arrears figures for the past eight quarters:

Table 13: Alberta and Saskatchewan Delinquencies

	2017	2016				2015		
($ THOUSANDS, EXCEPT PERCENTAGES)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Early stage delinquencies[1]	$ 10,283	$ 12,247	$ 13,428	$ 16,573	$ 19,030	$ 9,666	$ 8,602	$ 7,461
Impaired mortgages[2]	16,253	14,552	11,644	8,911	9,066	7,103	7,765	6,126
Total Delinquencies	$ 26,536	$ 26,799	$ 25,072	$ 25,484	$ 28,096	$ 16,769	$ 16,367	$ 13,587
Delinquencies as a % of total mortgage principal	0.15%	0.15%	0.15%	0.16%	0.18%	0.11%	0.12%	0.10%
Impaired mortgages as a % of total mortgage principal	0.09%	0.08%	0.07%	0.06%	0.06%	0.05%	0.06%	0.05%

(1) *Early stage delinquencies consist of principal of both uninsured mortgages in arrears between 30 and 89 days and insured mortgage in arrears between 30 and 365 days.*
(2) *Impaired mortgages include principal of both uninsured mortgages in arrears greater than 89 days and insured mortgages in arrears 365 days or more.*

Due to our conservative underwriting approach, our focus on lending in larger urban centres such as Calgary and Edmonton, and our robust workout process, we expect any losses to be manageable in the overall context of the Bank's financial position.

In order to arrive at our view on these potential losses, management conducts stress tests on our loan portfolio. The results of our most recent *residential housing market* stress tests for Alberta and Saskatchewan indicate that realized loan losses would be manageable under all scenarios tested.

The expected losses are low due to the nature of Equitable's lending activities and our prudent risk management practices. The primary factors contributing to the low provisions include:

- **Insurance:** Over half of our lending portfolio in Alberta and Saskatchewan is insured.
- **Secured Lending:** Our lending in these provinces is secured by high-quality residential and commercial real estate.
- **Loan-to-Value Ratios:** The low average loan-to-value ratio of our uninsured residential portfolio in Alberta and Saskatchewan provides us with substantial downside protection against a drop in real estate prices.
- **Market Positioning:** We maintain strict lending policies that govern our activity in the upper and lower ends of the house price spectrum because we view those segments of the market as inherently more risky. As such, we believe that our residential mortgage portfolio, which is weighted to the relatively more stable middle market, will be less impacted by any market instability.
- **Geographic Focus:** Our portfolio is focused on the major urban centres of Calgary, Edmonton, Regina, and Saskatoon. Those cities have relatively diversified economies and liquid real estate markets, which allows Equitable to more quickly realize the value of any collateral.

We will continue to monitor these markets and review our risk management approach in order to maintain the risk of loss at an acceptably low level.

Details of our Alberta and Saskatchewan lending portfolios can be found in our Q1 2017 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management closely monitors the Company's liquidity position and believes that the level of liquid assets held, together with Equitable's ability to raise deposits and access other sources of funding, is sufficient for us to meet our mortgage funding and deposit maturity commitments, as well as to ensure that we can collect our receivables and satisfy our other obligations. Liquidity levels may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality. Despite our liquidity risk management framework, a significant or protracted disruption to the funding markets could require the company to take even further liquidity protection measures.

Table 14: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016
Eligible deposits with regulated financial institutions[1]	**$ 537,368**	$ 443,855	$ 427,580
Debt securities issued by regulated financial institutions	**37,906**	-	-
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**4,984**	199,401	30,346
Debt securities guaranteed by Government of Canada	**-**	-	16,246
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**607,784**	638,323	330,524
Obligations under repurchase agreements	**(145,495)**	(112,488)	-
Liquid assets held for regulatory purposes	**1,042,547**	1,169,091	804,696
Other deposits with regulated financial institutions	**277**	324	220
Equity securities[3]	**110,350**	111,176	134,775
Total liquid assets	**$ 1,153,174**	$ 1,280,591	$ 939,691
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**5.4%**	6.2%	4.9%
Total liquid assets as a % of total assets	**6.0%**	6.7%	5.7%

(1) *Eligible deposits with regulated financial institution represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $10.9 million (December 31, 2016 – $16.0 million, March 31, 2016 – $25.7 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $247.8 million (December 31, 2016 – $231.9 million, March 31, 2016 – $103.7 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

(2) *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 represent the fair market value of the associated MBS securities.*

(3) *Equity securities include publicly traded common and preferred shares.*

The size and composition of our liquidity portfolio at any point in time is influenced by several factors, most notably by our expected cash needs over the subsequent eight week period and the availability of other funding sources. We always hold sufficient liquid assets to ensure that we can meet these upcoming obligations even through a disruption in the financial markets. In addition, we apply a strategic approach to our liquidity management through rigorous asset-liability matching analysis and stress tests.

In addition to assets that are held for the purpose of providing liquidity protection, we hold other deposits with regulated financial institutions as collateral for our derivative and securitization activities. We also maintain an equity portfolio, the majority of which is investment grade preferred shares that are held to yield tax-preferred dividend income, but which could be liquidated in the event of financial stress.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio ("LCR")[1]. At March 31, 2017, our LCR was well in excess of the regulatory minimum of 100%.

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

Q1 2017 v Q1 2016

Liquid assets held for regulatory purposes were up as compared with Q1 2016, primarily due to growth of our business and our decision to pre-fund more of our mortgage pipeline given the relatively inexpensive term deposit rates in Q1.

Q1 2017 v Q4 2016

Liquid asset balances were slightly down from Q4 2016 as a result of our forecasted net funding obligations for the weeks that follow quarter end and our decision in December 2016 to pre-fund more of our mortgage pipeline given the relatively inexpensive term deposit rates available during that time.

OTHER ASSETS

Q1 2017 v Q1 2016

Other assets grew 12% or $7.8 million from a year ago mainly due to a $4.4 million increase in capital assets related to investments in our computer systems and office expansion we undertook in support of our growth, a $1.6 million increase in receivables relating to securitization activities, primarily due to certain Maple Assets that we assumed in Q4 2016, and a $5.0 million increase in the fair value of outstanding derivative financial instruments. These increases were offset by a $3.6 million decrease in income taxes receivable.

Included in Other assets is a net receivable of $3.2 million (December 31, 2016 and March 31, 2016 – $3.2 million) related to an alleged fraud that was identified in 2011. The Company continues to pursue a recovery 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.

Q1 2017 v Q4 2016

Other assets decreased $2.7 million or 4% from the prior quarter primarily driven by a decrease of $1.5 million in prepaid expenses and of $1.4 million in receivable relating to securitization activities as a result of timing, and in part offset by a $0.5 million increase in fair value of derivate financial instruments .

DEPOSITS

Table 15: Deposit principal

($ THOUSANDS)	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016
GICs	$ 7,396,728	$ 7,275,675	$ 6,606,137
Brokered HISAs	1,183,324	1,192,046	1,096,641
EQ Bank Savings Plus Accounts	1,219,448	1,062,279	793,633
Deposit notes	150,011	150,163	235,702
	$ 9,949,511	$ 9,680,163	$ 8,732,113

Equitable Bank is a federally regulated deposit taking institution and offers deposits eligible for CDIC insurance to savers across Canada. We source deposits primarily through a national distribution network of third party deposit agents and financial advisors. In January 2016, we introduced the *EQ Bank Savings Plus Account* through our digital banking platform, a brand new channel that further diversifies our funding sources by collecting deposits directly from our customers. Our deposit product suite, which now includes GICs, HISAs, and deposit notes, provides a reliable and stable source of funding that can be matched against mortgage maturities.

Total deposit principal was up $1.2 billion or 14% over Q1 2016, just below the growth rate of our Core Lending portfolio. The majority of this growth was in brokered term deposits. We continue to have strong relationships with our deposit agents and brokers and our GICs products continue to offer Canadian savers an attractive interest rate.

Also contributing to growth of our deposits was the *EQ Bank Savings Account* and our brokered HISA product. *EQ Bank* deposits surpassed $1.2 billion at the end of March 2017, reflecting our efforts to enhance the platform and to grow our customer base.

Deposit note balances decreased by $86 million compared to Q1 2016 mainly due to the redemption of a floating rate note in September 2016. We remain committed to building a deposit note program over the long-term and successfully closed a $150 million deposit note issuance subsequent to quarter end.

SECURITIZATION LIABILITIES

Securitization liability principal increased $31.2 million or 0.4% over Q4 2016 and $1.2 billion or 19% over Q1 2016. The increase from last year is largely due to the growth of our Prime Single Family business.

BANK FACILITIES AND DEBENTURES

The Bank has two revolving credit facilities with major Schedule I Canadian Banks to fund insured residential mortgages prior to securitization, with an aggregate capacity of $700 million. At March 31, 2017, the balance outstanding on these facilities was nil (December 31, 2016 – $50 million, March 31, 2016 – nil).

There was no change to our debentures in the current quarter. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2016 Annual Report. The Bank contracted for an additional credit facility subsequent to the end of the first quarter, the details of which are described in the subsequent event note of our Q1 2017 interim consolidated financial statements.

CAPITAL MANAGEMENT – EQUITABLE BANK

We manage the Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary based on the Bank's inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP"). There have been no material changes to our capital management framework from that described in our 2016 Annual Report.

Management believes that the Bank's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Our CET1 Ratio and Tier 1 Capital Ratios were consistent with last quarter but up from Q1 of last year. The year-over-year increase was primarily due to a common share issuance that occurred in December 2016, our strategy of retaining the vast majority of our earnings to fund our growth, and a reduction in unrealized losses on our preferred share investments.

As with last quarter, capital levels in Q1 2017 were impacted by $13.6 million of after-tax mark-to-market losses on our preferred share portfolio and a $14.6 million capital deduction for intangible assets related to our new product initiatives. Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale investments and do not believe that the assets are impaired. The losses are a function of current market conditions, specifically lower expectations for future yields on rate-reset preferred shares. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a risk of credit loss on our holdings.

Canadian Banks are required to report on OSFI's Leverage Ratio, which is based on Basel III guidelines and replaced the Assets-to-Capital Multiple ("ACM") framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.3% at March 31, 2017 and the Bank remains fully compliant with our regulatory requirements. Our Leverage Ratio increased from last quarter and the same quarter of last year as a result of the common share issuance discussed above and our earnings, and despite the strong growth of our assets.

As part of our capital management process, we stress test the mortgage portfolio on a regular basis, 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, rising interest rates, a 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 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

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016
Total risk-weighted assets ("RWA")	**$ 6,739,517**	$ 6,385,825	$ 5,433,025
Common Equity Tier 1 Capital:			
Common shares	**199,819**	199,089	146,640
Contributed surplus	**6,413**	6,148	6,027
Retained earnings	**759,470**	721,117	623,756
Accumulated other comprehensive (loss) income ("AOCI")(1)	**(13,159)**	(20,210)	(26,605)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(14,557)**	(15,037)	(13,951)
Common Equity Tier 1 Capital	**937,986**	891,107	735,867
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,010,540**	963,661	808,421
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	31,890
Subordinated debentures	**62,891**	65,000	65,000
Tier 2 Capital	**94,781**	96,890	96,890
Total Capital	**$ 1,105,321**	$ 1,060,551	$ 905,311
Capital ratios:			
CET1 Ratio	**13.9%**	14.0%	13.5%
Tier 1 Capital Ratio	**15.0%**	15.1%	14.9%
Total Capital Ratio	**16.4%**	16.6%	16.7%
Leverage Ratio	**5.3%**	5.1%	5.0%

(1) *As prescribed by OSFI (under Basel III rules), 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 excluded.*

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in mortgage prepayment income and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 17: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
RESULTS OF OPERATIONS								
Net income	**$ 43,393**	$ 41,678	$ 35,230	$ 33,410	$ 28,012	$ 31,436	$ 31,448	$ 33,520
Net income available to common shareholders	**42,202**	40,488	34,039	32,219	26,821	30,245	30,257	32,330
Net interest income	**78,352**	77,926	70,827	67,010	63,594	63,458	61,437	60,995
Total revenues	**181,525**	179,939	169,432	162,861	151,691	151,495	147,625	145,595
EPS – basic[1]	**$ 2.56**	$ 2.58	$ 2.19	$ 2.07	$ 1.73	$ 1.95	$ 1.96	$ 2.09
EPS – diluted[1]	**$ 2.54**	$ 2.56	$ 2.16	$ 2.05	$ 1.71	$ 1.93	$ 1.93	$ 2.06
ROE	**18.4%**	19.3%	17.2%	17.1%	14.7%	17.0%	17.5%	19.8%
Return on average assets	**0.9%**	0.9%	0.8%	0.8%	0.7%	0.8%	0.9%	1.0%
NIM – TEB:								
Total Assets	**1.66%**	1.70%	1.64%	1.61%	1.62%	1.69%	1.73%	1.79%
Core Lending	**2.55%**	2.64%	2.60%	2.55%	2.50%	2.64%	2.56%	2.62%
Securitization Financing	**0.22%**	0.24%	0.19%	0.22%	0.31%	0.22%	0.34%	0.31%
Efficiency Ratio – TEB	**33.2%**	33.9%	37.0%	38.2%	43.2%	35.7%	33.4%	32.8%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**835,780**	930,449	1,050,366	952,937	674,417	719,361	744,416	641,095
Commercial Lending Services	**379,996**	377,578	367,197	323,061	201,849	259,502	235,987	199,977
Core Lending	**1,215,776**	1,308,027	1,417,563	1,275,998	876,266	978,863	980,403	841,072
Securitization Financing	**409,264**	871,391	739,352	745,409	693,127	759,258	790,022	555,272
Total originations	**1,625,040**	2,179,418	2,156,915	2,021,407	1,569,393	1,738,121	1,770,425	1,396,344
BALANCE SHEET								
Total assets	**19,300,418**	18,973,588	18,062,846	17,147,854	16,411,221	15,527,584	14,827,610	14,329,824
Assets Under Management	**22,959,080**	22,277,769	21,024,401	19,709,617	18,616,018	17,600,072	16,839,263	16,214,123
Mortgages receivable	**18,164,958**	17,783,803	17,049,744	16,244,106	15,540,241	14,700,806	13,959,432	13,216,267
MUM	**21,743,431**	21,004,013	19,922,211	18,723,056	17,668,821	16,706,935	15,917,079	15,059,846
Shareholders' equity	**1,023,702**	977,150	879,367	843,924	816,049	796,116	764,679	750,149
Liquid assets	**1,153,174**	1,280,591	1,037,259	1,033,634	939,691	895,056	849,349	1,251,692
CREDIT QUALITY								
Provision for credit losses	**738**	870	1243	105	227	1064	930	830
Provision for credit losses – rate	**0.02%**	0.02%	0.03%	0.00%	0.01%	0.03%	0.03%	0.03%
Net impaired mortgages as a % of total mortgage assets	**0.21%**	0.21%	0.19%	0.20%	0.22%	0.22%	0.21%	0.18%
Allowance for credit losses as a % of total mortgage assets	**0.19%**	0.19%	0.20%	0.20%	0.21%	0.23%	0.25%	0.26%

Table 17: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,464,170**	15,692,833	15,570,678	15,556,836	15,543,952	15,493,549	15,471,960	15,461,161
Weighted average diluted	**16,614,221**	15,808,124	15,722,532	15,709,456	15,674,734	15,677,954	15,661,842	15,687,647
Book value per common share	**$ 57.73**	$ 54.96	$ 51.72	$ 49.55	$ 47.81	$ 46.57	$ 44.72	$ 43.80
Common share price – close	**$ 69.37**	$ 60.46	$ 58.86	$ 55.99	$ 50.76	$ 51.50	$ 56.25	$ 61.27
Common share market capitalization	**1,142,881**	995,180	918,196	871,566	789,413	800,238	870,564	947,834
Dividends declared per:(2)								
Common share	**$ 0.23**	$ 0.22	$ 0.21	$ 0.21	$ 0.20	$ 0.20	$ 0.19	$ 0.19
Preferred share – Series 3	**$ 0.40**	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
EQUITABLE BANK CAPITAL RATIOS								
Risk-weighted assets	**6,739,517**	6,385,825	5,968,000	5,664,575	5,433,025	5,259,384	5,113,009	4,983,762
CET1 Ratio	**13.9%**	14.0%	13.4%	13.5%	13.5%	13.6%	13.4%	13.5%
Tier 1 Capital Ratio	**15.0%**	15.1%	14.6%	14.8%	14.9%	15.0%	14.8%	14.9%
Total Capital Ratio	**16.4%**	16.6%	16.2%	16.5%	16.7%	16.8%	17.1%	17.2%
Leverage Ratio	**5.3%**	5.1%	4.9%	5.0%	5.0%	5.2%	5.2%	5.3%

(1) *Annual EPS may not equal the sum of the quarterly EPS' as a result of rounding.*
(2) *Annual dividends declared per share may not equal the sum of the quarterly dividends per share as a result of rounding.*

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q1 2017 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2016. Refer to Note 3 to the audited consolidated financial statements in the Company's 2016 Annual Report.

FUTURE ACCOUNTING POLICIES

IFRS 9 "*Financial Instruments*" and IFRS 15 "*Revenue from Contracts with Customers"* are mandatorily effective for annual periods beginning on or after January 1, 2018 and IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the audited consolidated financial statements in the Company's 2016 Annual Report.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions in the process of applying its accounting policies to measure or disclose its financial results. Management is prudent in determining such estimates and assumptions, and where possible, relies on external information and observable market conditions, supplemented by internal analysis as required. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods. Refer to Note 2(d) to the Q1 2017 interim consolidated financial statements for further discussion.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our interim 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 in the Company's 2016 Annual Report) 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 or control associated with the securitized assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $3.7 billion at March 31, 2017 (December 31, 2016 – $3.3 billion, March 31, 2016 – $2.2 billion). The securitization liabilities associated with these transferred assets are approximately $3.6 billion at March 31, 2017 (December 31, 2016 – $3.3 billion, March 31, 2016 – $2.2 billion). The securitization retained interests recorded with respect to certain securitization transactions were $94.0 million at March 31, 2017 (December 31, 2016 – $88.8 million, March 31, 2016 – $66.7 million) and the associated servicing liability was $24.6 million at March 31, 2017 (December 31, 2016 – $23.0 million, March 31, 2016 – $15.8 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.1 billion of mortgages in the ordinary course of business at March 31, 2017 (December 31, 2016 – $1.0 billion, March 31, 2016 – $1.1 billion).

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 $7.0 million were outstanding at March 31, 2017 (December 31, 2016 – $5.9 million, March 31, 2016 – $8.4 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, subordinated debentures, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 23 to the audit consolidated financial statements in the Company's 2016 Annual Report for further details.

RISK MANAGEMENT

Through our wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those faced by 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.

For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management of the Company's 2016 Annual Report which is available on SEDAR at www.sedar.com. The most significant of those risks are summarized below.

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 us if counterparties fail to honor their obligations to the Company. Credit risk arises principally from our lending activities and our investments in debt and equity securities. The Company's exposure to credit risk is monitored by senior management, the Enterprise Risk Management Committee, as well as the Investment Committee of the Board of Directors, which undertakes the approval and monitoring of our investment and lending policies.

The Company's primary lending business is providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses of this MD&A.

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 48% or $52.6 million of the total equity securities portfolio at March 31, 2017, compared to 49% or $66.2 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 99% of the total equity securities portfolio at the end of Q1.

LIQUIDITY AND FUNDING RISK

Liquidity and Funding risk is defined as the possibility that we will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet our financial obligations as they come due. These financial obligations mainly arise from the redemption or maturity of deposits, the maturity of mortgage backed securities and commitments to extend credit. Redemptions rates are affected by many factors, including the level of consumer confidence in the Bank. Funding and Liquidity Risk may also be affected if an unduly large proportion of our deposit-taking business involves a single person, organization or group of related persons/organizations or a single geographic area.

We have a low tolerance for liquidity and funding risk and adhere to a Liquidity and Funding Risk Management policy that requires us to maintain a pool of high quality liquid assets. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations. Despite these precautions, there is a risk that a disruption in the funding markets may be so severe or prolonged that the Company may need to take further contingency actions to protect its liquidity position, may even include curtailing lending activity.

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or 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 March 31, 2017, see Note 15 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and it's NII. The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following March 31, 2017. 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 18: Net interest income shock

($ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	**$ 10,077**	**$ (1,004)**
Impact on EVE	**(10,833)**	**16,739**
EVE impact as a % of common shareholders' equity	**(1.14%)**	**1.76%**
200 basis point shift		
Impact on net interest income	**$ 16,861**	**$ (1,004)**
Impact on EVE	**(20,688)**	**24,673**
EVE impact as a % of common shareholders' equity	**(2.17%)**	**2.59%**

(1) Interest rate is not allowed to decrease beyond a floor of 0% and is therefore not allowed to be negative.

Equity Price Risk is defined as the risk of loss from an adverse movement in the value of the Company's securities portfolio due to volatility in financial markets. We mitigate this risk by investing only in high-quality, liquid shares and actively monitoring our investment portfolio.

On a monthly basis, the Asset and Liability Committee ("ALCO") reviews the investment performance and the composition and quality of the portfolio. This information is also reviewed by the Investment Committee of the Board quarterly.

UPDATED SHARE INFORMATION

At May 1, 2017, the Company had 16,477,654 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 640,825 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $32.3 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying interim 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 interim consolidated financial statements and accompanying notes.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the first quarter of 2017 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 often do not have any standardized meaning, and therefore, are unlikely to be comparable to similar measures presented by other companies. 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 may present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Management believes that adjusted results, if any, can to some extent enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. Adjusted results are also intended to provide the user with greater consistency and comparability to 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 Under Management ("AUM"):** is the sum of total assets reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

($ THOUSANDS)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Total assets on the consolidated balance sheet	**$ 19,300,418**	$ 18,973,588	2%	$ 16,411,221	18%
Mortgage principal derecognized	**3,658,662**	3,304,181	11%	2,204,797	66%
Assets Under Management	**$ 22,959,080**	$ 22,277,769	3%	$ 18,616,018	23%

- **Book value per common share:** is calculated by dividing common shareholders' equity by the number of common shares outstanding.

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Shareholders' equity	**$ 1,023,702**	$ 977,150	5%	$ 816,049	25%
Preferred shares	**72,557**	72,557	-%	72,557	-%
Common shareholders' equity	**$ 951,145**	$ 904,593	5%	$ 743,492	28%
Common shares outstanding	**16,475,149**	16,460,142	-%	15,551,865	6%
Book value per common share	**$ 57.73**	$ 54.96	5%	$ 47.81	21%

- **Capital ratios:**

  - **CET1 Ratio:** this key measure of capital strength is defined as CET1 Capital as a percentage of total RWA. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI. CET1 Capital 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 and Total Capital Ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1 or Total Capital by total RWA. Tier 1 Capital is calculated by adding non-cumulative preferred shares to CET1 Capital. Tier 2 Capital is equal to the sum of the Bank's collective allowance and subordinated debentures. Total Capital equals to Tier 1 plus Tier 2 Capital.

  - **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.

  The capital ratios are calculated on the "all-in" basis in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 16 of this MD&A.

- **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 liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than is in net interest income because it captures all interest rate mismatches across all terms.

- **Efficiency 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 Efficiency Ratio reflects a more efficient cost structure.

	Three months ended				
($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Non-interest expenses	**$ 29,820**	$ 29,750	-%	$ 29,378	2%
Net revenue	**89,859**	87,831	2%	67,955	32%
Efficiency Ratio	**33.2%**	33.9%	(0.7%)	43.2%	(10.0%)

- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are 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 14 of this MD&A.

- **Liquidity Coverage Ratio ("LCR"):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Company's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It is equal to high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.

- **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.

($ THOUSANDS)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Mortgage principal reported on the consolidated balance sheet	**$ 18,084,769**	$ 17,699,832	2%	$ 15,464,024	17%
Mortgage principal derecognized	**3,658,662**	3,304,181	11%	2,204,797	66%
Mortgages Under Management	**$ 21,743,431**	$ 21,004,013	4%	$ 17,668,821	23%

- **Net interest margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total interest earning assets for the period. A detailed calculation can be found in Table 3 of this MD&A.

- **Net revenue:** is calculated as the sum of net interest income, other income, and the TEB adjustment.

($ THOUSANDS)					Three months ended	
	Mar 31, 2017	Dec 31, 2016	% Change		Mar 31, 2016	% Change
Net interest income	**$ 78,352**	$ 77,926	1%	$	63,594	23%
Other income	**11,022**	9,288	19%		3,737	195%
TEB adjustment	**485**	617	(21%)		624	(22%)
Net revenue	**$ 89,859**	$ 87,831	2%	$	67,955	32%

- **Provision for credit losses – rate**: this credit quality metric is calculated on an annualized basis and is defined as the provision for credit losses as a percentage of average loan portfolio outstanding during the period.

($ THOUSANDS, EXCEPT PERCENTAGES)					Three months ended	
	Mar 31, 2017	Dec 31, 2016	% Change		Mar 31, 2016	% Change
Provision for credit losses	**$ 738**	$ 870	(15%)	$	227	225%
Divided by: average mortgage principal	**17,892,301**	17,330,244	3%		15,049,236	19%
Provision for credit losses – rate	**0.02%**	0.02%	-%		0.01%	0.01%

- **Return on average assets:** this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average month-end total assets balances outstanding during the period.

($ THOUSANDS, EXCEPT PERCENTAGES)					Three months ended	
	Mar 31, 2017	Dec 31, 2016	% Change		Mar 31, 2016	% Change
Net income	**$ 43,393**	$ 41,678	4%	$	28,012	55%
Average total assets	**19,133,463**	18,608,783	3%		15,946,958	20%
Return on average assets	**0.9%**	0.9%	-%		0.7%	0.2%

- **Return on shareholders' equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.

($ THOUSANDS, EXCEPT PERCENTAGES)					Three months ended	
	Mar 31, 2017	Dec 31, 2016	% Change		Mar 31, 2016	% Change
Net income available to common shareholders	**$ 42,202**	$ 40,488	4%	$	26,821	57%
Weighted average common equity outstanding	**927,725**	834,928	11%		733,489	26%
Return on shareholders' equity	**18.4%**	19.3%	(0.9%)		14.7%	3.7%

- **Risk-weighted assets ("RWA"):** 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. A detailed calculation can be found in Table 9 of this MD&A.

- **Taxable equivalent basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and Efficiency 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 three months ended March 31, 2017, December 31 and March 31, 2016, the TEB adjustment was $0.5 million, $0.6 million and $0.6 million.

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.

	Three months ended				
($ THOUSANDS)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Interest income	**$ 170,503**	$ 170,651	-%	$ 147,954	15%
Less: interest expense	**92,151**	92,725	(1%)	84,360	9%
Net interest income	**$ 78,352**	$ 77,926	1%	$ 63,594	23%

- **Total revenue:** is defined as interest income plus other income.

	Three months ended				
($ THOUSANDS)	**Mar 31, 2017**	Dec 31, 2016	% Change	Mar 31, 2016	% Change
Interest income	**$ 170,503**	$ 170,651	-%	$ 147,954	15%
Other income	**11,022**	9,288	19%	3,737	195%
Total revenue	**$ 181,525**	$ 179,939	1%	$ 151,691	20%

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2017

With comparative figures as at December 31, 2016 and March 31, 2016

($ THOUSANDS)

	Note	**March 31, 2017**	December 31, 2016	March 31, 2016
Assets:				
Cash and cash equivalents		**$ 537,645**	$ 444,179	$ 427,800
Restricted cash		**258,599**	247,878	129,453
Securities purchased under reverse repurchase agreements		**4,984**	199,401	30,346
Investments	*6*	**170,176**	136,718	154,397
Mortgages receivable – Core Lending	*7, 8*	**11,212,879**	10,678,452	9,061,191
Mortgages receivable – Securitization Financing	*7, 8*	**6,952,079**	7,105,351	6,479,050
Securitization retained interests		**93,975**	88,782	66,665
Other assets		**70,081**	72,827	62,319
		$ 19,300,418	$ 18,973,588	$ 16,411,221
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	*10*	**$ 10,047,387**	$ 9,763,082	$ 8,845,184
Securitization liabilities	*8*	**7,793,863**	7,762,632	6,576,177
Obligations under repurchase agreements	*8*	**145,495**	112,488	-
Deferred tax liabilities		**38,004**	38,771	29,993
Other liabilities		**186,967**	204,465	78,818
Bank facilities		**-**	50,000	-
Debentures		**65,000**	65,000	65,000
		18,276,716	17,996,438	15,595,172
Shareholders' equity:				
Preferred shares	*11*	**72,557**	72,557	72,557
Common shares	*11*	**197,339**	196,608	144,159
Contributed surplus	*12*	**5,322**	5,056	4,935
Retained earnings		**764,325**	725,912	629,147
Accumulated other comprehensive loss		**(15,841)**	(22,983)	(34,749)
		1,023,702	977,150	816,049
		$ 19,300,418	$ 18,973,588	$ 16,411,221

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

With comparative figures for the three month period ended March 31, 2016

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

		Three months ended	
	No	**March 31, 2017**	March 31, 2016
Interest income:			
Mortgages – Core Lending		**$ 121,892**	$ 101,419
Mortgages – Securitization Financing		**45,155**	43,607
Investments		**2,128**	1,876
Other		**1,328**	1,052
		170,503	147,954
Interest expense:			
Deposits		**46,994**	43,659
Securitization liabilities	*8*	**43,933**	39,185
Bank facilities		**274**	566
Debentures		**950**	950
		92,151	84,360
Net interest income		**78,352**	63,594
Provision for credit losses	*7*	**738**	227
Net interest income after provision for credit losses		**77,614**	63,367
Other income:			
Fees and other income		**7,804**	3,177
Gains on securitization activities and income from securitization retained interests	*8*	**3,218**	560
		11,022	3,737
Net interest and other income		**88,636**	67,104
Non-interest expenses:			
Compensation and benefits		**16,423**	14,650
Other		**13,397**	14,728
		29,820	29,378
Income before income taxes		**58,816**	37,726
Income taxes:			
Current		**16,191**	8,419
Deferred		**(768)**	1,295
		15,423	9,714
Net income		**$ 43,393**	$ 28,012
Earnings per share:	*13*		
Basic		**$ 2.56**	$ 1.73
Diluted		**$ 2.54**	$ 1.71

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31,2017

With comparative figures for the three month period ended March 31, 2016

($ THOUSANDS)

		Three months ended	
	Note	**March 31, 2017**	March 31, 2016
Net income		**$ 43,393**	$ 28,012
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains (losses) from change in fair value		**9,605**	(5,541)
Reclassification of net gains to income		**(195)**	(106)
		9,410	(5,647)
Income tax (expense) recovery		**(2,468)**	1,499
		6,942	(4,148)
Cash flow hedges:	9		
Net unrealized losses from change in fair value		**(100)**	(1,424)
Reclassification of net losses to income		**451**	978
		351	(446)
Income tax (expense) recovery		**(151)**	118
		200	(328)
Total other comprehensive income (loss)		**7,142**	(4,476)
Total comprehensive income		**$ 50,535**	$ 23,536

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

With comparative figures for the three month period ended March 31, 2016

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
March 31, 2017	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 196,608**	**$ 5,056**	**$ 725,912**	**$ (2,773)**	**$ (20,210)**	**$ (22,983)**	**$ 977,150**
Net income	**-**	**-**	**-**	**43,393**	**-**	**-**	**-**	**43,393**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**200**	**6,942**	**7,142**	**7,142**
Exercise of stock options	**-**	**613**	**-**	**-**	**-**	**-**	**-**	**613**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(3,789)**	**-**	**-**	**-**	**(3,789)**
Stock-based compensation	**-**	**-**	**384**	**-**	**-**	**-**	**-**	**384**
Transfer relating to the exercise of stock options	**-**	**118**	**(118)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 197,339**	**$ 5,322**	**$ 764,325**	**$ (2,573)**	**$ (13,268)**	**$ (15,841)**	**$ 1,023,702**

					Accumulated other comprehensive income (loss)			
March 31, 2016	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
Balance, beginning of period	$ 72,557	$ 143,690	$ 4,706	$ 605,436	$ (7,815)	$ (22,458)	$ (30,273)	$ 796,116
Net income	-	-	-	28,012	-	-	-	28,012
Other comprehensive loss, net of tax	-	-	-	-	(328)	(4,148)	(4,476)	(4,476)
Exercise of stock options	-	379	-	-	-	-	-	379
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(3,110)	-	-	-	(3,110)
Stock-based compensation	-	-	319	-	-	-	-	319
Transfer relating to the exercise of stock options	-	90	(90)	-	-	-	-	-
Balance, end of period	$ 72,557	$ 144,159	$ 4,935	$ 629,147	$ (8,143)	$ (26,606)	$ (34,749)	$ 816,049

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

With comparative figures for the three month period ended March 31, 2016

($ THOUSANDS)

	Three months ended	
	March 31, 2017	March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 43,393**	$ 28,012
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(15)**	(918)
Amortization of premiums/discount on investments	**3,435**	142
Amortization of capital assets and intangible costs	**2,090**	1,877
Provision for credit losses	**738**	227
Securitization gains	**(2,577)**	(1,619)
Stock-based compensation	**384**	319
Income taxes	**15,423**	9,714
Changes in operating assets and liabilities:		
Restricted cash	**(10,721)**	(21,465)
Securities purchased under reverse repurchase agreements	**194,417**	(10,428)
Mortgages receivable, net of securitizations	**(389,904)**	(846,245)
Other assets	**3,397**	316
Deposits	**284,467**	634,502
Securitization liabilities	**31,650**	466,741
Obligations under repurchase agreements	**33,008**	-
Bank facilities	**(50,000)**	(235,779)
Other liabilities	**(10,689)**	(2,264)
Income taxes paid	**(26,474)**	(6,820)
Securitization retained interests	**5,516**	3,314
Cash flows from operating activities	**127,538**	19,626
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**613**	379
Dividends paid on preferred shares	**(1,191)**	(1,191)
Dividends paid on common shares	**(3,443)**	(3,106)
Cash flows used in financing activities	**(4,021)**	(3,918)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(37,985)**	(6,783)
Proceeds on sale or redemption of investments	**9,918**	71
Net change in Canada Housing Trust re-investment accounts	**210**	19
Purchase of capital assets and system development costs	**(2,194)**	(4,581)
Cash flows used in investing activities	**(30,051)**	(11,274)
Net increase in cash and cash equivalents	**93,466**	4,434
Cash and cash equivalents, beginning of period	**444,179**	423,366
Cash and cash equivalents, end of period	**$ 537,645**	$ 427,800
Cash flows from operating activities include:		
Interest received	**$ 170,938**	$ 145,965
Interest paid	**(66,384)**	(58,021)
Dividends received	**1,356**	1,754

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:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2016 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on May 1, 2017.

(b) Basis of measurement:

The interim 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 interim 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.

Note 3 – Significant Accounting Policies

Accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2016. Refer to Note 3 of the audited consolidated financial statements in the Company's 2016 Annual Report.

Future accounting policies:

There are no significant updates to future accounting policies disclosed by the Company in Note 3 of the audited consolidated financial statements in the Company's 2016 Annual Report.

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, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 45 to 56 of the Company's 2016 Annual Report.

Note 5 – Financial Instruments

The Company's business activities result in a consolidated balance sheets 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, bank facilities 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 risks.

(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) Debentures

The estimated fair value of the 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 stock prices, bond prices and interest rate curves into present value calculations.

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at March 31, 2017 and December 31, 2016. The tables do not include assets and liabilities that are not financial instruments.

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

							March 31, 2017
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 537,645	$ -	$ -	$ -	$ -	$ 537,645	$ 537,645
Restricted cash	258,599	-	-	-	-	258,599	258,599
Securities purchased under reverse repurchase agreements	-	-	-	-	4,984	4,984	4,984
Investments	324	-	2,289	166,563	1,000	170,176	170,176
Mortgages receivable – Core Lending	-	46,751	-	-	11,166,128	11,212,879	11,262,579
Mortgages receivable – Securitization Financing	21,820	-	-	-	6,930,259	6,952,079	7,031,526
Securitization retained interests	-	-	-	93,975	-	93,975	93,975
Other assets:							
Derivative financial instruments:							
interest rate swaps	3,636	-	-	-	-	3,636	3,636
total return swaps	2,055	-	-	-	-	2,055	2,055
Mortgage commitments	72	-	-	-	-	72	72
Other	-	-	-	-	10,458	10,458	10,458
Total financial assets	$ 824,151	$ 46,751	$ 2,289	$ 260,538	$ 18,112,829	$ 19,246,558	$ 19,375,705
Financial liabilities:							
Deposits	$ -	$ 43,684	$ -	$ -	$ 10,003,703	$ 10,047,387	$ 10,046,783
Securitization liabilities	-	-	-	-	7,793,863	7,793,863	7,848,345
Obligations under repurchase agreements	-	-	-	-	145,495	145,495	145,495
Other liabilities:							
Derivative financial instruments:							
interest rate swaps	372	-	-	-	-	372	372
bond forwards	441	-	-	-	-	441	441
Other	-	-	-	-	173,690	173,690	173,690
Debentures	-	-	-	-	65,000	65,000	65,248
Total financial liabilities	$ 813	$ 43,684	$ -	$ -	$ 18,181,751	$ 18,226,248	$ 18,280,374

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

	December 31, 2016						
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 444,179	$ -	$ -	$ -	$ -	$ 444,179	$ 444,179
Restricted cash	247,878	-	-	-	-	247,878	247,878
Securities purchased under reverse repurchase agreements	-	-	-	-	199,401	199,401	199,401
Investments	308	-	2,499	132,911	1,000	136,718	136,718
Mortgages receivable – Core Lending	-	47,283	-	-	10,631,169	10,678,452	10,737,431
Mortgages receivable – Securitization Financing	25,196	-	-	-	7,080,155	7,105,351	7,185,403
Securitization retained interests	-	-	-	88,782	-	88,782	88,782
Other assets:							
Derivative financial instruments:							
interest rate swaps	3,673	-	-	-	-	3,673	3,673
total return swaps	1,042	-	-	-	-	1,042	1,042
bond forwards	456	-	-	-	-	456	456
Mortgage commitments	48	-	-	-	-	48	48
Other	-	-	-	-	12,320	12,320	12,320
Total financial assets	$ 722,780	$ 47,283	$ 2,499	$ 221,693	$ 17,924,045	$ 18,918,300	$ 19,057,331
Financial liabilities:							
Deposits	$ -	$ 43,863	$ -	$ -	$ 9,719,219	$ 9,763,082	$ 9,761,039
Securitization liabilities	-	-	-	-	7,762,632	7,762,632	7,811,834
Obligations under repurchase agreements	-	-	-	-	112,488	112,488	112,488
Other liabilities:							
Derivative financial instruments:							
interest rate swaps	158	-	-	-	-	158	158
bond forwards	113	-	-	-	-	113	113
Other	-	-	-	-	183,602	183,602	183,602
Bank Facilities	-	-	-	-	50,000	50,000	50,000
Debentures	-	-	-	-	65,000	65,000	65,363
Total financial liabilities	$ 271	$ 43,863	$ -	$ -	$ 17,892,941	$ 17,937,075	$ 17,984,597

(b) Fair value hierarchy:

Financial instruments recorded at fair value 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.

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.

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

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

				March 31, 2017
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 537,645	$ -	$ -	$ 537,645
Restricted cash	258,599	-	-	258,599
Investments	148,256	-	18,631	166,887
Mortgages receivable – Core Lending	-	46,751	-	46,751
Mortgages receivable – Securitization Financing	-	21,820	-	21,820
Securitization retained interests	-	93,975	-	93,975
Other assets:				
Derivative financial instruments:				
interest rate swaps	-	3,562	74	3,636
total return swaps	-	939	1,116	2,055
Mortgage commitments	-	-	72	72
Total financial assets	$ 944,500	$ 167,047	$ 19,893	$ 1,131,440
Financial liabilities:				
Deposits	$ -	$ -	$ 43,684	$ 43,684
Other liabilities:				
Derivative financial instruments				
bond forwards	-	441	-	441
interest rate swaps	-	372	-	372
Total financial liabilities	$ -	$ 813	$ 43,684	$ 44,497

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

					December 31, 2016
		Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:					
Cash and cash equivalents	$	444,179 $	- $	- $	444,179
Restricted cash		247,878	-	-	247,878
Investments		111,177	-	22,042	133,219
Mortgages receivable – Core Lending		-	47,283	-	47,283
Mortgages receivable – Securitization Financing		-	25,196	-	25,196
Securitization retained interests		-	88,782	-	88,782
Other assets:					
Derivative financial instruments					
bond forwards		-	456	-	456
interest rate swaps		-	3,478	195	3,673
total return swaps		-	326	716	1,042
Mortgage Commitments		-	-	48	48
Total financial assets	$	803,234 $	165,521 $	23,001 $	991,756
Financial liabilities:					
Deposits	$	- $	- $	43,863 $	43,863
Other liabilities:					
Derivative financial instruments					
bond forwards		-	113	-	113
interest rate swaps		-	-	158	158
Total financial liabilities	$	- $	113 $	44,021 $	44,134

Note 6 – Investments

Carrying value of investments is as follows:

		March 31, 2017	December 31, 2016	March 31, 2016
Equity securities – preferred shares	**$**	**109,832**	$ 110,697	$ 133,777
Equity securities – common shares		**518**	480	998
Debt securities issued by regulated financial institutions		**37,906**	-	-
Debt securities guaranteed by Government of Canada		**-**	-	16,246
Debt securities – Successor issuer rights		**18,631**	22,042	-
Debt securities – corporate debt		**1,000**	1,000	1,000
Canada Housing Trust re-investment accounts[1]		**2,289**	2,499	2,376
	$	**170,176**	$ 136,718	$ 154,397

[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.*

Net unrealized gains (losses) on available for sale investments recorded in Accumulated other comprehensive loss are as follows:

		March 31, 2017	December 31, 2016	March 31, 2016
Equity securities – preferred shares	**$**	**(19,147)**	$ (28,251)	$ (39,041)
Equity securities – common shares		**75**	53	36
Debt securities issued by regulated financial institutions		**8**	-	-
Debt securities guaranteed by Government of Canada		**-**	-	1,162
Debt securities – Successor issuer rights		**(52)**	(94)	
	$	**(19,116)**	$ (28,292)	$ (37,843)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

March 31, 2017	**Gross amount**	**Allowance for credit losses**			**Net amount**
		Individual	**Collective**	**Total**	
Mortgages – Core Lending	**$ 11,213,232**	**$ 1,644**	**$ 31,890**	**$ 33,534**	**$ 11,179,698**
Mortgages – Securitization Financing	**6,941,068**	**-**	**-**	**-**	**6,941,068**
Accrued interest	**45,581**	**1,389**	**-**	**1,389**	**44,192**
	$ 18,199,881	**$ 3,033**	**$ 31,890**	**$ 34,923**	**$ 18,164,958**

December 31, 2016	Gross amount	Allowance for credit losses			Net amount
		Individual	Collective	Total	
Mortgages – Core Lending	$ 10,678,733	$ 1,389	$ 31,890	$ 33,279	$ 10,645,454
Mortgages – Securitization Financing	7,093,828	-	-	-	7,093,828
Accrued interest	45,668	1,147	-	1,147	44,521
	$ 17,818,229	$ 2,536	$ 31,890	$ 34,426	$ 17,783,803

March 31, 2016	Gross amount	Allowance for credit losses			Net amount
		Individual	Collective	Total	
Mortgages – Core Lending	$ 9,063,847	$ 283	$ 31,890	$ 32,173	$ 9,031,674
Mortgages – Securitization Financing	6,466,721	-	-	-	6,466,721
Accrued interest	42,828	982	-	982	41,846
	$ 15,573,396	$ 1,265	$ 31,890	$ 33,155	$ 15,540,241

Mortgages – Securitization Financing include mortgages classified as held for trading and carried at fair value with changes in fair value included in Gains on securitization activities and income from securitization retained interests. As at March 31, 2017, mortgage principal outstanding on these mortgages is $21,820 (December 31, 2016 – $25,196, March 31, 2016 – $39,738) and the fair value adjustment is $33 (December 31, 2016 – ($122), March 31, 2016 – ($97)).

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 March 31, 2017, mortgage principal outstanding for these mortgages is $46,144 (December 31, 2016 – $46,451, March 31, 2016 – $45,846) and the fair value adjustment is $607 (December 31, 2016 – $832, March 31, 2016 – $1,487).

Included in Mortgages – Core lending are commercial loans of $207,481 (December 31, 2016 – $30,721, March 31, 2016 – nil) invested in certain asset-backed structured entities. The Company holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Company does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to receive interest income from its investments. Consequently, the Company does not control these structured entities and has not consolidated them.

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

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

		March 31, 2017		March 31, 2016
Net gain (loss) in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	**$**	**155**	$	(109)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending		**(273)**		(100)

At March 31, 2017, the Company had commitments to fund a total of $1,061,384 (December 31, 2016 − $1,037,929, March 31, 2016 – $1,107,827) of mortgages in the ordinary course of business.

(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. Insured mortgages 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 March 31, 2017, accrued interest on impaired mortgages amounted to $1,461 (December 31, 2016 – $1,261, March 31, 2016 – $1,112).

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

						March 31, 2017		December 31, 2016		March 31, 2016
		Gross		**Individual allowance**		**Net**		Net		Net
Mortgages – Core Lending	**$**	**40,668**	**$**	**3,033**	**$**	**37,635**	$	36,310	$	34,783
Mortgages – Core Lending – Insured		**532**		**-**		**532**		519		-
	$	**41,200**	**$**	**3,033**	**$**	**38,167**	$	36,829	$	34,783

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

								March 31, 2017
		30 – 59 days		**60 – 89 days**		**90 days or more**		**Total**
Mortgages – Core Lending	**$**	**19,847**	**$**	**12,048**	**$**	**-**	**$**	**31,895**
Mortgages – Core Lending – Insured		**491**		**152**		**905**		**1,548**
Mortgages – Securitization Financing – Insured		**4,558**		**482**		**894**		**5,934**
	$	**24,896**	**$**	**12,682**	**$**	**1,799**	**$**	**39,377**

								December 31, 2016
		30 – 59 days		60 – 89 days		90 days or more		Total
Mortgages – Core Lending	$	24,082	$	12,350	$	-	$	36,432
Mortgages – Core Lending – Insured		678		1,324		224		2,226
Mortgages – Securitization Financing – Insured		4,312		1,123		393		5,828
	$	29,072	$	14,797	$	617	$	44,486

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

(c) Allowance for credit losses:

			March 31, 2017
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 2,536	$ 31,890	$ 34,426
Provision for credit losses	738	-	738
Realized losses	(245)	-	(245)
Recoveries	4	-	4
Balance, end of period	$ 3,033	$ 31,890	$ 34,923

			March 31, 2016
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 1,326	$ 31,890	$ 33,216
Provision for credit losses	227	-	227
Realized losses	(307)	-	(307)
Recoveries	19	-	19
Balance, end of period	$ 1,265	$ 31,890	$ 33,155

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. 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 its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2016 Annual Report.

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

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:

		March 31, 2017		December 31, 2016		March 31, 2016
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	$ 8,483,549	$ 145,495	$ 8,486,532	$ 112,488	$ 6,958,795	$ -
Carrying amount of associated liability	7,793,863	145,495	7,762,632	112,488	6,576,177	-
Carrying amount, net position	$ 689,686	$ -	$ 723,900	$ -	$ 382,618	$ -
Fair value of assets	$ 8,562,478	$ -	$ 8,567,106	$ -	$ 7,176,887	$ -
Fair value of associated liability	7,847,244	-	7,811,749	-	6,718,567	-
Fair value, net position	$ 715,234	$ -	$ 755,357	$ -	$ 458,320	$ -

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $619,025 (December 31, 2016 – $650,959, March 31, 2016 – $327,273). The fair value of these assets are $613,653 (December 31, 2016 – $644,768, March 31, 2016 – $329,071).

The carrying amount of assets exclude mortgages held for securitization of $302,031 (December 31, 2016 – $463,996, March 31, 2016 – $622,715).

The Company's outstanding securitization liabilities are as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Securitization principal	**$ 7,824,400**	$ 7,795,239	$ 6,599,943
Deferred net discount and issuance costs	**(48,245)**	(47,391)	(40,825)
Accrued interest	**17,708**	14,784	17,059
Total	**$ 7,793,863**	$ 7,762,632	$ 6,576,177

(b) Transferred financial assets that are derecognized in their entirety:

The following table provides quantitative information of the Company’s securitization activities and transfers that are derecognized in their entirety during the period:

	March 31, 2017	March 31, 2016
Mortgages securitized and sold	**$ 391,591**	$ 151,544
Carrying value of Securitization retained interests	**10,524**	8,093
Carrying value of Securitized mortgage servicing liability	**3,073**	2,086
Gains on mortgages securitized and sold	**3,570**	1,619
Loss from securitization activities and retained interests	**(352)**	(1,059)

During the quarter, the Company entered into transactions to transfer substantially all of the residual risks and rewards of securitized prepayable multi-residential mortgages to third parties. As a result, the Company derecognized $149,049 of multi-residential mortgages and recorded a gain on sale of $431 included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

Note 9 – Derivative Financial Instruments

The Company hedges interest rate risks associated with insured residential mortgages, mortgage commitments intended for securitization as well as certain securitization and deposit liabilities. The Company also hedges the risk of changes in future cash flows related to the Restricted Share Unit (“RSU”) and Deferred Share Unit (“DSU”) plans by entering into total return swaps with highly rated counterparties. The Company also enters into total return swaps to exchange cash flows of the CMB for those of the MBS transferred to CHT as part of its CMB activities.

For more information on derivative financial instruments refer to Note 10 to the audited consolidated financial statements in the Company’s 2016 Annual Report.

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

The fair values and notional amounts of derivatives outstanding is as follows:

	March 31, 2017		December 31, 2016		March 31, 2016	
Derivative instrument and term (years)	**Notional amount**	**Fair Value, Net(1)**	Notional amount	Fair Value, Net(1)	Notional amount	Fair Value, Net(1)
Cash flow hedges:						
Bond forwards – hedge accounting						
1 or less	**$ 21,300**	**$ (321)**	$ 234,860	$ 263	$ 236,900	$ (790)
Interest rate swaps – hedge accounting						
1 to 5	**341,591**	**3,562**	312,418	4,216	175,667	(256)
Total return swaps – hedge accounting						
1 or less	**1,513**	**152**	1,551	(46)	1,104	(245)
1 to 5	**3,703**	**418**	2,777	261	3,431	(404)
Total return swaps – non-hedge						
1 or less	**1,849**	**369**	1,833	110	1,951	(423)
Fair value hedges:						
Interest rate swaps – hedge accounting						
1 or less	**-**	**-**	100,000	195	-	-
1 to 5	**152,000**	**(151)**	142,000	(205)	100,000	742
5 and above	**62,549**	**(237)**	24,634	(738)	-	-
Interest rate swaps – non-hedge accounting						
1 or less	**100,000**	**49**	-	-	-	-
1 to 5	**-**	**-**	1,450	48	-	-
5 and above	**1,433**	**41**	-	-	-	-
Bond forwards – non-hedge accounting						
1 or less	**40,150**	**(120)**	36,850	80	47,500	(142)
Other derivatives:						
Total return swaps						
1 to 5	**386,511**	**(1)**	386,511	176	-	-
5 and above	**416,432**	**1,117**	174,325	541	-	-
	$ 1,529,031	**$ 4,878**	$ 1,419,209	$ 4,901	$ 566,553	$ (1,518)

(1) Derivative financial assets are included in Other Assets and derivative financial liabilities are included in Other Liabilities.

Cash flow hedges:

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

	March 31, 2017	March 31, 2016
Fair value changes recorded in Other comprehensive income	**$ 351**	$ (446)
Fair value changes recorded in Income	**123**	(1,232)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	**(703)**	(864)
Amounts reclassified from Other comprehensive income to Interest expense – deposits	**(16)**	(111)
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	**268**	(3)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Fair value hedges:

Gain (loss) due to changes in fair value hedges included in the Company's consolidated financial results is as follows:

	March 31, 2017	March 31, 2016
Interest rate swaps – hedge accounting	$ (238)	$ (247)
Interest rate swaps – non-hedge accounting	(90)	-
Bond forwards – non-hedge accounting	(200)	96
Changes in fair value recognized in income	$ (528)	$ (151)

Note 10 – Deposits

	March 31, 2017	December 31, 2016	March 31, 2016
Term and other deposits	$ 9,949,511	$ 9,680,163	$ 8,732,113
Accrued interest	117,769	103,362	127,971
Deferred deposit agent commissions	(19,893)	(20,443)	(14,900)
	$ 10,047,387	$ 9,763,082	$ 8,845,184

Term and other deposits also include $43,503 (December 31, 2016 – $43,632, March 31, 2016 – $45,093) of deposits designated as at fair value through income that are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at March 31, 2017 is $181 (December 31, 2016 – $232, March 31, 2016 – $317).

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

	March 31, 2017	March 31, 2016
Fair value gain/(loss) recognized in income	$ 50	$ (79)

Term and other deposits also include $277,000 (December 31, 2016 – $242,000, March 31, 2016 – $100,000) of deposits designated in qualifying fair value interest rate hedging relationships and fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at March 31, 2017 is ($50) (December 31, 2016 – ($93), March 31, 2016 – $702).

The impact of changes in fair value for deposits designated in qualifying fair value interest rate hedging relationships that are fair valued through income are as follows:

	March 31, 2017	March 31, 2016
Fair value gain recognized in income	$ 152	$ 244

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 11 – Shareholders' Equity

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 non-cumulative 5-year rate reset preferred shares, Series 3, par value $25.00 per share
Unlimited number of non-cumulative floating rate preferred shares, Series 4, par value $25.00 per share
Unlimited number of common shares, no par value

Issued and outstanding shares:

	March 31, 2017			March 31, 2016		
	Number of shares	**Amount**	**Dividends per share(1)**	Number of shares	Amount	Dividends per share(1)
Preferred Shares, Series 3	**3,000,000 $**	**72,557 $**	**0.40**	3,000,000 $	72,557 $	0.40

	March 31, 2017			March 31, 2016		
	Number of shares	**Amount**	**Dividends per share(1)**	Number of shares	Amount	Dividends per share(1)
Common shares:						
Balance, beginning of period	**16,460,142 $**	**196,608**		15,538,605 $	143,690	
Contributions from exercise of stock options	**15,007**	**613**		13,260	379	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**118**		-	90	
Balance, end of period	**16,475,149 $**	**197,339 $**	**0.23**	15,551,865 $	144,159 $	0.20

(1) *Dividends per share represents dividends declared by the Company during the period.*

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 12 – 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 seven years and vest over a four-year period. As at March 31, 2017, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to February 2024. A summary of the Company's stock option activity and related information for the periods ended March 31, 2017 and March 31, 2016 is as follows:

	March 31, 2017		March 31, 2016	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**557,467**	**$ 46.03**	540,236	$ 40.12
Granted	**105,060**	**71.68**	136,239	53.15
Exercised	**(15,007)**	**40.80**	(13,260)	28.59
Forfeited/cancelled	**(2,587)**	**55.12**	(1,185)	52.90
Outstanding, end of period	**644,933**	**$ 50.29**	662,030	$ 43.01
Exercisable, end of period	**362,017**	**$ 41.83**	360,831	$ 34.77

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $384 (March 31, 2016 – $319) 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 the period ended March 31, 2017 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2017	March 31, 2016
Risk-free rate	**1.0%**	0.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**28.6%**	25.9%
Expected dividends	**1.4%**	1.3%
Weighted average fair value of each option granted	**$ 13.3**	$ 9.0

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

(b) Other stock based plans:

The Company has an Employee share purchase ("ESP") plan, a Restricted share unit ("RSU") plan for eligible employees, and a Deferred share unit ("DSU") plan for Directors. For details on the plan, refer to Note 19 to the audited consolidated financial statements in the Company's 2016 Annual Report.

i. Under the ESP plan, the Company expensed $230 (March 31, 2016 – $175) during the period ended March 31, 2017.

ii. Under the DSU plan, the activity for the periods ended March 31, 2017 and March 31, 2016 is as follows:

	March 31, 2017 Number of DSUs	March 31, 2016 Number of DSUs
Outstanding, beginning of period	**32,216**	30,133
Dividends reinvested	**114**	103
Outstanding, end of period	**32,330**	30,236

The liability associated with DSUs outstanding as at March 31, 2017 was $2,210 (March 31, 2016 – $1,518). Compensation expense recorded relating to DSUs outstanding during the three months ended March 31, 2017 amounted to $267 (March 31, 2016 – ($47)).

iii. Under the Company's RSU plan, the activity for the periods ended March 31, 2017 and March 31, 2016 is as follows:

	March 31, 2017 Number of RSUs	March 31, 2016 Number of RSUs
Outstanding, beginning of period	**58,126**	42,861
Granted	**27,686**	33,888
Dividends reinvested	**209**	169
Exercised	**(152)**	-
Forfeited/cancelled	**(2,603)**	(339)
Outstanding, end of period	**83,266**	76,579

The liability associated with RSUs outstanding as at March 31, 2017 was $2,205 (March 31, 2016 – $1,240). Compensation expense recorded relating to RSUs outstanding during the three months ended March 31, 2017 amounted to $547 (March 31, 2016 – $196).

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 13 – 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.

		March 31, 2017		March 31, 2016
Earnings per common share – basic:				
Net income	$	43,393	$	28,012
Dividends on preferred shares		1,191		1,191
Net income available to common shareholders	$	42,202	$	26,821
Weighted average basic number of common shares outstanding		16,464,170		15,543,952
Earnings per common share – basic	$	2.56	$	1.73
Earnings per common share – diluted:				
Net income available to common shareholders	$	42,202	$	26,821
Weighted average basic number of common shares outstanding		16,464,170		15,543,952
Adjustment to weighted average number of common shares outstanding:				
Stock options		150,051		130,782
Weighted average diluted number of common shares outstanding		16,614,221		15,674,734
Earnings per common share – diluted	$	2.54	$	1.71

For the period ended March 31, 2017, the calculation of the diluted earnings per share excluded 105,060 (March 31, 2016 – 234,269) average options outstanding with a weighted average exercise price of $71.68 (March 31, 2016 – $56.00) as the exercise price of these options was greater than the average price of the Company’s common shares.

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 14 – 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 26-27 of the MD&A.

Equitable Bank maintains a Capital Management Policy and an Internal Capital Adequacy Assessment Process 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.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**$ 199,819**	$ 199,089	$ 146,640
Contributed surplus	**6,413**	6,148	6,027
Retained earnings	**759,470**	721,117	623,756
Accumulated other comprehensive loss[(1)]	**(13,159)**	(20,210)	(26,605)
Less: Regulatory adjustments	**(14,557)**	(15,037)	(13,951)
Common Equity Tier 1 Capital	**937,986**	891,107	735,867
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,010,540**	963,661	808,421
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	31,890
Subordinated debentures	**62,891**	65,000	65,000
Tier 2 Capital	**94,781**	96,890	96,890
Total Capital	**$ 1,105,321**	$ 1,060,551	$ 905,311

(1) *As prescribed by OSFI (under Basel III rules), AOCI is part of 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 excluded.*

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 15 – 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 March 31, 2017.

								March 31, 2017
	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[1]	Total[1]
Total assets	$ 3,987,866 $	1,471,400 $	4,403,050 $	9,862,316 $	8,021,778 $	1,142,926 $	273,398 $	19,300,418
Total liabilities and equity[2][3]	(178)	(5,547,820)	(3,407,775)	(8,955,773)	(7,992,656)	(1,055,174)	(1,296,815)	(19,300,418)
Off-balance sheet items[4]	-	(334,547)	38,627	(295,920)	326,929	(31,009)	-	-
Interest rate sensitive gap	$ 3,987,688 $	(4,410,967) $	1,033,902 $	610,623 $	356,051 $	56,743 $	(1,023,417) $	-
Cumulative gap [2]	$ 3,987,688 $	(423,279) $	610,623 $	610,623 $	966,674 $	1,023,417 $	- $	-
Cumulative gap as a percentage of total assets	20.66%	(2.19%)	3.16%	3.16%	5.01%	5.30%	-%	-%

								December 31, 2016
	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[1]	Total[1]
Cumulative gap[2][3][4]	$ 3,846,101 $	565,024 $	624,813 $	624,813 $	511,572 $	987,710 $	- $	-
Cumulative gap as a percentage of total assets	20.27%	2.98%	3.29%	3.29%	2.70%	5.21%	-%	-%

								March 31, 2016
	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[1]	Total[1]
Cumulative gap[2][3][4]	$ 3,043,786 $	325,753 $	51,275 $	51,275 $	770,611 $	784,332 $	- $	-
Cumulative gap as a percentage of total assets	18.55%	1.98%	0.31%	0.31%	4.70%	4.78%	-%	-%

[1] *Accrued interest is included in "Non- interest sensitive" assets and liabilities.*
[2] *Cashable GIC deposits are included in the "0 to 3 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.*

Note 16 – Subsequent Event

On May 1, 2017, the Company obtained a letter of commitment for a two-year, $2.0 billion secured backstop funding facility from a syndicate of Canadian banks, including The Toronto-Dominion Bank, CIBC, and National Bank ("the Banks"). The terms of the facility include a 0.75% commitment fee, a 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the Bank's cost of funds plus 1.25%.

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Johanne Brossard
Corporate Director

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

Kishore Kapoor
Corporate Director

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

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer of Equitable Group Inc. and Equitable Bank

Rowan Saunders
President and Chief Executive Officer, Economical Mutual Insurance Company

Vincenza Sera
Corporate Director

Michael Stramaglia
Corporate Director and President and Founder of Matrisc Advisory Group Inc., a risk management consulting firm

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Vice-President and Chief Risk Officer

Tim Wilson
Vice-President and Chief Financial Officer

Aviva Braude
Vice-President, Mortgage Services

Tim Charron
Vice-President and Treasurer

Dan Dickinson
Vice-President and Chief Digital Officer

David Downie
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Isabelle Farella
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Tamara Malozewski
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Alex Prokoudine
Vice-President, Capital Markets

Rajesh Raut
Vice-President and Controller

Dan Ruch
Vice-President and Chief Compliance Officer

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
Vice-President, Risk Policy

Jody Sperling
Vice-President, Human Resources

Nicholas Strube
Vice-President, Treasury

David Yu
Vice-President, Information Technology

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Quarterly Conference Call and Webcast
Monday, May 1, 2017, 9:00 a.m. EST
Live: 647.427.7450
Replay: 416.849.0833 (code 15433623)
Archive: www.equitablebank.ca

Annual Meeting of Shareholders
Wednesday, May 17, 2017, 10:00 a.m. EST
Equitable Bank Tower
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