

EQUITABLE

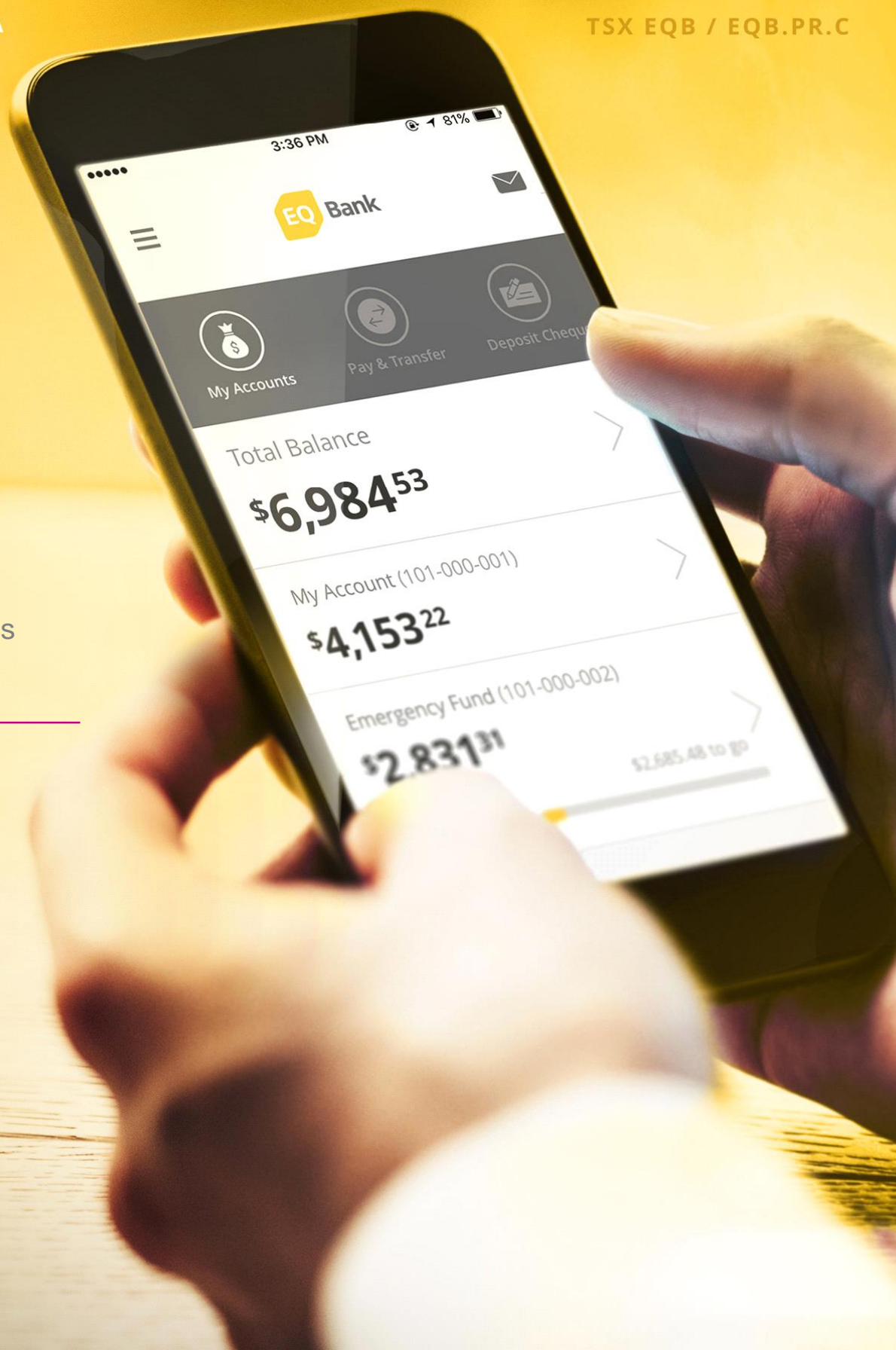
EQUITABLEBANK.CA

TSX EQB / EQB.PR.C

Fourth Quarter Report

For the three months
and year ended
December 31, 2016

2016



EQUITABLE GROUP INC.

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

For the three months and year ended December 31, 2016

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and year ended December 31, 2016. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 29 – 31 in the section "Fourth Quarter Overview" of this report), which have been prepared in accordance with International Accounting Standard ("IAS") 34, and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 16, 2017. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "2016 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Fourth Quarter Overview", "Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Company and the Canadian economy. Although the Company believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Company in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its mortgage business, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, 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 \$22.3 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.

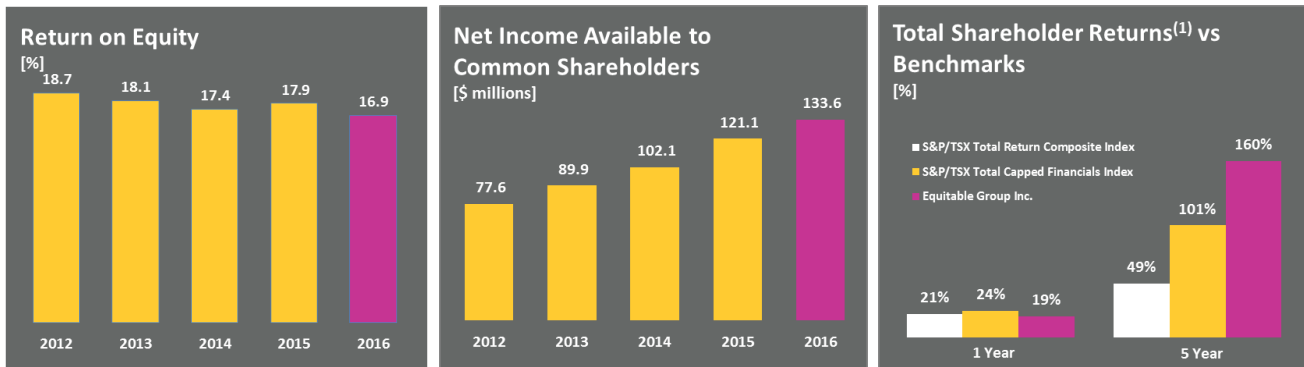
Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadians with various saving options that offer security and attractive interest rates, including 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. In January 2016, Equitable started providing 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* in future years, while at the same time maintaining a strong commitment to our broker partners.

Our strategy includes four major objectives:

Strategic Objectives	Description
Grow by providing superior service, competitive products and cost-efficient operations	Our teams provide outstanding service to our customers to earn their business. We deliver this service through a branchless distribution model, which allows us to maintain an efficient cost structure and deliver more value to Canadian consumers.
Build our capabilities and brand	We are committed to investing in the continuous improvement of our people and systems, so that we can execute effectively on our priorities. We also aim to become an employer of choice in the financial services community.
Consistently create shareholder value	Management allocates capital to business opportunities using a disciplined process designed to optimize our ROE. We retain the vast majority of our earnings to fund growth but at the same time are committed to consistently increasing our common share dividends.
Maintain a low risk profile	We employ rigorous underwriting and collection practices that keep our risk profile and loss rates low. Equitable also holds significant liquid assets to ensure that we are able to withstand potential disruptions in the funding markets.

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

Our value creation strategies have allowed Equitable to generate a consistently high ROE, averaging 17.8% over the past five years. On the basis of that track record and the Company’s business opportunities, we continue to retain the vast majority of our earnings in order to build our capital base and fuel future growth. At the same time, our steady earnings growth has allowed us to increase common share dividends nine times over the past five years.



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

Despite the continued strength of our operating performance, our Total Shareholder Return⁽¹⁾ has lagged that of the TSX Capped Financials Index over the past year. Over a 5-year horizon, however, we have significantly outperformed that index.

CAPABILITIES

We compete successfully with other financial institutions on the basis of our niche strategy and our ability to execute well against it. Our execution reflects the breadth of our capabilities and in particular our customer service focus. Management intends to build on these capabilities to grow our existing businesses and to prudently diversify the products and services we offer over time.

Responsive service: Service excellence is how Equitable differentiates itself in the market. Through training and technology, we are able to build long-term customer and partner relationships that are mutually beneficial and serve to increase our share of lending and savings markets. Our deep knowledge of, and sensitivity to the unique needs of our borrowers – along with their advisors – allows us to execute a loan qualification and servicing process that is efficient and effective.

Disciplined capital deployment: We build regulatory capital to fuel our growth primarily by retaining most of our earnings and will raise additional capital if warranted by profitable growth prospects. Management focuses on long-term value creation for our shareholders and deploys capital to opportunities only if they meet well-defined ROE thresholds. For example, while attractive returns can be garnered on a variety of loan types, single family residential mortgages typically generate a higher ROE than do commercial mortgages because they require less regulatory capital. For that reason, as well as the high barriers to entry and our ability to clearly define our strategic advantage, our portfolio has shifted more towards single family residential mortgages since 2009, though we intend for it to remain diversified across mortgage types.

National distribution presence: We have systematically grown from our roots in serving the Greater Toronto Area (“GTA”) to become a national financial services organization. Equitable reaches borrowers across Canada through independent mortgage brokers and other business partners. The Bank also employs a team of specialists with deep local knowledge in market hubs to support these distribution partners. Though coast-to-coast in reach, we focus on urban centres with liquid real estate markets that benefit from immigration and migration trends and have diversified economies.

Distribution of our brokered deposits has always been national in scope because of our healthy and long-term partnership with Canada’s deposit broker community. To supplement our broker channel activities, in January 2016 we launched the *EQ Bank* digital platform that provides us with a proprietary distribution option for our deposit products, through which we can reach consumers in all provinces except Québec.

Efficient operations: Equitable is the most efficient Schedule I Bank in Canada⁽¹⁾, and one of the very few that operates entirely without a physical retail presence. Due to our branchless operating model, we have a low level of fixed expenses and a highly flexible cost structure. Despite the significant growth in our assets and our employees over the past five years, we have managed to sustain an industry leading Efficiency Ratio.

Rigorous risk management standards: We have a mature risk management framework that guides all of our activities, including underwriting. For example, in our Core Lending business our underwriters evaluate the background and experience of each borrower, the cash flow of the individual or the property, the investment of the borrower in the purchase and the resources behind them, the value of the collateral, and the conditions attached to the credit. Our process is repeatable but not strictly mechanical: we place strong emphasis on detailed analysis of the risks and security in each transaction, and supplement that analysis with our experienced team's judgment. As a result, we can underwrite mortgages on favourable terms for borrowers with good equity and debt service ratios who would be turned away by other lenders that have more formulaic underwriting methodologies. Our rigorous approach, along with broadly positive Canadian economic conditions, has resulted in an average provision for credit losses – rate⁽²⁾ of just 0.04% over the past five years.

Access to cost-effective funding: As a federally regulated deposit-taking institution, and member of the Canada Deposit Insurance Corporation (“CDIC”), we offer secure deposit products to savers in all Canadian jurisdictions. Our team manages over \$9 billion of GICs, HISAs, and deposit notes from tens of thousands of Canadian investors. These deposits fund our unsecuritized mortgage lending assets and over the long term have served as a reliable source of funding and asset-liability matching. We are a participant in the Canada Mortgage and Housing Corporation’s (“CMHC”) National Housing Act (“NHA”) Mortgage-backed Securities (“MBS”) and Canada Mortgage Bond (“CMB”) programs, which allow us to securitize insured mortgages cost-effectively. We also have access to other funding sources including facilities sponsored by some of Canada’s large banks. These funding strategies, and our low cost operations, enable Equitable Bank to be price competitive in our chosen lending markets. Although our current sources of funding are sufficient to meet our needs, we intend to further diversify them as a risk management strategy.

Our people: Equitable depends on skilled, productive and engaged employees at all levels to deliver on our strategies and meet our commitment to service excellence. We have a diverse and talented team of nearly 600 employees, led by a senior management team that has numerous years of relevant experience. To sustain and grow our talent, and to align our team with our value-creation objectives, we provide competitive compensation, benefits, and an employee stock purchase plan; deliver ongoing employee training and support; and promote from within wherever possible. Employee engagement surveys gauge program effectiveness and are used to refine our approaches to becoming an employer of choice in the industry and have been consistently increasing since 2009. Additionally, we received platinum level best employer status from AON Hewitt in 2017.

⁽¹⁾ As measured by the Efficiency Ratio and for the fiscal year 2016.

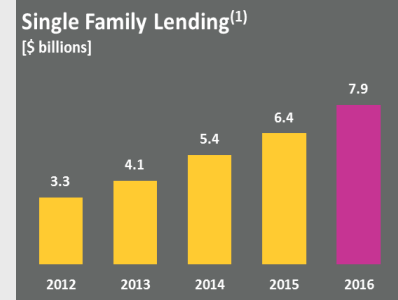
⁽²⁾ See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

OUR BUSINESS LINES

We organize our operations according to products and target customers:

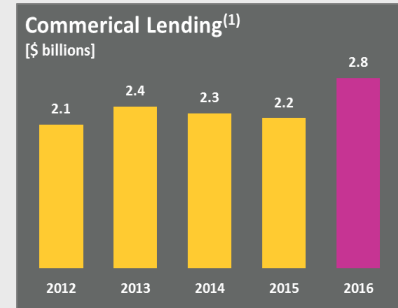
Single Family Lending Services: \$7.9 billion

- **Products:** mortgages for owner-occupied and investment properties including detached and semi-detached houses, townhouses, and condos across Canada. Competitive product set includes a Home Equity Line of Credit (“HELOC”).
- **Target customers:** business-for-self, those who are new to Canada and establishing credit for the first time, and the credit challenged
- **Distribution:** through Canada’s mortgage brokers
- **Strengths:** include superior levels of customer service, extensive broker relationships, and a disciplined approach to credit



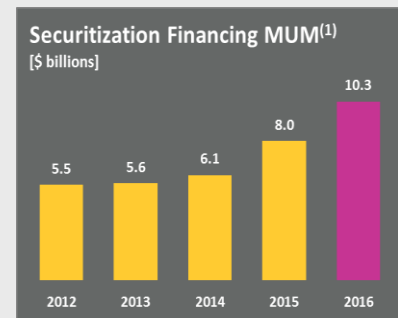
Commercial Lending Services: \$2.8 billion

- **Products:** mortgages, which generally range from \$0.5 million to \$25 million, on a variety of commercial property types including mixed-use, multi-unit residential, shopping plazas, professional offices, and industrial
- **Target customers:** commercial clients, including both small and medium size enterprises and larger borrowers such as publicly traded entities
- **Distribution:** through mortgage brokers, mortgage banks, business partners, and other financial institutions
- **Strengths:** include service excellence, breadth and strength of distribution relationships, underwriting capabilities, and intimate market knowledge



Securitization Financing: \$10.3 billion of Mortgages Under Management (“MUM”)⁽²⁾

- **Products:** mainly insured mortgages on multi-unit and prime single family (“Prime”) residential properties funded through securitization programs
- **Target customers:** individuals (prime borrowers) as well as commercial clients, from entrepreneurs to large, publicly traded entities
- **Distribution:** originate through mortgage brokers or source through mortgage banks and other third party distribution agents
- **Strengths:** include access to low-cost funding through CMHC’s NHA-MBS and CMB programs, distribution relationships, extensive experience in mortgage securitization, and proven capacity to underwrite mortgages on specialized property types

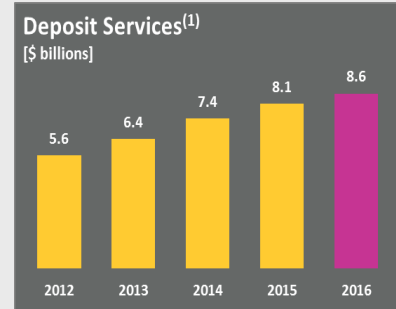


⁽¹⁾ Represents total principal outstanding.

⁽²⁾ See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

Deposit Services: \$8.6 billion

- **Products:** safe and secure savings products including GICs, brokered HISAs, and deposit notes offered under the Equitable Bank brand
- **Target customers:** Canadians savers and institutional investors looking to build a secure fixed-income portfolio with a competitive rate of return and those who have short to medium-term liquidity needs
- **Distribution:** through third party deposit agents, investment dealers, and financial planners, including Canada's large banks
- **Strengths:** include relationships with the agents who recommend our products, our responsive service, and competitive product offerings and rates



EQ Bank Savings Plus Accounts: launched January 2016, \$1.1 billion

- **Products:** a safe and secure high interest savings account with enhanced functionality such as bill payments, offered under the *EQ Bank* brand
- **Target customers:** Canadian savers who are technologically savvy and comfortable banking without access to traditional bank branches, and who are looking for an alternative to Canada's big banks
- **Distribution:** direct to consumer through the innovative *EQ Bank* digital platform
- **Strengths:** an efficient branchless operating model that allows *EQ Bank* to offer a competitive interest rate, an innovative and flexible technology platform, and low fees



⁽¹⁾ Represents total principal outstanding and excludes EQ Bank Savings Plus Account that was introduced in January 2016.

KEY PERFORMANCE INDICATORS

Management monitors a range of metrics to assess the performance of the business and effectiveness of our strategy. The primary indicators of Equitable’s success are:

Performance Metric	What it Represents and Why It Matters
ROE	<ul style="list-style-type: none"> The earnings and returns that we are able to generate for our common shareholders, relative to the book value of our equity Reflects management’s ability to deploy capital in a disciplined manner by making profitable lending decisions and operating an efficient business
Total Capital and Common Equity Tier 1 (“CET1”) Ratios⁽¹⁾	<ul style="list-style-type: none"> The amount of loss absorbing capital invested in our business relative to the size of our risk-adjusted asset base Signifies our ability to protect our depositors and the Bank in the event of financial stress
Provision for credit losses – rate	<ul style="list-style-type: none"> The provision for credit losses of both principal and interest recorded during the year as a percentage of the average loan portfolio Reflects the credit quality of our loan book, specifically the level of impaired loans and our ability to mitigate potential losses thereon
Net Interest Margin (“NIM”)⁽¹⁾	<ul style="list-style-type: none"> The excess of our interest revenues over our funding costs, as a percentage of our average interest earning assets Represents the profitability of our loan book and is the most important driver of net income for the Bank
Efficiency Ratio⁽¹⁾	<ul style="list-style-type: none"> Non-interest expenses as a percentage of our net revenue⁽¹⁾ Gauges how much it costs us to generate each dollar of net revenue and indicates how efficiently we operate
Employee Engagement	<ul style="list-style-type: none"> Measured based on a third-party survey of our employee base that we conduct on an annual basis, which benchmarks us against other employers Signifies the commitment and satisfaction of our employees, a key driver of our success. High engagement correlates with reduced turnover and higher productivity, and it is often considered a forward-looking indicator of performance.

⁽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)	2016	2015	2014	Change from 2015	
RESULTS OF OPERATIONS					
Net income	\$ 138,330	\$ 125,865	\$ 106,718	\$ 12,465	10%
Net income available to common shareholders	133,567	121,102	102,107	12,465	10%
Net interest income ⁽¹⁾	279,357	242,227	204,522	37,130	15%
Total revenue ⁽¹⁾	663,923	581,994	522,967	81,929	14%
EPS – basic	\$ 8.57	\$ 7.83	\$ 6.63	\$ 0.74	9%
EPS – diluted	\$ 8.49	\$ 7.73	\$ 6.53	\$ 0.76	10%
ROE	16.9%	17.9%	17.4%	N/A	(1.0%)
Return on average assets ⁽²⁾	0.8%	0.9%	0.9%	N/A	(0.1%)
NIM – TEB – total assets ⁽²⁾	1.64%	1.73%	1.71%	N/A	(0.08%)
Efficiency Ratio – TEB ⁽³⁾	37.8%	33.6%	32.6%	N/A	4.2%
BALANCE SHEET					
Total assets	18,973,588	15,527,584	12,854,903	3,446,004	22%
Assets Under Management	22,277,769	17,600,072	14,373,911	4,677,697	27%
Mortgages receivable	17,783,803	14,700,806	12,269,945	3,082,997	21%
Mortgages Under Management ("MUM")	21,004,013	16,706,935	13,759,706	4,297,078	26%
Shareholders' equity	977,150	796,116	703,964	181,034	23%
CREDIT QUALITY					
Provision for credit losses	2,445	3,638	2,627	(1,193)	(33%)
Provision for credit losses – rate	0.02%	0.03%	0.02%	N/A	(0.01%)
Net impaired mortgages as a % of total mortgage assets ⁽⁴⁾	0.21%	0.22%	0.30%	N/A	(0.01%)
Allowance for credit losses as a % of total mortgage assets	0.19%	0.23%	0.27%	N/A	(0.04%)
SHARE CAPITAL					
Common shares outstanding	16,460,142	15,538,605	15,435,356	921,537	6%
Book value per common share ⁽²⁾	\$ 54.96	\$ 46.57	\$ 40.90	\$ 8.39	18%
Common share price – close	\$ 60.46	\$ 51.50	\$ 65.67	\$ 8.96	17%
Common share market capitalization	995,180	800,238	1,013,640	194,942	24%
Dividends declared per:					
Common share	\$ 0.84	\$ 0.76	\$ 0.68	\$ 0.08	11%
Preferred share – Series 1 ⁽⁵⁾	N/A	N/A	\$ 1.36	N/A	N/A
Preferred share – Series 3 ⁽⁶⁾	\$ 1.59	\$ 1.59	\$ 0.63	-	-%
EQUITABLE BANK CAPITAL RATIOS⁽²⁾					
Risk-weighted assets	6,385,825	5,259,384	4,721,132	1,126,441	21%
CET1 Ratio	14.0%	13.6%	13.5%	N/A	0.4%
Tier 1 Capital Ratio	15.1%	15.0%	14.9%	N/A	0.1%
Total Capital Ratio	16.6%	16.8%	17.3%	N/A	(0.2%)
Leverage Ratio ⁽⁷⁾	5.1%	5.2%	N/A	N/A	(0.1%)

⁽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.

⁽⁵⁾ The Company fully redeemed its Series 1 Preferred Shares on September 30, 2014.

⁽⁶⁾ The Company issued its Series 3 Preferred Shares in August 2014 and the 2014 Series 3 Preferred Shares dividend declaration represented dividends payable for the period from August 8, 2014 to December 31, 2014.

⁽⁷⁾ The Leverage Ratio has replaced the OSFI Assets-to-capital multiple ("ACM") effective January 1, 2015, thus it is not applicable for fiscal year 2014.

2016 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record annual earnings and a strong ROE in 2016 primarily due to the 15% increase in Net interest income (“NII”) generated from our diversified and continuously growing asset base. We successfully delivered on our key strategic priorities in the year and made investments in our franchise that increased costs but laid the foundation for more success in future years.

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	<ul style="list-style-type: none"> • Grew our Alternative Single Family assets by 22% with originations that were 35% higher than in 2015 • Grew our Commercial Lending mortgage portfolio by 27% over the prior year and 6% from Q3 2016 • Increased our Prime Single Family MUM by 90%, with originations of \$2.1 billion representing a 32% increase over 2015 levels
Build our capabilities and brand	<ul style="list-style-type: none"> • Awarded AON Hewitt Best Employer 2017 with a PLATINUM standing • Successfully launched our <i>EQ Bank</i> digital banking platform in January 2016 and accumulated over \$1 billion in deposits by year-end • Further developed our presence and brand with both brokers and consumers in the Prime Single Family lending market • Became the successor issuer on \$3.1 billion of NHA-MBS pools⁽¹⁾; expected to be EPS accretive through 2020 • Increased our CET1 capital by issuing \$50 million of common shares through a private placement in December
Consistently create shareholder value	<ul style="list-style-type: none"> • Delivered record EPS of \$8.49, 10% higher than in the preceding year • Produced an ROE of 16.9%, which exceeded most industry benchmarks • Increased book value per common share by 18% from 2015 • Declared annual common share dividends that were 11% higher than in 2015
Maintain a low risk profile	<ul style="list-style-type: none"> • Maintained a loan-to-value ratio of 69% on our residential mortgage portfolio, as compared to 71% in 2015 • Recorded a provision for credit losses of \$2.4 million or 2 bps of average loan balances, 1 bp lower than the provision rate in 2015 • Reported a CET1 Ratio of 14.0%, which remained ahead of regulatory minimums and most industry benchmarks

⁽¹⁾ As part of becoming the successor issuer of \$3.1 billion of NHA-MBS pools and related receivables previously issued by Maple Bank GmbH's Toronto Branch (“Maple Bank”), Equitable also acquired ownership of \$100 million of unsold MBS and a \$33 million credit facility secured by residential mortgages. We refer to the issuer rights, MBS, and credit facility collectively as “Maple Assets” throughout this document.

ITEMS OF NOTE

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

- \$2.6 million of marketing expenses in Q1 2016 to support the launch of our *EQ Bank* platform; and
- \$1.3 million of gains recorded on certain investments acquired from Maple Bank.

Our 2015 financial results were impacted by the following item:

- a Q2 investment gain from a securities transaction that increased net income by \$1.5 million. The transaction resulted in a lower tax provision in Q2 and for the year.

DIVIDENDS

On February 16, 2017 the Company's Board of Directors declared a quarterly dividend in the amount of \$0.23 per common share, payable on April 6, 2017, to common shareholders of record at the close of business on March 10, 2017. This dividend represents a 15% increase over dividends declared in February 2016.

In addition, on February 16, 2017, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on March 31, 2017, to preferred shareholders of record at the close of business on March 10, 2017.

BUSINESS OUTLOOK

We expect that our strategy, including our disciplined approach to capital allocation, will lead to EPS growth and returns on our equity that are consistent with our long-term average throughout the next fiscal year.

Recent Regulatory Changes

The Government of Canada continues to focus on maintaining 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. In addition, the government has proposed lender risk sharing arrangements that could further affect the insured mortgage market. It will take some time for the recent changes to have an impact on market activity, but we believe that directionally these regulatory interventions will have a negative impact on the level of activity in many segments of the housing market and 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 deep industry experience and consultations with other industry participants, we do not believe that the changes will have a significant impact on our 2017 prospects or strategy. Our Prime Single Family portfolio represents less than 2% of our earnings after tax, so even significant decreases in the business would not have a material impact on our overall profitability.

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 at rates in the mid-teens in 2017. Balance sheet assets should grow at slightly lower levels due to derecognition of between \$0.2 and \$0.3 billion of 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 range of 15% to 17% throughout 2017, with growth of individual asset categories described in detail below.

⁽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⁾
<p><i>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.</i></p>		
Core Lending: Alternative Single Family	<ul style="list-style-type: none"> Assets grow in the range of 18% to 20% 	<ul style="list-style-type: none"> Recent regulatory changes will decrease overall housing market activity; house prices will remain constant or contract slightly The Bank achieves a higher market share in the Alternative segment due to our consistently superior levels of service Previously insurable Prime volumes migrate to the conventional market and Equitable is able to capture a 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 to Q4, and overall economic growth in Canada remains tepid
Core Lending: Commercial	<ul style="list-style-type: none"> Assets grow at a rate in the range of 10% to 12% 	<ul style="list-style-type: none"> Enhanced focus on key borrower segments leads to strong originations Attrition rates likely increase slightly from 2016 levels due to a higher level of maturities
Securitization Financing: Prime Single Family	<ul style="list-style-type: none"> Year-end MUM and balance sheet assets both grow in the range of 25% to 30% per year, with the growth rate declining to that level over the course of the year 	<ul style="list-style-type: none"> 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 up to 40% We achieve some market share gains which help to partially offset the effects of the recent regulatory changes Even though origination volumes fall, the portfolio still grows because of low maturity levels in this young portfolio
Securitization Financing: Multi-Unit Residential ("Multis")	<ul style="list-style-type: none"> MUM grows at a rate in the low single digits Balance sheet assets decline due to asset derecognition 	<ul style="list-style-type: none"> Mortgages are renewed and originated in sufficient volume to use our quarterly fixed rate CMB capacity, which remains at approximately \$300 million Approximately \$200-\$300 million of Multis will be derecognized from the balance sheet each quarter We will choose to execute transactions to derecognize Multis rather than Prime Single Family assets due to the relative cost efficiency of the transactions

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

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive 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 mid to high-teens 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. The growth of our businesses will likely cause us to continue derecognizing assets going forward in order to effectively manage our capital position. If regulatory changes reduce the volumes of insured Prime Single Family mortgages that we originate or renew, however, we will reduce the level of our derecognition activity accordingly. If we reduce our derecognition activity, we will realize the Net Interest Income 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	<ul style="list-style-type: none"> Will decrease by up to 5 bps from Q4 2016 	<ul style="list-style-type: none"> The Government of Canada overnight rate and the Prime lending rate do not change through the end of 2017. Margins within Alternative Single Family and Commercial are stable; price competition does not increase The portfolio mix shifts slightly more towards lower spread but higher ROE Single Family assets which will cause NIM to gradually decrease <i>EQ Bank</i> deposit balances grow moderately, as we maintain a highly attractive interest rate and add additional features to the platform in 2017
NIM: Securitization Financing	<ul style="list-style-type: none"> Will decrease slightly from Q4 2016 	<ul style="list-style-type: none"> Prepayment income declines from the unusually high level experienced in Q4 2016 Multi margins are consistent with current levels Prime margins will be highly dependent on the market’s reaction to recent regulatory changes, with a slight widening being the most likely scenario
NIM: Total	<ul style="list-style-type: none"> Will decrease by several basis points relative to Q4 2016 levels 	<ul style="list-style-type: none"> 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 offset by a decrease in the margins of each portfolio
Income from NHA-MBS Successor Issuer Rights	<ul style="list-style-type: none"> Expect Maple income in the range of \$0.25-\$0.30 	<ul style="list-style-type: none"> Equitable does not obtain renewal rights for the majority of the mortgages that mature during 2017
Securitization Gains on Sale	<ul style="list-style-type: none"> Will be consistent with 2016 levels 	<ul style="list-style-type: none"> Securitization and derecognition activity is between \$200 and \$300 million in each of the next four quarters Overall gain on sale margins will be consistent with the levels realized in 2016

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 EQ 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, and particularly taking into account the relative scale of our operations. Our Efficiency Ratio will improve through the end of 2017, though will remain just above the mid 30 percent range throughout that period.

Strategic Initiatives

Throughout 2017 management will continue to pursue our key strategic initiatives. We will invest to grow our lending businesses; enhance the capabilities of 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 levels of capital investment and operating expenses will be consistent with the levels in 2016. We expect that all of these initiatives will deliver meaningful long-term value for our shareholders.

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.

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 20 of our Q4 2016 Supplemental Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca. We provide this additional disclosure because of the continuing challenges of the energy industry and the impact thereof on the economies of those two provinces. 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)	2016	2015	Change from 2015	
Net income	\$ 138,330	\$ 125,865	\$ 12,465	10%
EPS – diluted	\$ 8.49	\$ 7.73	\$ 0.76	10%
Net interest income	279,357	242,227	37,130	15%
Provision for credit losses	2,445	3,638	(1,193)	(33%)
Non-interest expenses	116,539	87,962	28,577	32%
Income taxes	48,501	41,598	6,903	17%

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

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016			2015		
	Average balance	Revenue/Expense	Average rate ⁽¹⁾	Average balance	Revenue/Expense	Average rate ⁽¹⁾
Core Lending:						
<i>Revenues derived from:</i>						
Mortgages	\$ 9,582,080	\$ 444,093	4.63%	\$ 8,183,052	\$ 392,462	4.80%
Liquidity investments	630,830	5,773	0.92%	527,109	5,807	1.10%
Equity securities – TEB ⁽²⁾	124,461	8,916	7.16%	142,511	8,958	6.29%
	10,337,371	458,782	4.44%	8,852,672	407,227	4.60%
<i>Expenses related to:</i>						
Deposits and bank facilities	8,228,347	171,521	2.08%	7,639,928	165,792	2.17%
Debentures	65,000	3,800	5.85%	83,817	5,033	6.01%
Securitization liabilities	1,127,375	17,471	1.55%	351,376	6,715	1.91%
	9,420,722	192,792	2.05%	8,075,121	177,540	2.20%
Net interest income – TEB ⁽²⁾		265,990	2.57%		229,687	2.59%
Taxable Equivalent Basis – adjustment ⁽²⁾		(2,648)			(2,482)	
Core lending	\$	263,342		\$	227,205	
Securitization Financing:						
<i>Revenues derived from:</i>						
Mortgages	\$ 6,667,109	\$ 179,838	2.70%	\$ 5,097,367	\$ 159,247	3.12%
Liquidity investments	147,682	1,493	1.01%	155,729	1,166	0.75%
	6,814,791	181,331	2.66%	5,253,096	160,413	3.05%
<i>Expenses related to:</i>						
Securitization liabilities	5,787,342	148,489	2.57%	4,614,245	134,852	2.92%
Deposits and secured funding facility	983,476	16,827	1.71%	575,270	10,539	1.83%
	6,770,818	165,316	2.44%	5,189,515	145,391	2.81%
Securitization financing	\$	16,015	0.23%	\$	15,022	0.29%
Total interest earning assets – TEB ⁽²⁾	\$ 17,152,162	\$ 282,005	1.64%	\$ 14,105,768	\$ 244,709	1.73%

⁽¹⁾ Average rates are calculated based on the daily average balances outstanding during the year.

⁽²⁾ See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

NII was up 15% due to an increase in our average interest earning asset balances of \$3.0 billion or 22%, offset in part by a reduction in our NIM. Total NIM decreased 9 basis points (“bps”) as our asset mix shifted towards the lower margin Securitization Financing business and we experienced lower margins within both portfolios.

Table 4: Factors affecting YTD 2016 v YTD 2015 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Asset mix	(3)	• A shift in average assets towards our lower yielding but higher ROE Single Family business
Funding mix	4	• Growth of our low rate brokered HISA • Redemption of higher cost deposit notes • Partly offset by growth of our higher rate <i>EQ Bank</i> deposit product
Rates/spreads ⁽¹⁾	(3)	• Spreads within both our Commercial and Single Family Lending mortgage portfolios have dropped slightly in the current year
Change in Core Lending NIM	(2)	
Securitization Financing NIM:		
Mortgage prepayment income	(1)	• Mortgage prepayment income is inherently volatile
Asset mix	2	• A reduction in the relative size of our lower yielding liquidity investments
Rates/spreads ⁽¹⁾	(7)	• Unusually low margins within Prime at several points in the year
Change in Securitization NIM	(6)	
Change in Total NIM ⁽²⁾	(9)	

⁽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)	2016	2015	Change from 2015	
Individual provision	\$ 2,445	\$ 1,258	\$ 1,187	94%
Collective provision	-	2,380	(2,380)	(100%)
Provision for credit losses	\$ 2,445	\$ 3,638	\$ (1,193)	(33%)
Provision for credit losses – rate	0.02%	0.03%	N/A	(0.01%)
Allowance for credit losses	\$ 34,426	\$ 33,216	\$ 1,210	4%

The credit quality of our mortgage portfolio remained strong. Our provision for credit losses during the year was \$2.4 million, \$1.2 million lower than in 2015. Relative to average mortgage principal outstanding during the year, the provision for credit losses was 2 bps, just below the 2015 level and 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 year.

The provision for credit losses represents management’s best estimate of loss formations during the year after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary year-to-year 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 balance sheet. The allowance was \$34.4 million or 19 bps of our total mortgage assets at December 31, 2016, which is in excess of our 10 year average annual loss rate of 4 bps.

OTHER INCOME

Table 6: Other income

(\$ THOUSANDS)	2016	2015	Change from 2015	
Fees and other income:				
Fees and other income	\$ 16,111	\$ 11,413	\$ 4,698	41%
Income from successor issuer activities	1,529	-	1,529	N/A
Net gain (loss) on investments	146	(463)	609	N/A
Securitization activities:				
Gains on securitization and income from retained interests	9,035	6,150	2,885	47%
Fair value losses on derivative financial instruments	(363)	(264)	(99)	N/A
Total	\$ 26,458	\$ 16,836	\$ 9,622	57%

Other income increased \$9.6 million compared with 2015, mainly due to increases in:

- Fees and other income, the majority of which resulted from growth in our mortgage assets and \$1.3 million of gains recorded on certain investments acquired from Maple Bank;
- Income from successor issuer activities, representing income earned from certain Maple Assets that we bought this year and is expected to be recurring on a diminishing basis through 2020;
- Gains on securitization and income from retained interests, driven by a higher volume of securitization transactions that qualified for derecognition; and
- A net investment gain of a \$0.1 million in the current year compared to a \$0.5 million net loss in 2015.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

(\$ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	2016	2015	Change from 2015	
<i>Growth of our franchise:</i>				
Compensation and benefits	\$ 54,843	\$ 45,957	\$ 8,886	19%
Technology and system costs	14,753	11,590	3,163	27%
Product costs	8,138	7,233	905	13%
Regulatory, legal and professional fees	7,768	6,529	1,239	19%
Marketing and corporate expenses	7,571	7,470	101	1%
Premises	6,151	3,571	2,580	72%
Non-interest expenses before strategic investments	\$ 99,224	\$ 82,350	\$ 16,874	20%
<i>Investments in our future:</i>				
Compensation and benefits	\$ 5,437	\$ 2,517	\$ 2,920	116%
Other	11,878	3,095	8,783	284%
Total investments in our future ⁽¹⁾	\$ 17,315	\$ 5,612	\$ 11,703	209%
Total non-interest expenses	\$ 116,539	\$ 87,962	\$ 28,577	32%
Efficiency Ratio – TEB	37.8%	33.6%	N/A	4.2%
Full-time employee ("FTE") – period average	531	445	86	19%

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

During Q3 2016, management recategorized non-interest expenses as presented in Table 7 to better align like expenses, enhance the reader's ability to understand expense trends across reporting periods, and to be consistent with how management monitors and manages spending. 2015 comparative figures have been reclassified to conform to the current period presentation.

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking

into account the scale of our operations. Our Efficiency Ratio increased to 37.8% from 33.6% a year ago, mainly due to a 32% increase in non-interest expenses. The increase reflects the successful expansion of our business, as well as strategic investments made to enable future growth and maintain the superior level of service that we provide to mortgage brokers, borrowers and savers. In most cases, these strategic investments were made ahead of the associated benefits, and as such reduced our net income and elevated our Efficiency Ratio in the current year. We expect these investments will improve our future efficiency, enhance our competitive capabilities and differentiate us from our competitors, thereby creating long-term value for our shareholders.

The key drivers of the \$28.6 million increase in our expenses were:

Growth of Our Franchise: \$16.9 million or 59% of the net increase

- Compensation and benefits costs increased as a result of an 18% increase in FTE to support our growing business;
- Technology and system costs were up due to core banking system support, maintenance and enhancements;
- Premises costs increased, as a result of the renovation and expansion of our office space; and
- Regulatory, legal and professional fees were higher mainly due to an increase in CDIC's standard premium rates, higher deposit balances, and business growth.

Investments in Our Future: \$11.7 million or 41% of the net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives. The growth was driven by:

- a \$3.9 million increase for digital banking call centre costs as well as systems support and maintenance;
- a \$3.0 million increase in marketing expenses to support *EQ Bank's* public launch in January and to build our brand over the year;
- a \$2.9 million increase in compensation and benefits related to growth of our digital banking and prime lending teams; and
- a \$2.6 million increase in product costs, resulting from our amortization of previously capitalized digital banking investments, mainly over a 10 year period.

INCOME TAXES

Our effective income tax rate in 2016 increased to 26.0% from 24.8% in 2015, largely due to an investment transaction in Q2 2015 that reduced the tax provision in that period and for the year. Excluding the impact of the investment transaction, our effective tax rate was 0.3% higher than last year.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016	2015	Change from 2015	
Total assets	\$ 18,973,588	\$ 15,527,584	\$ 3,446,004	22%
Mortgage principal – Core Lending	10,682,712	8,679,129	2,003,583	23%
Mortgage principal – Securitization Financing	7,017,120	5,955,318	1,061,802	18%
Deposit principal	9,680,163	8,115,483	1,564,680	19%
Total liquid assets as a % of total assets ⁽¹⁾	6.7%	5.8%	N/A	0.9%

⁽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 tables provide mortgage principal continuity schedules by lending portfolio for 2016 and 2015:

Table 9: Mortgage principal continuity schedule

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
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	3,608,169	1,269,685	4,877,854	3,049,279	7,927,133	-	3,049,279
Securitization derecognized	-	-	-	(1,328,487)	(1,328,487)	1,328,487	-
Net repayments	(2,202,126)	(672,145)	(2,874,271)	(658,990)	(3,533,261)	(96,794)	(755,784)
2016 closing balance	\$ 7,855,706	\$ 2,827,006	\$ 10,682,712	\$ 7,017,120	\$ 17,699,832	\$ 3,304,181	\$ 10,321,301
% Change from 2015	22%	27%	23%	18%	21%	59%	29%
Net repayments percentage ⁽³⁾	34.1%	30.1%	33.1%	11.1%	24.1%	4.7%	9.4%

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2015						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
2014 closing balance	\$ 5,385,848	\$ 2,305,375	\$ 7,691,223	\$ 4,549,475	\$ 12,240,698	\$ 1,519,008	\$ 6,068,483
Originations	2,673,150	903,233	3,576,383	2,573,274	6,149,657	-	2,573,274
Securitization derecognized	-	-	-	(617,015)	(617,015)	617,015	-
Net repayments	(1,609,335)	(979,142)	(2,588,477)	(550,416)	(3,138,893)	(63,535)	(613,951)
2015 closing balance	\$ 6,449,663	\$ 2,229,466	\$ 8,679,129	\$ 5,955,318	\$ 14,634,447	\$ 2,072,488	\$ 8,027,806
% Change from 2014	20%	(3%)	13%	31%	20%	36%	32%
Net repayments percentage ⁽³⁾	29.9%	42.5%	33.7%	12.1%	25.6%	4.2%	10.1%

⁽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.

Total MUM increased by \$4.3 billion or 26% compared to a year ago, driven by 23% growth in Core Lending balances and 29% growth in Securitization Financing MUM.

Within Core Lending, the alternative Single Family Lending and Commercial Lending portfolios both grew by more than 20% due to strong origination levels. Commercial balance growth also benefited from lower than normal attrition rates.

Securitization Financing MUM, which includes \$3.3 billion of derecognized mortgage principal, is more reflective of the performance of our underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM grew \$2.3 billion from 2015, largely due to origination activity and low attrition in our Prime Single Family business. Prime has accumulated \$3.9 billion of assets since its launch in August 2014. 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.

MORTGAGE ASSET ORIGINATIONS

The table below provides mortgage originations for 2016 and 2015 by lending business:

Table 10: Mortgage originations – by lending business

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016		2015		Change from 2015	
	Mortgage principal funded	% of total	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Core Lending:						
Single Family Lending	\$ 3,608,169	46%	\$ 2,673,150	43%	\$ 935,019	35%
Commercial Lending	1,269,685	16%	903,233	15%	366,452	41%
	4,877,854	62%	3,576,383	58%	1,301,471	36%
Securitization Financing :						
Multi-unit residential	957,857	12%	989,944	16%	(32,087)	(3%)
Prime single family residential	2,091,422	26%	1,583,330	26%	508,092	32%
	3,049,279	38%	2,573,274	42%	476,005	18%
Total mortgage originations	\$ 7,927,133	100%	\$ 6,149,657	100%	\$ 1,777,476	29%

The Company delivered record mortgage origination volumes in 2016. Originations increased from 2015 as a result of stronger performance in both our Core Lending and Securitization Financing portfolios.

With Core Lending, the origination growth in Single Family is mainly attributable to the strength of the Canadian real estate market and to market share gains that resulted from our consistently high levels of service quality. Commercial Lending originations were higher due to our increased market focus, our recent rebranding efforts, and the strength of our distribution partnerships.

Securitization Financing originations were up slightly year-over-year, reflecting our success in building our Prime Single Family mortgage business, both internally and through mortgage brokers and distribution agents. Of the \$2.1 billion of Prime loans that we originated during the year, \$669 million was originated internally which was up \$301 million or 82% from last year. The remaining \$1.4 billion was sourced through third parties.

Origination volumes of Multis were down \$32 million or 3% compared to the prior year. We aim to originate Multis such that we utilize the full amount of our CMB capacity each year, after considering our renewal volumes and inventory on-hand. Our CMB capacity was up in 2016, but so were renewal volumes, and as a result origination volumes decreased.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. When we securitize mortgages, we apply the IFRS derecognition rules to determine whether we have transferred substantially all the risks and rewards or control associated with the mortgages to third parties. If the securitized mortgages and 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 sheets.

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

Table 11: Securitization and derecognition activity

(\$ THOUSANDS EXCEPT PERCENTAGES)	2016	2015	Change from 2015	
Securitization derecognized - non-prepayable Multis	\$ 580,410	\$ 607,858	\$ (27,448)	(5%)
Securitization derecognized - prepayable mortgages ⁽¹⁾	748,077	9,157	738,920	8,069%
Total principal derecognized	\$ 1,328,487	\$ 617,015	\$ 711,472	115%
Gains on sale	\$ 8,135	\$ 5,247	2,888	55%
Gains on sale margin ⁽²⁾	0.61%	0.85%	N/A	(0.24%)

⁽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.

Gains on sale were up from last year as a result of greater derecognition volume and despite a lower gain on sale margin. The higher volume was primarily due to an increase in the volume of *prepayable* mortgages that was derecognized during the year. We executed transactions that transferred the risks and rewards of securitized prepayable mortgages to third parties and allowed us to effect derecognition of the assets, in order to proactively manage our regulatory Leverage Ratio. These transactions resulted in the derecognition of \$748 million of prepayable Multis and a gain on sale of \$1.6 million (a 0.22% margin).

The gain on sale margin was down from 2015 largely due to a mix shift towards prepayable Multis. Margins on these type of mortgages are lower because there are costs associated with executing the transactions that allow for derecognition. In addition, the mortgages that we derecognized had a relatively low spread.

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 in following table. 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.

Table 12: Mortgage credit metrics

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016	2015	Change from 2015	
Provision for credit losses	\$ 2,445	\$ 3,638	\$ (1,193)	(33%)
Provision for credit losses – rate	0.02%	0.03%	N/A	(0.01%)
Gross impaired mortgage assets ⁽¹⁾	39,365	34,183	5,182	15%
Net impaired mortgage assets ⁽²⁾	36,829	32,857	3,972	12%
Net impaired mortgage assets as a % of total mortgage assets	0.21%	0.22%	N/A	(0.02%)
Allowance for credit losses	34,426	33,216	1,210	4%
Allowance for credit losses as a % of total mortgage assets	0.19%	0.23%	N/A	(0.04%)
Allowances for credit losses as a % of gross impaired mortgage assets	87%	97%	N/A	(10%)

⁽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.

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in 2016:

- Our provision for credit losses in absolute dollars and relative to average mortgage principal dropped from 2015, 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 as a percentage of total mortgages assets declined year-over-year but remains sufficient in the opinion of management

Alberta and Saskatchewan

Since late 2014, management has been proactively adjusting 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 over the past two years.

The highlights of our investments in Alberta and Saskatchewan at December 31, 2016 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 \$0.8 billion of that total being single family residential and \$0.4 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, \$66.5 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 65%
- Impaired mortgages in Alberta and Saskatchewan were \$14.6 million or only 0.08% of our total mortgage principal, up as expected from \$11.6 million in the preceding quarter and \$7.1 million in the prior year
- Early stage delinquencies in Alberta and Saskatchewan were \$12.2 million or 0.07% of our total mortgage principal outstanding at the end of 2016, down from \$13.4 million in the preceding quarter and up from \$9.7 million in the prior year

Overall, the Alberta and Saskatchewan portfolios have performed better than we had expected to date in the face of declining energy prices in prior years. Total delinquencies have remained relatively stable throughout 2016, increasing slightly from the prior quarter and improving since Q1 2016. In 2016, provisions for credit losses on impaired mortgages in these two provinces were only \$0.9 million. The table below provides our Alberta and Saskatchewan arrears figures for the past eight quarters:

Table 13: Alberta and Saskatchewan Delinquencies

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Early stage delinquencies ⁽¹⁾	\$ 12,247	\$ 13,428	\$ 16,573	\$ 19,030	\$ 9,666	\$ 8,602	\$ 7,461	\$ 14,946
Impaired mortgages ⁽²⁾	14,552	11,644	8,911	9,066	7,103	7,765	6,126	6,060
Total Delinquencies	\$ 26,799	\$ 25,072	\$ 25,484	\$ 28,096	\$ 16,769	\$ 16,367	\$ 13,587	\$ 21,006
Delinquencies as a % of total mortgage principal	0.15%	0.15%	0.16%	0.18%	0.11%	0.12%	0.10%	0.16%
Impaired mortgages as a % of total mortgage principal	0.08%	0.07%	0.06%	0.06%	0.05%	0.06%	0.05%	0.05%

⁽¹⁾ Early stage delinquencies consist of principal of both uninsured mortgages in arrears between 30 and 89 days and insured mortgages 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 regular 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 provisions 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 Q4 2016 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.

Table 14: Liquid assets

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016	2015	Change from 2015	
Eligible deposits with regulated financial institutions ⁽¹⁾	\$ 443,855	\$ 423,157	\$ 20,698	5%
Government issued or guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	199,401	19,918	179,483	901%
Debt securities guaranteed by Government of Canada	-	16,295	(16,295)	(100%)
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽²⁾	638,323	301,453	336,870	112%
Obligations under repurchase agreements	(112,488)	-	(112,488)	N/A
Liquid assets held for regulatory purposes	1,169,091	760,823	408,268	54%
Other deposits with regulated financial institutions	324	209	115	55%
Equity securities ⁽³⁾	111,176	134,024	(22,848)	(17%)
Total liquid assets	\$ 1,280,591	\$ 895,056	\$ 385,535	43%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	6.2%	4.9%	N/A	1.3%
Total liquid assets as a % of total assets	6.7%	5.8%	N/A	0.9%

⁽¹⁾ Eligible deposits with regulated financial institutions exclude \$16.0 million (December 31, 2015 – \$23.3 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$231.9 million (December 31, 2015 – \$84.7 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 represents the fair market value of the associated MBS securities.

⁽³⁾ Equity securities include publically 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 December 31, 2016, our LCR was well in excess of the regulatory minimum of 100%.

Liquid assets held for regulatory purposes were up as compared with 2015, primarily due to growth of our business and our decision to pre-fund more of our mortgage pipeline given the relatively inexpensive term deposits rates in December.

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

OTHER ASSETS

The table below provides a breakdown of Other assets at December 31, 2016 and December 31, 2015:

Table 15: Other assets

(\$ THOUSANDS)	2016	2015	Change from 2015	
Capital assets	\$ 20,445	\$ 14,369	\$ 6,076	42%
Intangible assets	18,998	18,836	162	1%
Prepaid expenses and other	9,945	8,223	1,722	21%
Receivable relating to securitization activities	8,998	5,524	3,474	63%
Real estate owned	7,596	8,200	(604)	(7%)
Derivative financial instruments:				
interest rate swaps	3,673	990	2,683	271%
total return swaps	1,042	-	1,042	N/A
bond forwards	456	-	456	N/A
Accrued interest and dividends on non-mortgage assets	1,626	420	1,206	287%
Mortgage commitments	48	2	46	2,300%
Income taxes recoverable	-	3,578	(3,578)	(100%)
Total	\$ 72,827	\$ 60,142	\$ 12,685	21%

The growth in Other assets from 2015 to 2016 was mainly due to the following items:

- an increase in capital assets related to investments in our computer systems and the office expansion we undertook in support of our growth;
- an increase in receivables relating to securitization activities, primarily due to certain Maple Assets that we assumed in Q4 2016; and
- an increase in the fair value of outstanding derivative financial instruments;

Offset by:

- a decrease in income taxes receivable.

Included in Prepaid expenses and other is a net receivable of \$3.2 million (December 31, 2015 – \$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.

DEPOSITS

Table 16: Deposit principal

(\$ THOUSANDS)	2016	2015	Change from 2015	
Brokered term deposits	\$ 7,275,675	\$ 6,931,771	\$ 343,904	5%
Brokered HISAs	1,192,046	947,675	244,371	26%
EQ Bank Savings Plus Accounts	1,062,279	91	1,062,188	N/A
Deposit notes	150,163	235,946	(85,783)	(36%)
Total	\$ 9,680,163	\$ 8,115,483	\$ 1,564,680	19%

Equitable Bank is a federally regulated deposit taking institution and offers insured deposits 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 outstanding increased \$1.6 billion or 19%, to \$9.7 billion as at December 31, 2016, just below the growth rate of our Core Lending Portfolio.

The majority of this growth was in the *EQ Bank Savings Plus Account* and our brokered HISA product. *EQ Bank* deposits surpassed \$1.0 billion at the end of 2016. Brokered HISA balances increased by \$244 million or 26% from last year to \$1.2 billion. The growth of these products has further diversified our funding sources and reduced our overall risk profile.

The relatively lower growth rate of brokered term deposits reflects our efforts to grow and diversify our other funding sources, in particular *EQ Bank*. We continue to have strong relationships with our deposit agents or brokers and these deposits continue to offer Canadian savers an attractive interest rate.

Deposit note balances decreased by \$86 million compared to 2015 mainly due to the redemption of a floating rate note in September 2016. Although we are committed to maintaining a deposit note program over the long-term, the Bank has not been an active issuer recently as deposit note yields remain high relative to those of our other funding sources.

SECURITIZATION LIABILITIES

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

Securitization liability principal was \$7.8 billion at the end of December 31, 2016, up \$1.7 billion or 27% from December 31, 2015. The increase is largely due to the growth of our Prime Single Family business but also to a new funding program that was established in Q2 2015 and expanded in Q2 2016. This new program, which is sponsored by a major Canadian Schedule I Bank, provides Equitable with a source of matched funding for uninsured single family mortgages. Once securitized, mortgages remain in the facility until they mature. Equitable bears no risk for the funding of the facility itself.

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 December 31, 2016, the balance outstanding on these facilities was \$50 million (December 31, 2015 - \$236 million). Our usage of these facilities is a function of our Prime Single Family origination levels and the timing of mortgage securitizations and sales, in addition to the availability of other funding sources.

We also have a \$35 million operating credit facility in place with a major Canadian Schedule I Bank. The facility is secured by a portion of the Company's preferred share investments. There was no outstanding balance on the facility at December 31, 2016 or 2015.

At December 31, 2016 and 2015, we had \$65 million of Series 10 debentures outstanding, bearing an interest rate of 5.40%. These debentures are scheduled to mature in Q4 2017.

Details related to the Company's bank facilities and debentures can be found in Notes 16 and 17 to our 2016 audited consolidated financial statements.

OTHER LIABILITIES AND DEFERRED INCOME TAXES

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

Table 17: Other liabilities and deferred income taxes

(\$ THOUSANDS)	2016	2015	Change from 2015	
Accounts payable and accrued liabilities	\$ 114,314	\$ 24,999	\$ 89,315	357%
Mortgagor realty taxes	46,963	39,268	7,695	20%
Securitized mortgage servicing liability	22,972	14,552	8,420	58%
Income taxes payable	19,945	-	19,945	N/A
Derivative financial instruments:				
interest rate swaps	158	-	158	N/A
bond forwards	113	1,592	(1,479)	(93%)
total return swaps	-	879	(879)	(100%)
	204,465	81,290	123,175	152%
Deferred tax liabilities	38,771	28,698	10,073	35%
Total other liabilities and Deferred tax liabilities	\$ 243,236	\$ 109,988	\$ 133,248	121%

The increase in Other liabilities and Deferred tax liabilities was mainly due to increases in accounts payable and accrued liabilities, of which \$76 million relates to obligations associated with part of our Maple Assets and \$13 million in various payables which were incurred in the normal course of the business and grew in line with the growth in operating expenses.

Contractual obligations by year of maturity are outlined in Table 35 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2016.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased \$181 million or 23% to \$977 million at December 31, 2016, from \$796 million a year ago. The increase reflects the earnings retained by the Company, net of dividends paid, other comprehensive income due to fair market value changes on our available for sale investments (primarily our holdings of investment grade preferred shares), and a common share issuance in Q4 2016.

On December 12, 2016, the Company entered into an agreement with OMERS, the pension plan for Ontario's municipal employees, for a private placement of 809,585 common shares of the Company at a price of \$61.76 per share, for aggregate proceeds of up to \$50 million. The transaction closed on December 23, 2016. The investment increases Equitable Bank's CET1 Capital and provides us with more capacity to fund the growth of our lending businesses.

At December 31, 2016, the Company had 16,460,142 common shares and 3,000,000 Series 3 preferred shares issued and outstanding (December 31, 2015 - 15,538,605 common shares and 3,000,000 Series 3 preferred shares).

During 2016, 136,239 options were granted. In addition, 111,952 stock options were exercised that contributed \$2.9 million to common share capital. At December 31, 2016, there were 557,467 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$25.7 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) to the 2016 audited 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 to maintain the business based on its inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian Banks. OSFI has mandated that all Canadian-regulated financial institutions meet a target CET1 Ratio of 7.0% on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments). For Tier 1 Capital and Total Capital Ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively.

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. Equitable Bank's CET1 Ratio on an "all-in" basis was 14.0% as at December 31, 2016, while our Tier 1 Capital and Total Capital Ratios were 15.1% and 16.6% respectively, exceeding the regulatory minimums on an "all-in" basis. Our CET1 Ratio and Tier 1 Capital Ratios were up from the prior quarter and last year primarily due to an increase in CET1 Capital resulting from a common share issuance that occurred in December 2016. Our Total Capital Ratio was up from last quarter but down from last year. The decrease from December 2015 was caused by growth of our risk-weighted assets outpacing the growth of our Total Capital during the year, in part because our preferred share and subordinated debt levels were unchanged from the prior year.

As with last quarter, capital levels at December 31, 2016 were impacted by \$20.3 million of unrealized after-tax losses on our preferred share portfolio and a \$15.0 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 reduced 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 significant risk of credit loss on our holdings.

Effective January 1, 2015, Canadian Banks were required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.1% at December 31, 2016 and the Bank remains fully compliant with its regulatory requirements. Our Leverage Ratio increased relative to the preceding quarter as a result of the common share issuance discussed above, but had trended down in the first three quarters of 2016 due to the growth of our insured Prime Single Family assets. In order to manage our Leverage Ratio position in 2016, we also executed transactions that allowed us to derecognize qualifying insured mortgages from our Balance Sheets. We will continue to execute similar transactions in the future in order to maintain our Leverage Ratio at or above our ICAAP target levels.

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 even in the most adverse scenario analyzed, the Company has sufficient capital to absorb the potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 18: Capital measures of Equitable Bank

(\$ THOUSANDS, EXCEPT PERCENTAGES)	2016	2015
Risk-weighted assets ("RWA")	\$ 6,385,825	\$ 5,259,384
Common Equity Tier 1 Capital:		
Common shares	199,089	145,836
Contributed surplus	6,148	6,126
Retained earnings	721,117	600,128
Accumulated other comprehensive (loss) income ("AOCI") ⁽¹⁾	(20,210)	(22,458)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(15,037)	(14,574)
Common Equity Tier 1 Capital	891,107	715,058
Additional Tier 1 capital:		
Non-cumulative preferred shares	72,554	72,554
Tier 1 Capital	963,661	787,612
Tier 2 Capital:		
Collective allowance	31,890	31,889
Subordinated debentures	65,000	65,000
Tier 2 Capital	96,890	96,889
Total Capital	\$ 1,060,551	\$ 884,501
Capital Ratios:		
CET1 Ratio	14.0%	13.6%
Tier 1 Capital Ratio	15.1%	15.0%
Total Capital Ratio	16.6%	16.8%
Leverage Ratio	5.1%	5.2%

⁽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.

Table 19: Risk-weighted assets of Equitable Bank

	2016		
(\$ THOUSANDS, EXCEPT PERCENTAGES)	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	\$ 691,732	14%	\$ 94,298
Securities purchased under reverse repurchase agreements	199,401	0%	-
Investments	136,718	100%	136,718
Mortgage receivables – Core Lending:			
Single Family Lending Services	7,903,593	31%	2,430,921
Commercial Lending Services	2,806,749	97%	2,732,165
Mortgage receivables – Securitization Financing	7,105,351	1%	56,245
Securitization retained interests	88,782	100%	88,782
Other assets	72,578	95%	68,597
Total Equitable Bank assets subject to risk rating	\$ 19,004,904		\$ 5,607,726
Less: Collective allowance	(31,890)		-
Total Equitable Bank assets	\$ 18,973,014		\$ 5,607,726
Off-balance sheet:			
Loan commitments			271,454
Derivatives			18,783
Total credit risk			\$ 5,897,963
Operational risk ⁽¹⁾			487,862
Total			\$ 6,385,825
			2015
(\$ THOUSANDS, EXCEPT PERCENTAGES)	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	\$ 531,145	20%	\$ 105,821
Securities purchased under reverse repurchase agreements	19,918	0%	-
Investments	135,024	100%	135,024
Mortgage receivables – Core Lending:			
Single Family Lending Services	6,530,174	31%	2,026,551
Commercial Lending Services	2,225,843	97%	2,169,619
Mortgage receivables – Securitization Financing	5,961,802	1%	33,536
Securitization retained interests	60,994	100%	60,994
Other assets	74,155	70%	52,195
Total Equitable Bank assets subject to risk rating	\$ 15,539,055		\$ 4,583,740
Less: Collective allowance	(31,890)		-
Total Equitable Bank assets	\$ 15,507,165		\$ 4,583,740
Off-balance sheet:			
Loan commitments			251,055
Derivatives			10,001
Total credit risk			\$ 4,844,796
Operational risk ⁽¹⁾			414,588
Total			\$ 5,259,384

⁽¹⁾ For operational risk, Equitable Bank uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

SUMMARY OF QUARTERLY RESULTS

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 20: Summary of quarterly results

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
RESULTS OF OPERATIONS								
Net income	\$ 41,678	\$ 35,230	\$ 33,410	\$ 28,012	\$ 31,436	\$ 31,448	\$ 33,520	\$ 29,461
Net income available to common shareholders	40,488	34,039	32,219	26,821	30,245	30,257	32,330	28,270
Net interest income	77,926	70,827	67,010	63,594	63,458	61,437	60,995	56,337
Total revenues	179,939	169,432	162,861	151,691	151,495	147,625	145,595	137,279
EPS – basic ⁽¹⁾	\$ 2.58	\$ 2.19	\$ 2.07	\$ 1.73	\$ 1.95	\$ 1.96	\$ 2.09	\$ 1.83
EPS – diluted ⁽¹⁾	\$ 2.56	\$ 2.16	\$ 2.05	\$ 1.71	\$ 1.93	\$ 1.93	\$ 2.06	\$ 1.81
ROE	19.3%	17.2%	17.1%	14.7%	17.0%	17.5%	19.8%	17.9%
Return on average assets	0.9%	0.8%	0.8%	0.7%	0.8%	0.9%	1.0%	0.9%
NIM – TEB:								
Total Assets	1.70%	1.64%	1.61%	1.62%	1.69%	1.73%	1.79%	1.74%
Core Lending	2.64%	2.60%	2.55%	2.50%	2.64%	2.56%	2.62%	2.55%
Securitization Financing	0.24%	0.19%	0.22%	0.31%	0.22%	0.34%	0.31%	0.29%
Efficiency Ratio – TEB	33.9%	37.0%	38.2%	43.2%	35.7%	33.4%	32.8%	32.4%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	930,449	1,050,366	952,937	674,417	719,361	744,416	641,095	568,278
Commercial Lending Services	377,578	367,197	323,061	201,849	259,502	235,987	199,977	207,767
Core Lending	1,308,027	1,417,563	1,275,998	876,266	978,863	980,403	841,072	776,045
Securitization Financing	871,391	739,352	745,409	693,127	759,258	790,022	555,272	468,722
Total originations	2,179,418	2,156,915	2,021,407	1,569,393	1,738,121	1,770,425	1,396,344	1,244,767
BALANCE SHEET								
Total assets	18,973,588	18,062,846	17,147,854	16,411,221	15,527,584	14,827,610	14,329,824	13,387,915
Assets Under Management	22,277,769	21,024,401	19,709,617	18,616,018	17,600,072	16,839,263	16,214,123	15,075,279
Mortgages receivable	17,783,803	17,049,744	16,244,106	15,540,241	14,700,806	13,959,432	13,216,267	12,785,852
MUM	21,004,013	19,922,211	18,723,056	17,668,821	16,706,935	15,917,079	15,059,846	14,437,643
Shareholders' equity	977,150	879,367	843,924	816,049	796,116	764,679	750,149	723,606
Liquid assets	1,280,591	1,037,259	1,033,634	939,691	895,056	849,349	1,251,692	756,017
CREDIT QUALITY								
Provision for credit losses	870	1,243	105	227	1,064	930	830	814
Provision for credit losses – rate	0.02%	0.03%	0.00%	0.01%	0.03%	0.03%	0.03%	0.03%
Net impaired mortgages as a % of total mortgage assets	0.21%	0.19%	0.20%	0.22%	0.22%	0.21%	0.18%	0.28%
Allowance for credit losses as a % of total mortgage assets	0.19%	0.20%	0.20%	0.21%	0.23%	0.25%	0.26%	0.26%

⁽¹⁾ Annual EPS may not equal the sum of the quarterly EPS' as a result of rounding.

Table 20: Summary of quarterly results (continued)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	15,692,833	15,570,678	15,556,836	15,543,952	15,493,549	15,471,960	15,461,161	15,440,328
Weighted average diluted	15,808,124	15,722,532	15,709,456	15,674,734	15,677,954	15,661,842	15,687,647	15,660,067
Book value per common share	\$ 54.96	\$ 51.72	\$ 49.55	\$ 47.81	\$ 46.57	\$ 44.72	\$ 43.80	\$ 42.13
Common share price – close	\$ 60.46	\$ 58.86	\$ 55.99	\$ 50.76	\$ 51.5	\$ 56.25	\$ 61.27	\$ 56.51
Common share market capitalization	995,180	918,196	871,566	789,413	800,238	870,564	947,834	873,200
Dividends declared per: ⁽²⁾								
Common share	\$ 0.22	\$ 0.21	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.18
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	6,385,825	5,968,000	5,664,575	5,433,025	5,259,384	5,113,009	4,983,762	4,867,218
CET1 Ratio	14.0%	13.4%	13.5%	13.5%	13.6%	13.4%	13.5%	13.2%
Tier 1 Capital Ratio	15.1%	14.6%	14.8%	14.9%	15.0%	14.8%	14.9%	14.7%
Total Capital Ratio	16.6%	16.2%	16.5%	16.7%	16.8%	17.1%	17.2%	17.0%
Leverage Ratio	5.1%	4.9%	5.0%	5.0%	5.2%	5.2%	5.3%	5.5%

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

FOURTH QUARTER OVERVIEW

Equitable produced record quarterly earnings during the last three months of the year. Income and ROE were up from the levels produced in recent quarters and above market expectations as asset growth drove Net Interest Income up by 23% over 2015 and 10% sequentially. Performance was also helped by income generated from Maple Assets and low provisions for credit losses. During Q4 2016 expenses were relatively consistent with the prior quarter as the level of investment in our strategic initiatives such as *EQ Bank* stabilized.

During the three months ended December 31, 2016, Equitable:

- delivered record quarterly diluted EPS of \$2.56, up \$0.63 or 33% from Q4 of the prior year and \$0.40 or 19% from Q3, 2016;
- declared common share dividends of \$0.23, up 15% from Q4 2015; and
- generated an ROE of 19.3% compared to 17.2% in the preceding quarter and 17.0% in the fourth quarter of 2015.

ITEMS OF NOTE

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

- In Q4 we recorded \$1.3 million gains on investments acquired from Maple Bank.

There were no items of note in our financial results for Q3 2016 or Q4 2015.

NET INTEREST INCOME

The table below details the Company's NII and NIM for the three months ended December 31, 2016, with comparisons to the prior quarter and the corresponding quarter of the prior year, by product and portfolio.

Table 21: Net interest income

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2016		Sep 30, 2016		Three months ended Dec 31, 2015	
	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾
Core Lending:						
<i>Revenues derived from:</i>						
Mortgages	\$ 120,714	4.63%	\$ 114,416	4.65%	\$ 101,848	4.75%
Liquidity investments	1,611	0.84%	1,428	1.01%	1,318	0.97%
Equity securities – TEB	2,197	7.55%	2,040	6.67%	2,285	6.92%
	124,522	4.40%	117,884	4.48%	105,451	4.56%
<i>Expenses related to:</i>						
Deposits and bank facilities	43,195	1.98%	44,290	2.09%	40,608	2.10%
Debentures	950	5.80%	950	5.81%	1,213	5.99%
Securitization liabilities	6,025	1.55%	4,485	1.60%	2,796	1.66%
	50,170	1.94%	49,725	2.06%	44,617	2.10%
Net interest income – TEB	74,352	2.64%	68,159	2.60%	60,834	2.64%
Taxable Equivalent Basis – adjustment	(617)		(569)		(609)	
Core Lending	\$ 73,735		\$ 67,590		\$ 60,225	
Securitization Financing:						
<i>Revenues derived from:</i>						
Mortgages	\$ 46,159	2.65%	\$ 44,776	2.61%	\$ 41,978	2.92%
Liquidity investments	587	1.08%	330	1.03%	364	0.57%
	46,746	2.61%	45,106	2.58%	42,342	2.82%
<i>Expenses related to:</i>						
Securitization liabilities	37,907	2.51%	37,004	2.54%	36,183	2.74%
Deposits and secured funding facility	4,648	1.70%	4,865	1.70%	2,926	1.73%
	42,555	2.39%	41,869	2.40%	39,109	2.63%
Securitization Financing	\$ 4,191	0.24%	\$ 3,237	0.19%	\$ 3,233	0.22%
Total interest earning assets – TEB	\$ 78,543	1.70%	\$ 71,396	1.64%	\$ 64,067	1.69%

⁽¹⁾ Average rates are calculated based on daily average balances outstanding during the period.

Q4 2016 v Q4 2015

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 1 bp mainly due to growth in Securitization Financing NIM.

Table 22(a): Factors affecting Q4 2016 v Q4 2015 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Asset mix	(4)	<ul style="list-style-type: none"> • Growth in the relative level of our lower yielding liquidity investments
Funding mix	8	<ul style="list-style-type: none"> • Growth of our low rate brokered HISA • Redemption of a higher cost deposit note • Partly offset by growth of our higher cost <i>EQ Bank</i> deposit product
Rates/spread ⁽¹⁾	(4)	<ul style="list-style-type: none"> • Lower spreads within both our Single Family and Commercial Lending portfolios
Change in Core Lending NIM	-	
Securitization Financing NIM:		
Mortgage prepayment income	2	<ul style="list-style-type: none"> • Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Asset mix	3	<ul style="list-style-type: none"> • Reduction in the relative size of our lower yielding liquidity investments
Other	(3)	<ul style="list-style-type: none"> • Low margins within our Prime Single Family business at times over the past twelve months
Change in Securitization NIM	2	
Change in Total NIM ⁽²⁾	1	

⁽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.

Q4 2016 v Q3 2016

NII increased 10% sequentially due to growth in average asset balances and a 6 bp increase in NIM. The increase in our overall NIM was mainly the result of higher NIMs with both portfolios.

Table 22(b): Factors affecting Q4 2016 v Q3 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(2)	<ul style="list-style-type: none"> • Single Family Lending experienced lower levels of early discharges
Asset mix	(6)	<ul style="list-style-type: none"> • Growth in average balances of our lower yielding Single Family Lending business and liquidity investments outpaced the growth of our Commercial Lending portfolio
Funding mix	4	<ul style="list-style-type: none"> • Redemption of a higher cost deposit note • A lower proportion of funding from our higher cost <i>EQ Bank</i> deposit product
Rates/spreads ⁽¹⁾	7	<ul style="list-style-type: none"> • Higher spreads within our Single Family and Commercial Lending portfolios, partly due to recent reductions in our <i>EQ Bank</i> and brokered deposit interest rates
Other	1	
Change in Core Lending NIM	4	
Securitization Financing NIM:		
Mortgage prepayment income	5	<ul style="list-style-type: none"> • 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	5	
Change in Total NIM ⁽²⁾	6	

⁽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 23: Provision for credit losses

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Individual provision	\$ 870	\$ 1,243	(30%)	\$ 466	87%
Collective provision	-	-	N/A	598	(100%)
Provision for credit losses	\$ 870	\$ 1,243	(30%)	\$ 1,064	(18%)
Provision for credit losses – rate	0.02%	0.03%	(0.01%)	0.03%	(0.01%)
Allowance for credit losses	\$ 34,426	\$ 33,850	2%	\$ 33,216	4%

The Company's provision for credit losses was \$0.9 million in the quarter, down \$0.3 million from Q3 2016 and \$0.2 million compared to the same period of last year. The low level of provision reflects the health of our mortgage portfolio and low loss estimates for newly impaired loans. 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 quarter.

OTHER INCOME

Table 24: Other income

(\$ THOUSANDS)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Fees and other income					
Fees and other income	\$ 5,279	\$ 3,873	36%	\$ 3,454	53%
Income from successor issuer activities	1,529	-	N/A	-	N/A
Net loss on investments	(557)	(44)	N/A	(13)	N/A
Securitization activities:					
Gains on securitization and income from retained interests	2,448	2,743	(11%)	949	158%
Fair value gains (losses) on derivative financial instruments	589	439	N/A	(79)	N/A
Total	\$ 9,288	\$ 7,011	32%	\$ 4,311	115%

Q4 2016 v Q4 2015

Other income increased compared with Q4 2015, mainly attributable to:

- Fees and other income due to growth in our mortgage assets and \$1.3 million of gains recorded on certain investments acquired from Maple Bank;
- Income from successor issuer activities on our Maple assets; and
- Gains on securitization and income from retained interests due to a higher volume of derecognition activity in the current quarter.

Q4 2016 v Q3 2016

Other income increased sequentially primarily because of gains recorded on certain Maple assets and income from successor issuer activities, offset in part by higher investment losses realized during the quarter.

NON-INTEREST EXPENSES

Table 25: Non-interest expenses and Efficiency Ratio

(\$ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Growth of our franchise:					
Compensation and benefits	\$ 13,595	\$ 14,181	(4%)	\$ 12,367	10%
Technology and system costs	4,140	3,600	15%	3,495	18%
Product costs	2,262	2,074	9%	1,700	33%
Regulatory, legal and professional fees	2,257	2,281	(1%)	1,765	28%
Marketing and corporate expenses	2,038	1,310	56%	1,759	16%
Premises	1,404	1,495	(6%)	950	48%
Non-interest expenses before strategic investments	\$ 25,696	\$ 24,941	3%	\$ 22,036	17%
Investments in our future:					
Compensation and benefits	\$ 1,268	\$ 1,393	(9%)	\$ 906	40%
Other	2,786	2,705	3%	1,487	87%
Total investments in our future	\$ 4,054	\$ 4,098	(1%)	\$ 2,393	69%
Total non-interest expenses	\$ 29,750	\$ 29,039	2%	\$ 24,429	22%
Efficiency Ratio – TEB	33.9%	37.0%	(3.1%)	35.7%	(1.8%)
Full-time employee ("FTE") – period average	552	542	2%	484	14%

Q4 2016 v Q4 2015

We operated more productively on both an absolute basis and relative to other financial institutions during the quarter. Our Efficiency Ratio decreased to 33.9% from 35.7% a year ago despite growth in our expense base and investments we made in our key strategic priorities.

The majority of the increase in our expenses was due to:

Growth of Our Franchise: \$3.7 million or 69% of net increase

- Compensation and benefits costs were higher than in Q4 2015 largely because of growth in FTE of 15%;
- Technology and systems costs increased as a result of investments in our core banking technology platform to support the growth of our business;
- Products costs were up as a result of growth in our originations and funding activities, and the outsourcing of our brokered HISA administration in Q4 2016; and
- Premises costs increased as a result of expanding and renovating our office space.

Investments in Our Future: \$1.7 million or 31% of net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives. They exclude the related capital investments made in the period until those amounts begin to be amortized.

- \$0.7 million increase in product costs due to amortization of previously capitalized digital banking investments, mainly over a 10 year period;
- \$0.7 million increase in technology and system costs to maintain and support our digital banking systems; and
- \$0.4 million increase in compensation and benefits to grow our digital banking and prime lending teams.

Q4 2016 v Q3 2016

The majority of the increase in our expenses was driven by:

Growth of Our Franchise: \$0.8 million or 100% of net increase

- Marketing and corporate expenses increased partly because we realized a \$0.3 million HST recovery in Q3. The remainder of the increase was attributable to various business and employee development activities; and
- Technology and system costs were up because of ongoing enhancements to our core banking platform;

Offset by:

- Lower compensation and benefits, related to a true-up of our annual incentive and benefits accruals.

Investments in Our Future: remained flat quarter over quarter

- \$0.4 million increase in marketing expenses for an *EQ Bank* brand campaign during the fourth quarter;

Offset by:

- \$0.3 million decrease in technology and system costs in relation to maintaining the digital banking system.

INCOME TAXES

Q4 2016 v Q4 2015

The Company's effective income tax rate in the quarter increased to 26.3% from 25.6% a year ago, mainly due to an increase in non-deductible expenses and other adjustments as well as lower tax-exempt dividend income earned from our preferred securities portfolio.

Q4 2016 v Q3 2016

Our effective income tax rate increase slightly to 26.3% compared to 25.8% in the previous quarter, primarily due to an increase in non-deductible expenses and other adjustments.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2016 and Q4 2015:

Table 26: Mortgage principal continuity schedule

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended December 31, 2016						
	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q3 2016 closing balance	\$ 7,540,069	\$ 2,657,201	\$ 10,197,270	\$ 6,763,386	\$ 16,960,656	\$ 2,961,555	\$ 9,724,941
Originations	930,449	377,578	1,308,027	871,391	2,179,418	-	871,391
Securitization derecognized	-	-	-	(371,142)	(371,142)	371,142	-
Net repayments	(614,812)	(207,773)	(822,585)	(246,515)	(1,069,100)	(28,516)	(275,031)
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
% Change from Q3 2016	4%	6%	5%	4%	4%	12%	6%
% Change from Q4 2015	22%	27%	23%	18%	21%	59%	29%
Net repayments percentage ⁽³⁾	8.2%	7.8%	8.1%	3.6%	6.3%	1.0%	2.8%

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended December 31, 2015						
	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q3 2015 closing balance	\$ 6,225,409	\$ 2,240,474	\$ 8,465,883	\$ 5,439,543	\$ 13,905,426	\$ 2,011,653	\$ 7,451,196
Originations	719,361	259,502	978,863	759,258	1,738,121	-	759,258
Securitization derecognized	-	-	-	(78,421)	(78,421)	78,421	-
Net repayments	(495,107)	(270,510)	(765,617)	(165,062)	(930,679)	(17,586)	(182,648)
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
% Change from Q3 2015	4%	(0%)	3%	9%	5%	3%	8%
Net repayments percentage ⁽³⁾	8.0%	12.1%	9.0%	3.0%	6.7%	0.9%	2.5%

⁽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 repayment percentage is calculated by dividing net repayments by the previous period's closing balance.

Q4 2016 v Q4 2015

Please refer to page 18-19 for a discussion of our year-over-year portfolio growth.

Q4 2016 v Q3 2016

Total mortgage balances were up 5% due to growth in both our Core Lending and Securitization Financing portfolios.

Core Lending balances continued to grow as a result of higher originations. Securitization Financing MUM, which includes \$3.3 billion of derecognized mortgage principal, grew by 6% as we continued to build our Prime Single Family business.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending Services, and as such, we do not focus on quarter over quarter comparisons. The table below provides mortgage originations for Q4 2016 and Q4 2015.

Table 27: Mortgage originations – by lending business

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2016		Dec 31, 2015		Three months ended Change from 2015	
	Mortgage principal funded	% of total	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Core Lending:						
Single Family Lending	\$ 930,449	43%	\$ 719,361	41%	\$ 211,088	29%
Commercial Lending	377,578	17%	259,502	15%	118,076	46%
	1,308,027	60%	978,863	56%	329,164	34%
Securitization Financing:						
Multi-unit residential	219,653	10%	269,948	16%	(50,295)	(19%)
Prime single family residential	651,738	30%	489,310	28%	162,428	33%
	871,391	40%	759,258	44%	112,133	15%
Total mortgage originations	\$ 2,179,418	100%	\$ 1,738,121	100%	\$ 441,297	25%

Within Core Lending, Single Family produced record fourth quarter originations. This performance is reflective of recent competitive dynamics and growth of the Canadian housing market. Commercial Lending originations outperformed the levels achieved last year, driven by our successful rebranding strategy and consistently strong relationship with brokers and business partners.

Securitization Financing originations in the last quarter increased by 15% from 2015 levels, driven by Prime originations of \$652 million. Multi originations were down \$50 million or 19% compared to the same quarter of the prior year because renewal volumes consumed a greater portion of our available CMB capacity.

SECURITIZATION

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

Table 28: Securitization and derecognition activity

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2016		Sep 30, 2016	% Change	Three months ended	
					Dec 31, 2015	% Change
Securitization derecognized - non-prepayable Multis	\$ 172,778	\$	130,656	32%	\$ 69,264	149%
Securitization derecognized - prepayable mortgages	198,364		296,626	(33%)	9,157	2,066%
Total principal derecognized	\$ 371,142	\$	427,282	(13%)	\$ 78,421	373%
Gains on sale	\$ 2,117	\$	2,505	(15%)	\$ 755	180%
Gain on sale margin	0.57%		0.59%	(0.02%)	0.96%	(0.39%)

Q4 2016 v Q4 2015

Gains on sale increased almost three fold from 2015 levels because the volume of mortgages derecognized increased and despite a lower gain on sale margin. Derecognition volumes increased due to higher demand for non-prepayable Multis (which automatically 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 \$198 million of prepayable Multis and produced \$0.4 million of gains on sale (a margin of 0.19%).

The gain on sale margin was down from 2015 largely due to a mix shift towards prepayable Multis. Margins on these type of mortgages are lower because there are costs associated with executing the transactions that allow for derecognition. In addition, the mortgages that we derecognized had a relatively low spread.

Q4 2016 v Q3 2016

Gains on sale were down sequentially due to reduced derecognition volumes and a slightly lower gain on sale margin.

Table 29: Unaudited interim consolidated statements of income

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended		
	Dec 31, 2016	Sep 30, 2016	Dec 31, 2015
Interest income:			
Mortgages – Core Lending	\$ 120,714	\$ 114,416	\$ 101,848
Mortgages – Securitization Financing	46,159	44,776	41,978
Investments	2,431	2,142	1,894
Other	1,347	1,087	1,464
	170,651	162,421	147,184
Interest expense:			
Deposits	46,393	47,204	42,085
Securitization liabilities	43,932	41,489	38,979
Bank facilities	1,224	1,926	1,292
Debentures	950	950	1,213
Other	226	25	157
	92,725	91,594	83,726
Net interest income	77,926	70,827	63,458
Provision for credit losses	870	1,243	1,064
Net interest income after provision for credit losses	77,056	69,584	62,394
Other income:			
Fees and other income	6,809	3,873	3,454
Net loss on investments	(557)	(44)	(13)
Gains on securitization activities and income from securitization retained interests	3,036	3,182	870
	9,288	7,011	4,311
Net interest and other income	86,344	76,595	66,705
Non-interest expenses:			
Compensation and benefits	14,863	15,574	13,273
Other	14,887	13,465	11,156
	29,750	29,039	24,429
Income before income taxes	56,594	47,556	42,276
Income taxes			
Current	13,426	8,227	7,855
Deferred	1,490	4,099	2,985
	14,916	12,326	10,840
Net income	\$ 41,678	\$ 35,230	\$ 31,436
Earnings per share			
Basic	\$ 2.58	\$ 2.19	\$ 1.95
Diluted	\$ 2.56	\$ 2.16	\$ 1.93

Table 30: Unaudited interim consolidated statements of comprehensive income

(\$ THOUSANDS)	Three months ended		
	Dec 31, 2016	Sep 30, 2016	Dec 31, 2015
Net income	\$ 41,678	\$ 35,230	\$ 31,436
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains (losses) from change in fair value	4,453	(17,178)	4,611
Reclassification of net losses (gains) to income	888	(130)	(122)
Income tax (expense) recovery	5,341	(17,308)	4,489
	(1,418)	4,569	(1,185)
	3,923	(12,739)	3,304
Cash flow hedges:			
Net unrealized gains (losses) from change in fair value	7,611	(1,636)	(1,909)
Reclassification of net losses to income	500	1,103	1,060
Income tax (expense) recovery	8,111	(533)	(849)
	(2,153)	141	224
	5,958	(392)	(625)
Total other comprehensive income (loss)	9,881	(13,131)	2,679
Total comprehensive income	\$ 51,559	\$ 22,099	\$ 34,115

Table 31: Unaudited interim consolidated statements of cash flows

(\$ THOUSANDS)	Three months ended		
	Dec 31, 2016	Sep 30, 2016	Dec 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	\$ 41,678	\$ 35,230	\$ 31,436
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	3,017	(2,479)	1,561
Amortization of premiums/discounts on investments	(156)	114	161
Amortization of capital assets and intangible costs	2,105	1,963	1,016
Provision for credit losses	870	1,243	1,064
Securitization gains	(2,117)	(2,505)	(755)
Net loss on sale or redemption of investments	557	44	13
Stock-based compensation	261	223	226
Income taxes	14,916	12,326	10,840
Changes in operating assets and liabilities:			
Restricted cash	(8,933)	(88,254)	8,906
Securities purchased under reverse repurchase agreements	(96,640)	48,146	43,680
Mortgages receivable, net of securitizations	(740,992)	(821,327)	(744,817)
Other assets	7,576	(14,713)	(1,711)
Deposits	495,126	120,927	155,974
Securitization liabilities	503,960	450,708	624,092
Obligations under repurchase agreements	43,198	69,290	(163,189)
Bank facilities	(348,909)	228,909	45,779
Other liabilities	105,024	4,198	21,617
Income taxes paid	(3,055)	(2,885)	-
Securitization retained interests	4,949	4,339	3,063
Cash flows from operating activities	20,435	45,497	38,956
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of common shares, net of issuance cost	49,333	-	-
Proceeds from issuance of common shares	1,263	871	1,391
Dividends paid on preferred shares	(1,190)	(1,191)	(1,190)
Dividends paid on common shares	(3,269)	(3,270)	(2,940)
Redemption of debentures	-	-	(20,000)
Cash flows from (used in) financing activities	46,137	(3,590)	(22,739)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(124,607)	-	(1,767)
Proceeds on sale or redemption of investments	118,775	8,997	1,557
Net change in Canada Housing Trust re-investment accounts	(168)	15	48
Purchase of capital assets and system development costs	(2,181)	(3,368)	(6,207)
Cash flows (used in) from investing activities	(8,181)	5,644	(6,369)
Net increase in cash and cash equivalents	60,391	47,551	9,848
Cash and cash equivalents, beginning of period	383,788	336,237	413,518
Cash and cash equivalents, end of period	\$ 444,179	\$ 383,788	\$ 423,366
Cash flows from operating activities include:			
Interest received	\$ 127,351	\$ 162,889	\$ 147,543
Interest paid	(91,303)	(89,638)	(79,920)
Dividends received	1,733	1,604	1,728

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 2016 annual consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 to the audited consolidated financial statements for a summary of the Company's significant accounting policies.

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 for further details.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses. 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, the derecognition of financial assets transferred in securitization transactions, the 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 mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the creditworthiness of the Company to its counterparties, the creditworthiness of issuers of the investments held by the Company, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management relies on external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior years and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future years. For further information regarding critical accounting estimates, please refer to Note 2(d) to the audited consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges interest rate risks associated with insured residential mortgages and mortgage commitments intended for securitization, certain mortgages, securitization and deposit liabilities. The Company also hedges the risk of changes in future cash flows related to our Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans.

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

For non-prepayable insured residential mortgages, where the transferred assets qualify for derecognition, the Company uses bond forwards to protect itself from fluctuations in interest rates between the time the Company commits to funding these mortgages and the time they are securitized. The change in value of the commitments and the funded mortgages

before securitization are substantially offset by the change in value of the bond forwards and the Company does not apply hedge accounting to these derivative instruments.

The Company uses interest rate swaps to hedge our interest rate exposure on certain securitization and deposit liabilities. The Company applies hedge accounting to these relationships.

The Company also hedges the risk of changes in future cash flows related to our RSU and DSU plans by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to the RSU-related derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price. Equitable does not use hedge accounting for the DSU-related swaps.

As part of its CMB activities, the Company may assume reinvestment risk between the amortizing MBS and the bullet CMB for securitized mortgages which are derecognized. The Company assumes this risk by entering into total return swaps with highly rated counterparties and exchanging the cash flows of the CMB for those of the MBS transferred to CHT.

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

OFF-BALANCE SHEET ACTIVITIES

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

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or transferred control associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$3.3 billion at December 31, 2016 (December 31, 2015 – \$2.1 billion). The securitization liabilities associated with these transferred assets are approximately \$3.3 billion (December 31, 2015 – \$2.1 billion). The securitization retained interest recorded with respect to certain securitization transactions was \$88.8 million (December 31, 2015 – \$61.7 million) and the associated servicing liability was \$22.3 million at December 31, 2016 (December 31, 2015 – \$14.6 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$1.0 billion of mortgages in the ordinary course of business at December 31, 2016 (December 31, 2015 – \$1.0 billion).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet their obligations to a third party. Letters of credit in the amount of \$5.9 million were outstanding at December 31, 2016 (December 31, 2015 – \$8.6 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 audited consolidated financial statements for further details.

RISK MANAGEMENT

Through our wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those of other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect our business, financial condition and operating results. These factors may also influence an investor's decision 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, practices, controls and other mechanisms that are best suited to manage these risks.

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

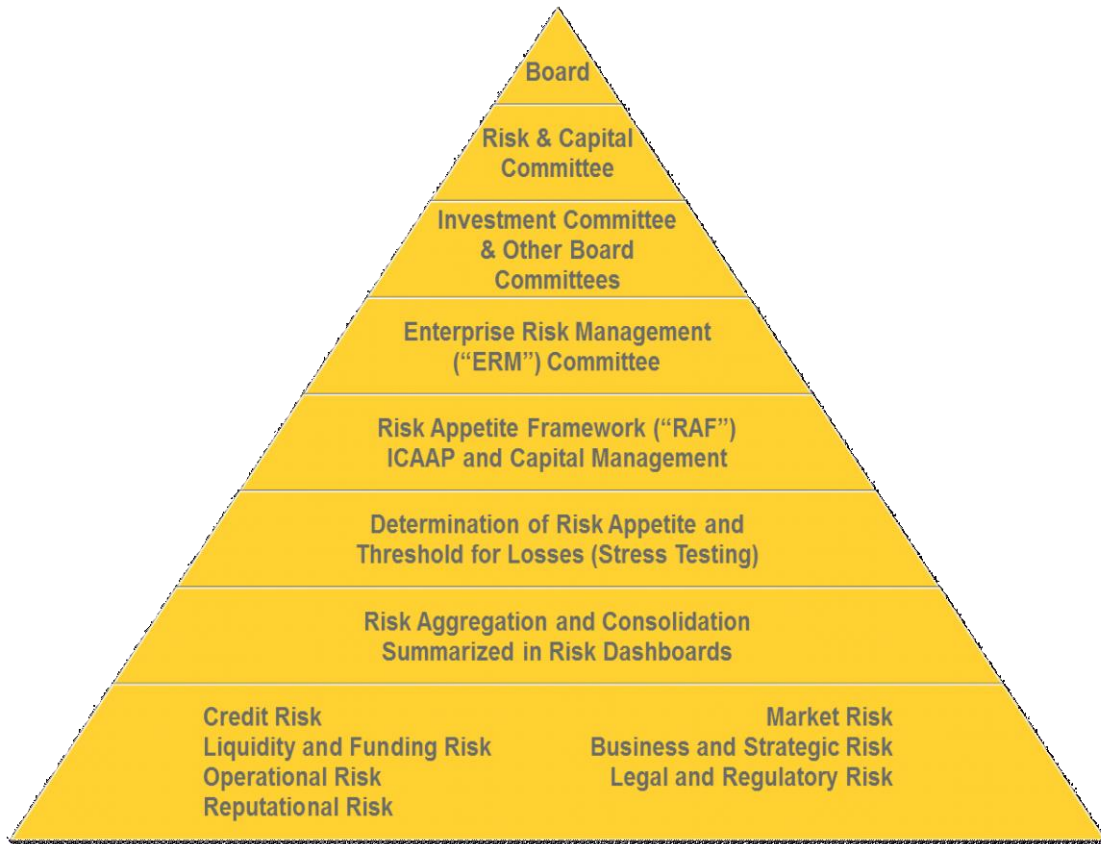
The Risk Management framework, Credit Risk, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2016 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

RISK MANAGEMENT FRAMEWORK

The Board has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework which includes our Risk Appetite Framework ("RAF"). The Company's ERM framework and RAF are designed to align with our overall corporate strategy, financial and capital plans, business unit strategies and day-to-day operations, as well as our risk management policies and practices (i.e., risk limits, risk selection/underwriting guidelines and criteria, etc.) across the organization. Our RAF, which identifies pre-defined risk appetite thresholds, is updated by Senior Management and approved by the Board on an annual basis, or more frequently, if required.

The ERM framework covers the type and amount of risk that the Company is capable and willing to take on in support of its business operations and strategy. The ERM framework is designed to actively monitor all key current and emerging risks on a continuous basis, and to provide the Board with timely periodic updates on our risk management practices and related economic capital requirements. It also sets out our approach for identifying, assessing, managing and reporting on our key risks, including the establishment of roles, responsibilities, processes and tools to be used. To ensure that all significant and emerging risks are considered, we review our risk profile with respect to each of our core risks on a continuous basis, and report to the Board at least quarterly. The Company's ERM framework is also designed to ensure that all key risks are managed within our pre-defined risk appetite thresholds as outlined in our RAF, and that the potential for loss remains within acceptable Board-approved limits.

Equitable Bank's Enterprise Risk Management Framework



The Risk and Capital Committee (“RCC”) of the Board assists the Board in fulfilling its oversight and governance responsibilities for the management of the Company’s core and emerging risks and the adequacy of our Internal Capital Adequacy Assessment Process (“ICAAP”), as well as our strategic and capital plans. It also reviews the Company’s actual risk profile against the approved RAF and assesses the Company’s policies, programs, procedures and controls in place to manage both core and emerging risks. The RCC has primary oversight responsibility for operational risk, business and strategic risk and reputational risk. At present, the RCC is comprised of five independent directors, including the Chairs of the Investment Committee, Audit Committee, Human Resources and Compensation Committee, and Corporate Governance Committee. It meets quarterly with the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), and the Chief Risk Officer (“CRO”).

The Company’s ERM Committee, which is chaired by the CRO and consists of members of senior management, reports to the RCC and assists the Board in fulfilling its oversight and governance responsibilities vis-à-vis the Company’s risk management practices and ICAAP. To ensure that all significant risks that the Company faces are actively managed and monitored, the ERM Committee reviews and monitors the Company’s key and emerging risks, risk trends, the results of our enterprise-wide stress and scenario tests, relevant policies and related risk management considerations/actions to be taken. It reports to the Board at least quarterly.

The Investment Committee of the Board assists the Board in fulfilling its oversight role for credit, liquidity and funding, and market risks. With respect to credit risk, the Investment Committee reviews the amount, nature, characteristics, concentration and quality of the Bank’s asset portfolios, as well as all significant credit exposures and trends in portfolio quality. The Investment Committee oversees the Asset and Liability Committee (“ALCO”), which identifies the liquidity/funding and market risks faced by the Company, sets appropriate risk limits and controls, and monitors those risks and adherence to Board approved limits. The ALCO is chaired by the CEO and is comprised of members of senior management.

The Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities with respect to the quality and integrity of the Company's financial reporting processes and the performance of the internal audit function. The Audit Committee is assisted in fulfilling its mandate by the Company's Finance and Internal Audit departments. Internal Audit undertakes regular and independent reviews of the Company's risk management controls and procedures, the results of which are reported to the Audit and other applicable Board Committees.

The Corporate Governance Committee of the Board maintains primary oversight over the Company's Regulatory Compliance Management Program and ensures the Company's compliance with all legal and regulatory requirements.

The Human Resources and Compensation Committee of the Board assists the Board in ensuring that the Company's compensation policies and practices are aligned with our risk appetite and risk management frameworks. This ensures that the incentive for management to assume risks in the pursuit of business objectives is aligned with our Board-approved risk appetite.

Under the Company's risk management framework, senior management reports on risk issues to the five aforementioned committees of the Board on a quarterly basis.

The Bank follows the 'three lines of defense' model to managing risk. Business Unit Leaders are the 'first line', and are primarily accountable for identifying, assessing, managing and reporting risk within their functional areas of responsibility. The Risk Oversight functions, which include the Finance, Risk Policy and Compliance departments, are accountable for independent oversight of the Business Unit operations from a 'second line' perspective. Given the size and relatively low complexity of the Bank's operations and risk profile, business line management leverages the skills of the 'second line' as subject matter experts to assist in the design of our risk monitoring practices. Due to the inherent expertise embedded in our 'second line', the performance of some traditional 'first line' oversight functions may be undertaken by the 'second line'. Internal Audit is accountable for independent assurance as the 'third line of defense'.

To ensure capital allocation and risk management are aligned, the Company's ICAAP, which is updated regularly, determines the ongoing capital needs of the business and reviews those needs in the context of our operating environment and strategic plans. Material risks are regularly stress tested to determine their impact on capital and to establish our internal capital adequacy targets on a go-forward basis.

CREDIT RISK

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

The Company's primary lending business is providing first mortgages on real estate located across Canada. All mortgages are individually evaluated by the Company's or our agent's underwriters using internal and external credit risk assessment tools, and are assigned risk ratings in accordance with the level of credit risk attributed to each loan. Each transaction is approved independently in accordance with the authorization structure set out in the Company's policies. Our underwriting approach, particularly in our Core Lending business, places a strong emphasis on security evaluation and judgmental analysis of the risks in the transaction. As a result, for borrowers who have good equity and debt service ratios, we can underwrite mortgages on terms favourable to the Company in situations where other lenders may not be able to reach a satisfactory business transaction. Since 2014, the Company has been originating Single Family prime mortgages through third party agents, in addition to originating them internally. As part of our risk management practices, we ensure that these third party sourced prime mortgages are underwritten to the high standards required of both Company-originated mortgages, as well as those required by our mortgage insurers.

We have clearly defined underwriting policies and procedures that we adhere to in our mortgage underwriting process – these include a maximum Loan-to-Value ("LTV") on all uninsured commercial and residential mortgage loans; certain standards with regard to the asset quality and debt service coverage of commercial properties; standards for the

marketability of the properties taken as security, including geographic market restrictions; and requirements surrounding the overall credit quality and integrity of all borrowers. We also actively analyze the profile of our lending businesses and new mortgage originations in tandem with external market conditions, including market values and employment conditions that prevail in those markets where we lend. When we judge that the risk associated with a particular region or product is increasing, we adjust our underwriting criteria to ensure that our underwriting policies continue to be prudent and reflective of current and expected economic conditions, and thereby safeguard the future health of our portfolio. When appropriate, we also respond to the changing marketplace with initiatives designed to increase or decrease our mortgage originations, as required, while continuing to ensure a prudent credit risk profile across our entire portfolio.

The Company categorizes individual credit exposures in our mortgage portfolio using an internal risk rating system that rates each mortgage in the portfolio on the basis of perceived risk, or probability of, a potential financial loss – in order to focus management on monitoring higher risk mortgages. Each mortgage’s risk rating is initially determined during the underwriting process and subsequently either confirmed or revised thereafter, as a result of certain trigger events, using customized risk grids applicable to the property type supporting the loan. In the case of mortgage impairment, probable recovery is determined using a combination of updated property-specific information, historical loss experience and management judgment to determine the impairment provision that may be required.

The Company also invests in equity securities (i.e., preferred shares) to generate returns that meet certain internally acceptable ROE thresholds. These securities also represent a potential source of liquidity for the Company. However, such investments expose the Company to credit risk – should the issuer of the preferred shares be unable to make dividend payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to credit risk, the Company establishes policies with exposure limits based on credit rating and investment type. Securities rated P-2 and higher comprised 44.2% of the Company’s preferred share equity securities portfolio at December 31, 2016, compared to 48.7% a year earlier. Securities rated P-3 (mid) or higher represent 99% of the portfolio at the end of December 2016.

The Company’s rating scale for the credit quality of our counterparties is based on both internal and external credit grading systems. Table 32 below maps those grading systems against the categories on the Company’s credit risk exposure ratings scale. It presents the long-term Standard & Poor’s equivalent grades for the Company’s cash and cash equivalents, debt and equity securities, and derivative counterparties. Low risk denotes that there is a very low risk of either default or loss, standard risk that there is a low risk of default or loss, and high risk that there is some concern that default or loss could occur.

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

Equitable assigns economic and regulatory capital for our counterparty credit exposures in accordance with OSFI’s Capital Adequacy Requirements (“CAR”) Guideline, which is based on standards issued by the Basel Committee on Banking Supervision (“BCBS”). All deemed credit exposures, such as counterparty credit risk that may arise through deposits placed with banks, derivatives contracts and other activities, are regularly assessed to ensure that such activities are consistent with the Bank’s Board-approved RAF and do not expose the Bank to undue risk of loss. All related counterparty credit limits are approved by Senior Management and monitored on an ongoing basis to ensure that all such exposures are maintained within approved limits.

Table 32: Credit risk exposure ratings scale

	Low risk	Standard risk	High risk
Cash and cash equivalents, investments, and derivatives: S&P equivalent grade	AAA – BBB-	BB+ – B	B – CC
Mortgages receivable: Mortgage risk rating	0 – 3	4 – 5	6 – 8

Management has assessed the credit quality of the Company's assets as at December 31, 2016 and 2015, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories. The table below shows the credit quality by class for all financial assets exposed to credit risk, based on the Company's credit risk exposure rating scale.

Table 33: Asset credit quality

(\$ THOUSAND)	Neither past due nor impaired						2016	
	Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	Total	
Cash and cash equivalents	\$ 444,179	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 444,179	
Restricted cash	247,878	-	-	-	-	-	247,878	
Securities purchased under reverse repurchase agreements	199,401	-	-	-	-	-	199,401	
Debt securities ⁽¹⁾	-	-	23,042	-	-	-	23,042	
Equity securities – preferred shares	48,994	61,702	-	-	-	-	110,696	
Canada Housing Trust re-investment accounts	2,499	-	-	-	-	-	2,499	
Mortgage receivable – Core Lending	1,849,604	8,534,883	250,368	38,658	39,365	34,426	10,678,452	
Mortgage receivable – Securitization Financing	7,093,301	5,795	427	5,828	-	-	7,105,351	
Securitization retained interests	88,782	-	-	-	-	-	88,782	
Other assets:								
Receivables related to securitization activities	5,193	-	-	-	-	-	5,193	
Accrued interest and dividends on non-mortgage assets	1,441	-	-	-	-	-	1,441	
Other	247	-	-	-	-	-	247	
	\$ 9,981,519	\$ 8,602,380	\$ 273,837	\$ 44,486	\$ 39,365	\$ 34,426	\$ 18,907,161	

⁽¹⁾ Includes debt securities guaranteed by Government of Canada, corporate debt and successor issuer rights.

(\$ THOUSANDS)	Neither past due nor impaired			Past due but not impaired	Individually impaired	Allowances	2015 Total
	Low risk	Standard risk	High risk				
Cash and cash equivalents	\$ 423,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,366
Restricted cash	107,988	-	-	-	-	-	107,988
Securities purchased under reverse repurchase agreements	19,918	-	-	-	-	-	19,918
Investments:							
Debt securities ⁽¹⁾	16,295	-	1,000	-	-	-	17,295
Equity securities – preferred shares Canada Housing Trust re-investment accounts	64,735	68,318	-	-	-	-	133,053
Mortgage receivable – Core Lending	2,395	-	-	-	-	-	2,395
Mortgage receivable – Securitization Financing	1,409,706	6,974,360	247,335	42,231	34,183	33,216	8,674,599
Securitization retained interests	5,975,624	45,814	297	4,472	-	-	6,026,207
Other assets:	61,650	-	-	-	-	-	61,650
Receivables related to securitization activities	5,524	-	-	-	-	-	5,524
Accrued interest and dividends on non-mortgage assets	148	272	-	-	-	-	420
Other	1,090	-	-	-	-	-	1,090
	<u>\$ 8,088,439</u>	<u>\$ 7,088,764</u>	<u>\$ 248,632</u>	<u>\$ 46,703</u>	<u>\$ 34,183</u>	<u>\$ 33,216</u>	<u>\$ 15,473,505</u>

⁽²⁾ Includes debt securities guaranteed by Government of Canada, corporate debt and successor issuer rights.

Collateral held as security

All mortgages are secured by real estate property located in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated, except when a mortgage is individually assessed as impaired. For impaired mortgages, the most recent appraised value of collateral at December 31, 2016 was \$ 50.3 million (December 31, 2015 – \$42.5 million). At December 31, 2016, the appraised values of collateral held for mortgages considered past due but not impaired, as determined when the mortgages were originated, was \$61.3 million (December 31, 2015 – \$63.0 million). It is the Company's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2016 amounted to \$7.6 million (December 31, 2015 – \$8.2 million) and are included in Other assets (Note 12) in the consolidated balance sheets. The Company does not use the real estate obtained through foreclosure for its own operations.

The Company does not hold collateral against investments in debt and equity securities; however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by the owner. The Company has a commitment to return collateral to the counterparty in accordance with the terms and conditions stipulated by the master repurchase agreement. Equitable has no contractual agreement with any counterparty that require it to post increased collateral in the event of a credit rating downgrade of Equitable Bank.

Credit Concentration Risk

A key component of credit risk that is closely monitored and measured within the unsecuritized mortgage portfolio is credit concentration risk. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. On a regular basis, with the approval of the Investment Committee of the Board and the full Board, management establishes credit limits for exposure to certain

counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the Company’s mortgage and investment portfolios.

Management believes that it is adequately diversified by borrower, property type and geography. At December 31, 2016, no individual borrower represented more than \$60.1 million (December 31, 2015 – \$56.4 million) or 0.62% (December 31, 2015 – 0.71%) of uninsured mortgage principal outstanding. See Table 13 and 15 of our Q4 2016 Supplemental Information and Regulatory Disclosures Report for a breakdown of mortgage principal outstanding by property type and geography, respectively.

LIQUIDITY AND FUNDING RISK

We define Liquidity and Funding risk as the possibility that the Company 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 maturity of deposits, maturity of mortgage backed securities and commitments to extend credit. Funding and Liquidity Risk may also be affected if an unduly large proportion of the Company’s deposit-taking business involves a single person, organization or group of related persons/organizations or a single geographic area.

In accordance with our RAF, the Board defines the Company's liquidity and funding risk tolerance as ‘low’, and also reviews and approves the limits to measure and control this risk. These are articulated via our Board-approved Liquidity and Funding Risk Management Policy – which is updated annually, at a minimum. This Policy requires us to maintain a pool of high quality liquid assets and stipulates various liquidity ratios and limits, concentration limits and, among other considerations, ongoing periodic liquidity stress testing requirements. Our liquidity position and adherence to the requirements of this Policy are monitored on a daily basis by Senior Management. These metrics are also reported monthly to the Asset Liability Management Committee (“ALCO”) and, quarterly, both to the ERM Committee and the Investment Committee of the Board. Any exceptions to established Policy limits are reported immediately to the ALCO or to the Board, as applicable. Both as at December 31, 2016 and the date of this MD&A, we were in full compliance with the Liquidity and Funding Risk Management Policy, as well as all related regulatory requirements.

We also adhere to the Office of the Superintendent of Financial Institution’s (“OSFI”) Liquidity Adequacy Requirement (“LAR”) Guideline, with both the Liquidity Coverage Ratio (“LCR”) and the Net Cumulative Cash Flow (“NCCF”) reported to OSFI on a monthly basis.

Our practice is to hold a sufficient amount of liquidity on our balance sheet to ensure that we remain well positioned to manage unexpected events that may reduce/limit our access to funding. 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. Actual liquidity may vary from period-to-period, mainly due to the timing of anticipated cash flows and funding seasonality. In addition to our funding and liquidity management policies and procedures, we have also developed a Liquidity and Funding Risk Contingency Plan, which outlines actions to be undertaken to address the outflow of funds in the event of a funding or liquidity crisis.

Table 34: Assets held for liquidity protection

(STHOUSANDS)	Policy minimum	2016	2015
Liquidity assets held for regulatory purposes		\$ 1,169,091	\$ 760,823
Liquidity assets as a % of minimum required policy liquidity ⁽¹⁾	100%	165%	136%

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

Stress and scenario testing is an integral part of Equitable’s Liquidity and Funding Risk Management framework and supports the development of action plans to address funding needs in stressed environments. We manage our funding needs to ensure that we can meet our financial commitments in a timely manner and at reasonable prices, even in times of stress. The Company’s stress testing models consider scenarios that incorporate institution-specific, market-specific and

combination events. These scenarios model cash flows over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an accelerated redemption of notice deposits. In each scenario, the Company targets to hold sufficient liquid assets and have fundraising capacity sufficient to meet all obligations for at least a three month forecast period while maintaining normal business activities. In order to establish these scenarios, we assess our fund raising capacity and establish assumptions related to the cash flow behavior of each type of asset and liability. As at December 31, 2016, we held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all considered scenarios.

Since 2013, we have actively diversified our funding sources in order to proactively manage our funding risk profile. This diversification has been accomplished through the addition of our brokered HISA offering, large bank sponsored funding facilities, a deposit note program, new securitization vehicles, and most recently, the launch of our digital banking platform, *EQ Bank*.

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

Table 35: Contractual obligations

(\$ THOUSANDS)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Deposits principal and interest ⁽¹⁾	\$ 7,714,061	\$ 4,303,115	\$ 2,934,589	\$ 476,357	\$ -
Securitization liabilities principal and interest ⁽¹⁾	8,871,567	1,336,274	1,908,583	4,373,019	1,253,691
Debentures principal and interest ⁽¹⁾	68,509	68,509	-	-	-
Bank facilities principal and interest ⁽¹⁾	50,000	50,000	-	-	-
Other liabilities ⁽¹⁾	111,726	88,999	7,447	5,205	10,075
Total 2016 contractual obligations	\$ 16,815,863	\$ 5,846,897	\$ 4,850,619	\$ 4,854,581	\$ 1,263,766
Total 2015 contractual obligations	\$ 13,993,604	\$ 5,765,420	\$ 4,171,320	\$ 2,643,588	\$ 1,413,276

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

See Note 22 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2016 and 2015.

MARKET RISK

Market Risk consists of Interest Rate risk and Equity Price risk, and is broadly defined as the possibility that changes in either market interest rates or equity prices may have an adverse effect on our profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes, such as optionality features embedded in our cashable deposits or mortgage commitments. For the interest sensitivity position of the Company as at December 31, 2016, see Note 24 to the consolidated financial statements. With respect to Equity Price risk, the value of our securities portfolio may be impacted by market determined variables which are beyond our control, such as benchmark yields, credit and/or market spreads, implied volatilities, the possibility of credit migration and default, among others. Overall, we have a 'low' tolerance for Market risk.

With respect to structural Interest Rate risk, our objective is to manage and control the Company's interest rate risk exposures within acceptable parameters and our primary method of mitigating this risk involves funding our assets with liabilities of a similar duration. The responsibility for managing the Company's Interest Rate risk resides with the ALCO, which meets monthly to review and approve all Treasury-related policies, to review key Interest Rate Risk metrics, and to provide direction on our operating and funding strategy. Also, Senior Management continuously reviews our interest rate risk profile and monitors the Company's ongoing funding strategy through the daily interest rate-setting process.

We monitor Interest Rate Risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on net interest income and on the economic value of shareholders' equity ("EVE"). 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. Management considers this measure to be more comprehensive than measuring changes in net interest income, as it captures all interest rate mismatches across all terms. Certain assumptions that are based on actual experience are also built into the simulations, including assumptions related to the pre-maturity redemption of deposits and early payouts of mortgages.

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 NII during the 12-month period following December 31, 2016. 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 36: Net interest income shock

(\$ THOUSANDS)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
Impact on net interest income	\$ 14,658	\$ (3,549)
Impact on EVE	(3,771)	11,351
EVE impact as a % of common shareholders' equity	(0.4%)	1.3%
200 basis point shift		
Impact on net interest income	\$ 26,934	\$ (3,549)
Impact on EVE	(6,628)	19,638
EVE impact as a % of common shareholders' equity	(0.7%)	2.2%

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

The management of Equity Price risk is also assigned to the ALCO by the Investment Committee of the Board. The ALCO manages the Company's securities portfolio in accordance with its 'Securities Portfolio Management Policy' and takes into consideration the following factors:

- General economic conditions and the possible effect of inflation or deflation;
- The expected tax consequences of investment decisions or business strategies;
- The credit quality of each investment and its role within the overall portfolio;
- The expected total return from income and the appreciation of capital;
- The Bank's need for liquidity, available capacity, and regularity/stability of earnings; and
- Each investment's special relationship or special value, if any, to the overall objectives of the portfolio.

On a monthly basis, the ALCO reviews the investment performance, composition, quality and other pertinent characteristics of the securities portfolio. This information is also presented to and reviewed by the Investment Committee of the Board at least quarterly, or more frequently, if required.

OPERATIONAL RISK

We define Operational risk as the possibility that a loss could result from people, inadequate or failed internal processes or systems, or from external events. Our definition specifically excludes legal risk – which we include under the 'Legal and Regulatory Risk' category below.

Operational risk is present in virtually all business activities of the Company and includes such considerations as fraud, damage to equipment, system failures, data entry errors, cyber security and business continuity. To the extent that they may impact collateral values or other pertinent loan loss drivers, we also consider natural disasters in our assessment of operational risk. As outlined in the Company's RAF, Equitable has a 'low-to-medium' tolerance for Operational Risk. We

recognize that while the nature of operational risk is such that there is little or no expected reward in taking on this risk, the costs to attempt to eliminate operational risk may be excessive.

The Company's Operational Risk Management program includes the following key components:

- **Governance:** While Operational risk may not be completely eliminated, proactive management of this risk is very important in order to mitigate exposure to financial losses, reputational damage and/or regulatory fines. We have implemented a Board-approved *Operational Risk Management Policy* and an *Operational Risk Management Framework*, which are jointly designed to monitor, review and report on operational risk management across the Company. Both the Policy and the related Framework articulate our governance practices for the proper management of Operational risk and include clear accountabilities for the three-lines-of-defense (i.e., Business Units, Risk Management and related oversight functions such as Compliance and Finance, and Internal Audit) – in alignment with both the BCBS's '*Principles for the Sound Management of Operational Risk*', and with OSFI's related '*Operational Risk Management Guideline*'. Given the size of the Company, the relatively low complexity of our business operations and our operational risk profile, business line management leverages the skills of the second line as subject matter experts to assist in the development of our operational risk monitoring practices. Additionally, given the expertise embedded in our second line of defense, the performance of some first line operational risk management activities are undertaken by the second line.
- **Training:** Ultimately, every employee within our organization is required to play a key role in managing Operational risk. In this regard, we have, since 2014, rolled out operational risk management training and testing for all employees across the Company – to provide them with an overview of the various types of operational risks, and their respective roles and responsibilities in helping to protect the interests and assets of the Company.
- **Risk and Control Self-Assessments ("RCSA's"):** We use these tools on an annual basis to help us identify and evaluate operational risk factors within our individual business and functional units, as well as on Company-wide basis. They assist us in the proactive identification and assessment of key operational risks inherent in our material activities and systems, and in evaluating the effectiveness of controls that are in place to manage these risks.
- **Key Risk Indicators ("KRI's"):** As part of our RCSA monitoring exercise, we utilize KRI's to measure, monitor and report on the level of operational risk on a business/functional unit basis, as well as across the organization. These KRI's also serve as early warning triggers to highlight potential issues before the Company experiences an incident or loss event.
- **Risk Measurement and Reporting:** On a regular monthly basis, our centralized Operational Risk Management Team consolidates key operational risk management trends, significant events, if any, and KRI's across the Company; these are reported to the ERM committee and to the RCC of the Board on a quarterly basis, at a minimum.
- **Business Continuity Management:** The Company maintains a robust Business Continuity Management program, which includes a 'Crisis Management Plan' – to ensure that we have the capability to sustain, manage and recover critical operations and processes in the event of a business disruption, thereby minimizing any adverse effects on our customers, partners and other stakeholders. All key business units within the organization are required to maintain, and regularly test and review, their business continuity plans.
- **Technology and Cyber Security:** To manage these risks, our defense systems are designed as an integral part of both our existing EQB infrastructure, and our new architecture and development for our Digital Banking platform. With our enhanced use of the internet and mobile technologies, we maintain an increased focus on the confidentiality, integrity and availability of our information and cyber security controls that protect our network, data and infrastructure.

The cyber security risk landscape includes numerous cyber threats such as hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated and complex and potentially damaging. EQB proactively maintains a "defense in depth" strategy with developed standards and procedures to prevent, detect, respond, manage and address cyber security threats from all types of malicious attackers that attempt to steal sensitive information, cause a system failure or denial of service on websites or other types of service disruption.

We work closely with our critical cyber security and software suppliers to ensure that our technology capabilities remain cyber resilient and effective in the event of any unforeseen cyber-attack. Our internal teams receive daily cyber security updates, rehearse incident table top exercises, and take specialized training in an effort to thwart current and evolving cyber threats.

Risks are actively managed through information security management programs which include regular vulnerability assessments, completion of the OSFI Cyber Security Self-Assessment and continuous improvements to the Bank's security and change management practices based on best practices from recognized industry associations.

EQB has not experienced any material cyber security breaches and has not incurred any material expenses with respect to the remediation of such cyber events.

Security risks continue to be actively monitored and reviewed, leveraging the expertise of the Bank's service providers and vendors, reviewing industry best practices and regularly re-assessing controls in place to mitigate the risks identified.

LEGAL AND REGULATORY RISK

Legal and Regulatory Risk is defined as the possibility that a loss could result from exposure to fines, penalties, or punitive damages from civil litigations, contractual obligations, criminal or supervisory actions, as well as private settlements; and from not complying with regulatory requirements, regulatory changes or regulators' expectations.

In accordance with our Board-approved RAF, we have a 'very low' tolerance for Legal and Regulatory risk. We undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations; this includes Equitable's Regulatory Compliance Management ("RCM") Program – which is designed to identify and manage our continuously evolving legal and regulatory requirements. We also undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations, and promote a strong culture of risk and compliance management across the organization. The Company's business units are engaged in the identification and proactive management of our legal and regulatory risks, while the Compliance, Legal, Anti-Money Laundering and Risk Management teams assist them by providing ongoing guidance and oversight. Management of these risks also includes the timely escalation of issues to Senior Management and to the Board.

The Company's RCM Program provides us with a control framework to manage and mitigate our exposure to regulatory risk – consistent with all applicable Canadian regulatory expectations, such as those mandated by OSFI, the CDIC, FINTRAC, Financial Consumer Agency of Canada ("FCAC"), etc.

BUSINESS AND STRATEGIC RISK

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

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

We do not use proprietary retail branches to originate deposits or mortgages. We rely primarily on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Registered Deposit Brokers Association ("RDBA") and the Mutual Fund Dealer Association ("MFDA") to distribute our deposit products. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerage firms and other mortgage banking organizations. Under adverse circumstances, it may be difficult to attract enough new deposits from agents or mortgage business from brokers to meet our current operating requirements. In order to manage the risk of not being able to attract enough deposits, we maintain access to a diversity of funding sources and have recently

launched our direct-to-consumer *EQ Bank* platform. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company.

The Company's Board has approved a 'low-to-medium' tolerance for Business and Strategic risk. We believe that this risk is best managed via a robust and dynamic annual strategic planning process that includes establishing Board-approved business growth strategies and quantifiable performance targets for each business segment over the forthcoming three-to-five year period. Management of this risk also includes regular monitoring of actual versus forecasted performance and an effective internal monitoring and reporting process – to the ERM Committee and the Board.

REPUTATIONAL RISK

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

In accordance with our Board-approved RAF, our tolerance for Reputational risk remains 'low' and the Company believes that the pursuit of our long-term goals requires the proper conduct of our business activities in accordance with our established Code of Conduct and business principles, as well as with all applicable laws and regulations. Equitable also maintains a Board-approved *Reputational Risk Management Policy* which, along with related compliance policies and procedures and our ERM practices, is sufficiently designed to identify, assess and manage the reputational and other non-financial considerations present within the Company's business.

UPDATED SHARE INFORMATION

At February 16, 2017, the Company had 16,460,688 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 556,921 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$25.6 million.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2016. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management has evaluated the design and operational effectiveness of the Company's Internal Control over Financial Reporting as of December 31, 2016 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the Integrated (2013) Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the Company's Internal Control over Financial Reporting was effective as of December 31, 2016.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2016 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)	2016	2015	% Change	2014	% Change
Total assets on the consolidated balance sheet	\$ 18,973,588	\$ 15,527,584	22%	\$ 12,854,903	48%
Mortgage principal derecognized	3,304,181	2,072,488	59%	1,519,008	118%
Assets Under Management	\$ 22,277,769	\$ 17,600,072	27%	\$ 14,373,911	55%

- **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)	2016	2015	% Change	2014	% Change
Shareholders' equity	\$ 977,150	\$ 796,116	23%	\$ 703,694	39%
Preferred shares	72,557	72,557	-%	72,412	-%
Common shareholders' equity	\$ 904,593	\$ 723,559	25%	\$ 631,282	43%
Common shares outstanding	16,460,142	15,538,605	6%	15,435,356	7%
Book value per common share	\$ 54.96	\$ 46.57	18%	\$ 40.90	34%

- **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 Capital Adequacy Requirements (“CAR”) Guideline. A detailed calculation of all Capital ratios can be found in Table 18 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.

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Non-interest expenses	\$ 29,750	\$ 29,039	2%	\$ 24,429	22%
Net revenue	87,831	78,407	12%	68,378	28%
Efficiency Ratio	33.9%	37.0%	(3.1%)	35.7%	(1.8%)

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Non-interest expenses	\$ 116,539	\$ 87,962	32%	\$ 71,644	63%
Net revenue	308,463	261,545	18%	219,877	40%
Efficiency Ratio	37.8%	33.6%	4.2%	32.6%	5.2%

- **Investments in our future:** is the portion of non-interest expenses spent on various strategic initiatives to enable future growth and maintain our superior level of service. In most cases, these investments are made ahead of associated benefits, and as such reduce our net income and elevate our Efficiency Ratio in the current year. A detailed calculation can be found in Table 7 and Table 25 of this MD&A.
- **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)	2016	2015	% Change	2014	% Change
Mortgage principal reported on the consolidated balance sheet	\$ 17,699,832	\$ 14,634,447	21%	\$ 12,240,698	45%
Mortgage principal derecognized	3,304,181	2,072,488	59%	1,519,008	118%
Mortgages Under Management	\$ 21,004,013	\$ 16,706,935	26%	\$ 13,759,706	53%

- **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 and Table 21 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				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Net interest income	\$ 77,926	\$ 70,827	10%	\$ 63,458	23%
Other income	9,288	7,011	32%	4,311	115%
TEB adjustment	617	569	8%	609	1%
Net revenue	\$ 87,831	\$ 78,407	12%	\$ 68,378	28%

(\$ THOUSANDS)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Net interest income	\$ 279,357	\$ 242,227	15%	\$ 204,522	37%
Other income	26,458	16,836	57%	13,423	97%
TEB adjustment	2,648	2,482	7%	1,932	37%
Net revenue	\$ 308,463	\$ 261,545	18%	\$ 219,877	40%

- **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. Prior to 2016, management computed this metric based on individual provisions only. In 2016, this was expanded to include collective provisions as well. Comparative figures have been computed under the revised methodology.

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Provision for credit losses	\$ 870	\$ 1,243	(30%)	\$ 1,064	(18%)
Divided by: average mortgage principal	17,330,244	16,560,975	5%	14,269,937	21%
Provision for credit losses – rate	0.02%	0.03%	(0.01%)	0.03%	(0.01%)

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Provision for credit losses	\$ 2,445	\$ 3,638	(33%)	\$ 2,627	(7%)
Divided by: average mortgage principal	16,167,140	13,437,573	20%	11,673,873	38%
Provision for credit losses – rate	0.02%	0.03%	(0.01%)	0.02%	-%

- **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)	Year ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Net income	\$ 138,330	\$ 125,865	10%	\$ 106,718	30%
Average total assets	17,301,263	14,234,441	22%	12,151,622	42%
Return on average assets	0.8%	0.9%	(0.1%)	0.9%	(0.1%)

- **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)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Net income available to common shareholders	\$ 133,568	\$ 121,102	10%	\$ 102,107	31%
Weighted average common equity outstanding	789,639	676,999	17%	585,766	35%
Return on shareholders' equity	16.9%	17.9%	(1.0%)	17.4%	(0.5%)

- **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. A detailed calculation can be found in Table 19 of this MD&A.
- **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 and Table 26 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 December 31, 2016, September 30, 2016 and December 31, 2015, the TEB adjustment was \$0.6 million, \$0.6 million and \$0.6 million. For the year ended December 31, 2016, the TEB adjustment was \$2.6 million as compared to \$2.5 million for 2015.
- **Total shareholder return:** is defined as total return of stock to an investor including stock appreciation and dividends.

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 measure is defined as total revenues derived from interest or dividend generating assets less total expenses related to interest bearing liabilities.

(\$ THOUSANDS)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Interest income	\$ 170,651	\$ 162,421	5%	\$ 147,184	16%
Less: interest expense	92,725	91,594	1%	83,726	11%
Net interest income	\$ 77,926	\$ 70,827	10%	\$ 63,458	23%

(\$ THOUSANDS)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Interest income	\$ 637,465	\$ 565,158	13%	\$ 509,544	25%
Less: interest expense	358,108	322,931	11%	305,022	17%
Net interest income	\$ 279,357	\$ 242,227	15%	\$ 204,522	37%

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

(\$ THOUSANDS)	Three months ended				
	Dec 31, 2016	Sep 30, 2016	% Change	Dec 31, 2015	% Change
Interest income	\$ 170,651	\$ 162,421	5%	\$ 147,184	16%
Other income	9,288	7,011	32%	4,311	115%
Total revenue	\$ 179,939	\$ 169,432	6%	\$ 151,495	19%

(\$ THOUSANDS)	Years ended				
	Dec 31, 2016	Dec 31, 2015	% Change	Dec 31, 2014	% Change
Interest income	\$ 637,465	\$ 565,158	13%	\$ 509,544	25%
Other income	26,458	16,836	57%	13,423	97%
Total revenue	\$ 663,923	\$ 581,994	14%	\$ 522,967	27%

CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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



Andrew Moor
President and Chief Executive Officer



Tim Wilson
Chief Financial Officer

February 16, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

We have audited the accompanying consolidated financial statements of Equitable Group Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equitable Group Inc. as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the right end.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 16, 2017

CONSOLIDATED BALANCE SHEETS

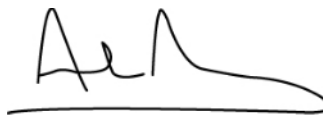
(\$ THOUSANDS)

As at December 31	Note	2016	2015
Assets			
Cash and cash equivalents	6	\$ 444,179	\$ 423,366
Restricted cash	6	247,878	107,988
Securities purchased under reverse repurchase agreements		199,401	19,918
Investments	7	136,718	153,714
Mortgages receivable – Core Lending	8,9	10,678,452	8,674,599
Mortgages receivable – Securitization Financing	8,9	7,105,351	6,026,207
Securitization retained interests	9	88,782	61,650
Other assets	12	72,827	60,142
		\$ 18,973,588	\$ 15,527,584
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	13	\$ 9,763,082	\$ 8,211,265
Securitization liabilities	9	7,762,632	6,109,436
Obligations under repurchase agreements	9	112,488	-
Deferred tax liabilities	14	38,771	28,698
Other liabilities	15	204,465	81,290
Bank facilities	16	50,000	235,779
Debentures	17	65,000	65,000
		17,996,438	14,731,468
Shareholders' equity:			
Preferred shares	18	72,557	72,557
Common shares	18	196,608	143,690
Contributed surplus	19	5,056	4,706
Retained earnings		725,912	605,436
Accumulated other comprehensive loss		(22,983)	(30,273)
		977,150	796,116
		\$ 18,973,588	\$ 15,527,584

See accompanying notes to the consolidated financial statements.



David LeGresley
Chair of the Board



Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	Note	2016	2015
Interest income:			
Mortgages – Core Lending		\$ 444,093	\$ 392,462
Mortgages – Securitization Financing		179,838	159,247
Investments		8,821	7,173
Other		4,713	6,276
		637,465	565,158
Interest expense:			
Deposits		183,340	170,699
Securitization liabilities	9	165,960	141,567
Bank facilities		4,756	4,198
Debentures		3,800	5,033
Other		252	1,434
		358,108	322,931
Net interest income		279,357	242,227
Provision for credit losses	8	2,445	3,638
Net interest income after provision for credit losses		276,912	238,589
Other income:			
Fees and other income		17,640	11,413
Net gain (loss) on investments		146	(463)
Gains on securitization activities and income from securitization retained interests	9	8,672	5,886
		26,458	16,836
Net interest and other income		303,370	255,425
Non-interest expenses:			
Compensation and benefits		60,280	48,474
Other		56,259	39,488
		116,539	87,962
Income before income taxes		186,831	167,463
Income taxes	14		
Current		37,947	27,847
Deferred		10,554	13,751
		48,501	41,598
Net income		\$ 138,330	\$ 125,865
Earnings per share	20		
Basic		\$ 8.57	\$ 7.83
Diluted		\$ 8.49	\$ 7.73

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ THOUSANDS)

Years ended December 31	Note	2016	2015
Net income		\$ 138,330	\$ 125,865
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains (losses) from change in fair value		3,247	(25,320)
Reclassification of net (gains) losses to income		(187)	107
Income tax (expense) recovery		3,060	(25,213)
		(812)	6,656
		2,248	(18,557)
Cash flow hedges:			
Net unrealized gains (losses) from change in fair value	10	3,877	(6,219)
Reclassification of net losses to income		2,986	3,620
Income tax (expense) recovery		6,863	(2,599)
		(1,821)	686
		5,042	(1,913)
Total other comprehensive income (loss)		7,290	(20,470)
Total comprehensive income		\$ 145,620	\$ 105,395

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ THOUSANDS)

2016	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments		Total
						Total	Total	
Balance, beginning of year	\$ 72,557	\$ 143,690	\$ 4,706	\$ 605,436	\$ (7,815)	\$ (22,458)	\$ (30,273)	\$ 796,116
Net income	-	-	-	138,330	-	-	-	138,330
Other comprehensive income, net of tax	-	-	-	-	5,042	2,248	7,290	7,290
Shares issued, net of issuance cost	-	49,333	-	-	-	-	-	49,333
Exercise of stock options	-	2,877	-	-	-	-	-	2,877
Dividends:								
Preferred shares	-	-	-	(4,763)	-	-	-	(4,763)
Common shares	-	-	-	(13,091)	-	-	-	(13,091)
Stock-based compensation	-	-	1,058	-	-	-	-	1,058
Transfer relating to the exercise of stock options	-	708	(708)	-	-	-	-	-
Balance, end of year	\$ 72,557	\$ 196,608	\$ 5,056	\$ 725,912	\$ (2,773)	\$ (20,210)	\$ (22,983)	\$ 977,150

2015	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments		Total
						Total	Total	
Balance, beginning of year	\$ 72,412	\$ 140,657	\$ 4,331	\$ 496,097	\$ (5,902)	\$ (3,901)	\$ (9,803)	\$ 703,694
Net income	-	-	-	125,865	-	-	-	125,865
Other comprehensive loss, net of tax	-	-	-	-	(1,913)	(18,557)	(20,470)	(20,470)
Issuance cost	145	-	-	-	-	-	-	145
Exercise of stock options	-	2,473	-	-	-	-	-	2,473
Dividends:								
Preferred shares	-	-	-	(4,762)	-	-	-	(4,762)
Common shares	-	-	-	(11,764)	-	-	-	(11,764)
Stock-based compensation	-	-	935	-	-	-	-	935
Transfer relating to the exercise of stock options	-	560	(560)	-	-	-	-	-
Balance, end of year	\$ 72,557	\$ 143,690	\$ 4,706	\$ 605,436	\$ (7,815)	\$ (22,458)	\$ (30,273)	\$ 796,116

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ THOUSANDS)

Years ended December 31	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 138,330	\$ 125,865
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	(471)	5,222
Amortization of premiums/discount on investments	237	743
Amortization of capital assets and intangible costs	7,863	3,532
Provision for credit losses	2,445	3,638
Securitization gains	(8,135)	(5,247)
Net (gain) loss on sale or redemption of investments	(146)	463
Stock-based compensation	1,058	935
Income taxes	48,501	41,598
Changes in operating assets and liabilities:		
Restricted cash	(139,890)	(40,298)
Securities purchased under reverse repurchase agreements	(179,483)	(1,801)
Mortgages receivable, net of securitizations	(3,122,072)	(2,456,730)
Other assets	(6,770)	(167)
Deposits	1,554,090	719,090
Securitization liabilities	1,653,196	1,754,108
Obligations under repurchase agreements	112,488	(52,413)
Bank facilities	(185,779)	143,543
Other liabilities	105,011	17,440
Income taxes paid	(17,394)	(26,419)
Securitization retained interests	16,291	10,798
Cash flows (used in) from operating activities	(20,630)	243,900
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares, net of issuance costs	49,333	-
Preferred shares – issuance costs	-	145
Proceeds from issuance of common shares	2,877	2,473
Redemption of debentures	-	(20,000)
Dividends paid on preferred shares	(4,763)	(4,762)
Dividends paid on common shares	(12,754)	(8,658)
Cash flows from (used in) financing activities	34,693	(30,802)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(131,390)	(26,856)
Proceeds on sale or redemption of investments	151,380	16,208
Net change in Canada Housing Trust re-investment accounts	(104)	11,859
Purchase of capital assets and system development costs	(13,136)	(21,006)
Cash flows from (used in) investing activities	6,750	(19,795)
Net increase in cash and cash equivalents	20,813	193,303
Cash and cash equivalents, beginning of year	423,366	230,063
Cash and cash equivalents, end of year	\$ 444,179	\$ 423,366
Cash flows from operating activities include:		
Interest received	\$ 590,687	\$ 563,992
Interest paid	(337,685)	(310,298)
Dividends received	7,438	12,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of Compliance:

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

The consolidated financial statements were authorized for issue by the Company's Board of Directors on February 16, 2017.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

(e) Consolidation:

The consolidated financial statements as at and for the twelve months ended December 31, 2016 and December 31, 2015 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

The following note describes the Company's significant accounting policies. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial instruments:

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

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

(i) Classification of financial assets and liabilities

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

Financial instruments at fair value through income

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

Classified as held for trading

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

Designated as at fair value through income

Instruments designated as at fair value through income must meet one of the following criteria: (a) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (b) a group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (c) the instrument contains one

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

or more embedded derivatives unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis that separation is prohibited.

Held to maturity

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

Loans and receivables

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

Available for sale

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

Financial liabilities

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

(ii) Determination of fair value

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

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

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

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

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

Financial liabilities

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

(iv) Offsetting

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

(v) Risks associated with financial instruments

The use of financial instruments exposes the Company to credit risk, interest rate risk, and liquidity risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of Company's December 31, 2016 Management's Discussion and Analysis and Note 4 to these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

(b) Interest:

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

(c) Cash and cash equivalents:

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

(d) Investments:

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

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

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

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

Investments are assessed for impairment at the end of each reporting period, or more frequently, if events or changes in circumstances indicate the existence of objective evidence of impairment. Investments that are designated as available for sale are assessed for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. Loss events include default or delinquency of the debtor, indications that the issuer of a security will enter bankruptcy, significant deterioration of credit quality, the disappearance of an active market for security or observable data indicating that there is a measurable decrease in the estimated cash flows from the assets.

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

For held to maturity investments that are determined to be impaired, the write-down to net realizable value (i.e. present value of estimated future cash flows discounted using the original effective interest rate) is reported in Other income in the consolidated statements of income. For held to maturity securities, where an impairment loss subsequently reverses, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

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

(e) Securities purchased under reverse repurchase agreements:

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

(f) Mortgages receivable:

Classification

(i) Mortgages receivable classified as loans and receivables

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

(ii) Mortgages designated as at fair value through income

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

(iii) Mortgages classified as held for trading

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

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Impairments

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

When an impaired mortgage is identified, an individual allowance is recorded to reduce the carrying value of the mortgage to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the mortgage's effective interest rate. The impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. When a mortgage is classified as impaired, interest income continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the allowance for credit losses. A mortgage is no longer considered impaired when all past due amounts including interest have been recovered and it is determined that the principal and interest are fully collectible, at which time the individual allowance is reversed.

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

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

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

(g) Allowance for credit losses:

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

Individual allowance

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

Collective allowance

The Company maintains a collective allowance in order to cover any impairment in the existing portfolio for mortgages that have not yet been individually identified as impaired. If there is no objective evidence of impairment for an individual loan, whether significant or not, the loan is included in a group of assets with similar credit risk characteristics and collectively assessed for losses incurred but not identified. The level of the allowance for each group of assets depends upon security and mortgage type, internal risk ratings, geographic location, loan-to-value ratio, and other relevant factors. Loss assumptions may be adjusted over time based on current observable data and economic conditions. The collective

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allowance may also be adjusted for management's judgement as to whether current economic conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that calculated by the model.

(h) Securitizations:

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

The Company also securitizes uninsured residential mortgages by entering into an agreement to sell these mortgages into a program sponsored by another major Schedule I Canadian bank.

Securitized mortgages and securitization liabilities

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

Sale of uninsured residential mortgages do not qualify for derecognition and are classified as Mortgages receivable – core lending on the consolidated balance sheets, and are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – core lending in the consolidated statements of income.

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

Securitization retained interest and servicing liability

In certain securitization transactions that qualify for derecognition, the Company has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. The securitization retained interests are classified as available for sale securities in the consolidated balance sheets and are carried at fair value with changes in fair value reported in OCI, net of income taxes. The servicing liability is reported as part of Other liabilities. During the life of the securitization, as cash is received, the retained interests and the servicing liability are amortized and recognized in the consolidated statements of income under Gains on securitization activities and income from securitization retained interests.

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Gains on securitization

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

(i) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are interest rate swaps, bond forwards and total return swaps. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposures resulting from changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the NHA MBS and CMB program, and the date of securitization. Total return swaps are used to hedge the risk of changes in future cash flows related to the Company's Restricted share unit ("RSU") and Deferred share unit ("DSU") plan. The Company also uses total return swap to hedge the reinvestment risk between the amortizing MBS and the bullet CMB related to its CMB activities.

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

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

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

Cash flow hedges

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

The Company's cash flow hedges include hedges of highly probable cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, Financial Instruments: Recognition and Measurement. The Company enters into bond forwards (including certain embedded derivatives) to hedge this cash flow risk and applies hedge accounting to these derivative financial instruments. The Company also enters into interest rate swaps to hedge future cash flows related to its floating rate liabilities. To the extent that changes in the fair value of the derivative do not exceed the changes in the fair value of the hedged item, they are recorded in OCI, net of tax. The cumulative amounts deferred in Accumulated Other Comprehensive Income ("AOCI") are reclassified to Interest expense – securitization liabilities in the consolidated statements of income.

The Company's cash flow hedges also include Total return equity swap contracts ("TRS") used to hedge the risk of changes in future cash flows related to its RSU plan. The value of RSUs or PSUs issued is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheets and the effective portion of the changes in fair values of these TRS is recorded in OCI, net of tax. The cumulative amounts deferred in AOCI are reclassified to Non-interest expense – compensation and benefits in the consolidated statements of income, over the vesting period of the RSUs or PSUs.

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

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

The Company also uses TRSs to hedge the risk of changes in future cash flows related to its DSU plan and the Company has not applied hedge accounting to these derivative instruments. The value of the DSU is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheets and changes in fair value of these TRSs being recorded in Non-interest expense – compensation and benefits in the consolidated statements of income for the period in which the changes occur.

Fair value hedges

The Company enters into interest rate swap agreements to manage interest rate exposures on fixed rate deposits used to fund floating rate mortgages. The fair values of these interest rate swap agreements is included in Other assets and/or Other liabilities with changes in fair value recorded in Interest expense – deposits. Changes in the fair value of deposits attributable to the hedged risks are also included in Interest expense – deposits. For most hedging relationships, the Company has applied hedge accounting.

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

The Company enters into bond forwards to manage interest rate exposures for certain mortgage commitments and funded mortgages until the date they are securitized. The fair values of these bond forwards are included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from securitization retained interests. Changes in fair value of mortgages and mortgage commitments are also included in Other income – gains on securitization activities and income from securitization retained interests. The Company does not apply hedge accounting to these derivative instruments.

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

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(j) Compensation plans:

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

(i) Short-term employee benefits

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

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

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

(iii) Stock-based compensation

Stock option plan:

The Company has a stock option plan for eligible employees of Equitable Bank. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares or the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the date the options were granted. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in Contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Compensation expense related to the stock-based compensation plan is included in Non-interest expense – compensation and benefits in the consolidated statements of income.

RSU plan:

The Company has an RSU plan and may grant RSUs and/or Performance Share Units ("PSUs") to eligible employees on an annual basis. The expense related to the award of these units is included in Non-interest expense – compensation and benefits in the consolidated statements of income over the vesting period and any corresponding liability is included in Other liabilities in the consolidated balance sheets. Since each RSU or PSU represents a notional common share, any changes in unit value and re-invested notional dividend amounts are recognized in the consolidated statements of income. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting. The value of PSUs may be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial

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institutions in Canada, and the incremental expense or recovery on those shares is recorded when the Company can reliably estimate the actual payout.

DSU plan:

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

Employee stock purchase (“ESP”) plan:

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

(k) Income taxes:

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

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

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

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

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

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(l) Capital assets:

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

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

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

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

(m) Intangible assets:

Intangible assets are comprised of internally generated system and software development costs. An intangible asset is recognized only when its cost can be reliably measured and includes all directly attributable costs necessary to create the asset to be capable of operating in the manner intended by management. Research costs are expensed and eligible development costs are capitalized. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any, in the consolidated balance sheets. The company's intangible assets are amortized on a straight-line basis over their useful lives, ranging from 3 to 10 years. Amortization expenses are included in Non-interest expenses – other in the consolidated statements of income.

Intangible assets, including those under development are assessed for indicators of impairment at each reporting period. If there's an indication that impairment exists, the Company performs an impairment test by comparing the carrying amount of the intangible asset to its recoverable amount. If the recoverable amount is less than its carrying amount, the carrying amount is written down to its recoverable amount and an impairment loss is recognized in the consolidated statements of income.

(n) Leases:

Operating leases

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

(o) Deposits:

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

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(p) Obligations under repurchase agreements:

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

(q) Bank facilities and debentures:

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

(r) Share capital:

Issuance costs

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

(s) Fees:

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

(t) Earnings per share:

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

(u) Provisions:

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

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(v) Future accounting changes:

(i) Financial Instruments (IFRS 9)

On July 24, 2014, the IASB issued IFRS 9 *Financial Instruments*, which will replace IAS 39 and covers three broad topics: Classification and Measurement, Impairment and Hedging.

On June 21, 2016, OSFI issued its final guideline on *IFRS 9 Financial Instruments and Disclosures*. The guideline provides guidance to Federally Regulated Entities on the application of IFRS 9, including the implementation of the expected credit loss framework under IFRS 9. The guideline is consistent with the BCBS *Guidance on credit risk and accounting for expected credit losses*, issued on December 18, 2015, which sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models. The OSFI guideline will be effective for Equitable Bank beginning on January 1, 2018, consistent with the adoption of IFRS 9.

Implementation approach

The adoption of IFRS 9 is a significant initiative for the Company involving substantial finance, risk management and technology resources. The project is managed through a governance structure that includes an Executive Steering Committee (EC) comprised of senior levels of management from risk management and finance. The EC is responsible for the overall implementation of IFRS 9, ensuring integration throughout the Company and providing executive review and approval of key decisions made during the transition process. Periodic reporting on the progress against plan is provided to the EC and the Company's senior management.

To date, as per the plan, the Company's efforts have largely been focused on updating accounting policies to address key aspects of the Standard, developing risk models and associated methodologies, and conducting training sessions to impacted internal stakeholders. The Company will complete the development and validation of the impairment models for the calculation of expected credit losses in 2017 to support a parallel run during 2017. The Company will update accounting policy manuals, internal control documents, implement changes to business and financial reporting processes and systems, and enhance the Company's existing governance process to support the high quality implementation of the Standard by January 1, 2018. The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9:

Classification and Measurement

The standard considers two criteria when determining the measurement basis for debt instruments held as financial assets; i) its business model for managing those financial assets and ii) the cash flow characteristics of the assets. Based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through the Consolidated Statement of Income. Equity investments are measured at fair value through the Consolidated Statement of Income. However, the Company may, at initial recognition of a non-trading equity investment, irrevocably elect to designate the investment as fair value through OCI, with no subsequent recycling to the Consolidated Statement of Income and dividend income recognized in the Consolidated Statement of Income. This designation is also available to existing non-trading equity investments at the date of adoption of IFRS 9.

The Company is currently in the process of assessing the business models and contractual cash flow characteristics of all the financial assets held by the Company.

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Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial instruments including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model is forward looking and replaces the current “incurred loss” model of IAS 39. Expected credit losses under IFRS 9 are the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach.

The ECL model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SIR) since origination and are not credit impaired. The ECL will be computed using a 12-month probability of default (‘PD’) that represents the PD occurring over the next 12 months or less in line with the maturity profile of the asset.

Stage 2 – When a financial asset experiences a SIR since origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the PD occurring over the remaining lifetime of the financial asset.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses for such loans.

Macroeconomic factors and forward looking indicators are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The assessment of whether there has been a SIR is to be performed at each reporting date.

The Company is currently in the process of developing and testing the key models required under IFRS 9 and has not yet quantified the impact on the collective allowance.

Hedging

The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

The Company is permitted to adopt the hedge accounting requirements of IFRS 9 concurrently or to defer the adoption of the hedge accounting requirements of the standard to a future period. The Company is currently considering deferring the adoption of these requirements, although it will implement the revised hedge accounting disclosures.

(ii) Revenue from Contracts with Customers (IFRS 15)

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

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IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2018 and the Company does not expect any significant changes of IFRS 15 on its financial statements.

(iii) Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16 Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and is available for early adoption. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 45-56.

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Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

Securities purchased under reverse repurchase agreements, obligations under repurchase agreements, 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.

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(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 December 31, 2016 and December 31, 2015. The tables do not include assets and liabilities that are not considered financial instruments.

	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	

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								2015	
	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	\$ 423,366	\$ -	\$ -	\$ -	\$ -	\$ 423,366	\$	423,366	
Restricted cash	107,988	-	-	-	-	107,988	\$	107,988	
Securities purchased under reverse repurchase agreements	-	-	-	-	19,918	19,918	\$	19,918	
Investments	891	-	2,395	149,428	1,000	153,714	\$	153,714	
Mortgages receivable – Core Lending	-	47,707	-	-	8,626,892	8,674,599	\$	8,706,580	
Mortgages receivable – Securitization Financing	45,019	-	-	-	5,981,188	6,026,207	\$	6,214,016	
Securitization retained interests	-	-	-	61,650	-	61,650	\$	61,650	
Other assets:									
Derivative financial instruments:									
interest rate swaps	990	-	-	-	-	990	\$	990	
Mortgage commitments	2	-	-	-	-	2	\$	2	
Other	-	-	-	-	8,216	8,216	\$	8,216	
Total financial assets	\$ 578,256	\$ 47,707	\$ 2,395	\$ 211,078	\$ 14,637,214	\$ 15,476,650	\$	15,696,440	
Financial liabilities:									
Deposits	\$ -	\$ 45,431	\$ -	\$ -	\$ 8,165,834	\$ 8,211,265	\$	8,240,920	
Securitization liabilities	-	-	-	-	6,109,436	6,109,436	\$	6,237,077	
Other liabilities:									
Derivative financial instruments:									
bond forwards	1,592	-	-	-	-	1,592	\$	1,592	
total return swaps	879	-	-	-	-	879	\$	879	
Other	-	-	-	-	78,510	78,510	\$	78,510	
Bank Facilities	-	-	-	-	235,779	235,779	\$	235,779	
Debentures	-	-	-	-	65,000	65,000	\$	65,987	
Total financial liabilities	\$ 2,471	\$ 45,431	\$ -	\$ -	\$ 14,654,559	\$ 14,702,461	\$	14,860,744	

(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.

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that would have been determined by market participants acting at arm's length. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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

	2016			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 111,177	\$ 2,499	\$ 23,042	136,718
Mortgages receivable – Core Lending	-	47,283	10,690,148	10,737,431
Mortgages receivable – Securitization Financing	-	25,196	7,160,207	7,185,403
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	\$ 111,177	\$ 168,020	\$ 17,874,356	18,153,553
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 9,761,039	9,761,039
Securitization liabilities	-	1,414,907	6,396,927	7,811,834
Other liabilities:				
Derivative financial instruments:				
bond forwards	-	113	-	113
interest rate swaps	-	-	158	158
Debentures	-	65,363	-	65,363
Total financial liabilities	\$ -	\$ 1,480,383	\$ 16,158,124	17,638,507

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	2015			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 150,319	\$ 2,395	\$ 1,000	\$ 153,714
Mortgages receivable – Core Lending	-	47,707	8,658,873	8,706,580
Mortgages receivable – Securitization Financing	-	45,019	6,168,997	6,214,016
Securitization retained interests	-	61,650	-	61,650
Other assets:				
Derivative financial instruments:				
interest rate swaps	-	-	990	990
Mortgage Commitments	-	-	2	2
Total financial assets	\$ 150,319	\$ 156,771	\$ 14,829,862	\$ 15,136,952
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 8,240,920	\$ 8,240,920
Securitization liabilities	-	1,531,629	4,705,448	6,237,077
Other liabilities:				
Derivative financial instruments:				
bond forwards	-	1,592	-	1,592
total return swaps	-	879	-	879
Debentures	-	65,987	-	65,987
Total financial liabilities	\$ -	\$ 1,600,087	\$ 12,946,368	\$ 14,546,455

Note 6 – Cash and Cash Equivalents and Restricted Cash

	2016	2015
Deposits with regulated financial institutions	\$ 444,179	\$ 423,366
Cash and cash equivalents	\$ 444,179	\$ 423,366
Restricted cash – securitization	\$ 231,872	\$ 84,658
Restricted cash – interest rate swaps	15,505	22,904
Restricted cash – other programs	501	426
Restricted cash	\$ 247,878	\$ 107,988

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

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

Restricted cash – other programs represent deposits held as collateral in connection with our Home Equity line of credit and deposit programs. These balances may be drawn upon only in the event of insufficient cash flows from the underlying programs.

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Note 7 – Investments

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

	2016						2015
	Maturities					Total	Total
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	With no specific maturity		
Equity securities – preferred shares	\$ -	\$ 2,891	\$ -	\$ -	\$ 107,806	\$ 110,697	\$ 133,053
Equity securities – common shares	-	-	-	-	480	480	971
Debt securities guaranteed by Government of Canada	-	-	-	-	-	-	16,295
Debt securities – Successor issuer rights	12,722	9,180	140	-	-	22,042	-
Debt securities – corporate debt	-	-	-	-	1,000	1,000	1,000
Canada Housing Trust re-investment accounts ⁽¹⁾	185	1,992	322	-	-	2,499	2,395
	\$ 12,907	\$ 14,063	\$ 462	\$ -	\$ 109,286	\$ 136,718	\$ 153,714

⁽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:

	2016	2015
Equity securities – preferred shares	\$ (28,251)	\$ (33,111)
Equity securities – common shares	53	25
Debt securities guaranteed by Government of Canada	-	1,127
Debt securities – Successor issuer rights	(94)	-
	\$ (28,292)	\$ (31,959)

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Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2016	Allowance for credit losses				Net amount
	Gross 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

2015	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 8,678,968	\$ 494	\$ 31,890	\$ 32,384	8,646,584
Mortgages – Securitization Financing	6,014,263	-	-	-	6,014,263
Accrued interest	40,791	832	-	832	39,959
	\$ 14,734,022	\$ 1,326	\$ 31,890	\$ 33,216	14,700,806

Mortgages – Securitization Financing include mortgages classified as held for trading that are carried at fair value with changes in fair value included in Gains on securitization activities and income from securitization retained interests. As at December 31, 2016, mortgage principal outstanding on these mortgages is \$25,196 (December 31, 2015 – \$45,019, and the fair value adjustment is (\$122) (December 31, 2015 – (\$206)).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at December 31, 2016, mortgage principal outstanding for these mortgages was \$46,451 (December 31, 2015 – \$46,120) and the fair value adjustment was \$832 (December 31, 2015 – \$1,587).

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

	2016	2015
Net loss in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	\$ (328)	\$ (12)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	\$ (755)	\$ (355)

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

	2016	2015
Mortgages – Core Lending	\$ 4,749,000	\$ 4,028,533
Mortgages – Securitization Financing	760,188	695,295
	\$ 5,509,188	\$ 4,723,828

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(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 December 31, 2016, accrued interest on impaired mortgages amounted to \$1,261 (December 31, 2015 – \$902).

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

	2016			2015
	Gross	Individual allowance	Net	Net
Mortgages – Core Lending	\$ 38,846	\$ 2,536	\$ 36,310	\$ 32,760
Mortgages – Core Lending – Insured	519	-	519	97
Mortgages – Securitization Financing – Insured	-	-	-	-
	\$ 39,365	\$ 2,536	\$ 36,829	\$ 32,857

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

	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

	2015			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 28,656	\$ 8,012	\$ -	\$ 36,668
Mortgages – Core Lending – Insured	1,200	820	2,255	4,275
Mortgages – Securitization Financing – Insured	3,503	628	313	4,444
	\$ 33,359	\$ 9,460	\$ 2,568	\$ 45,387

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(c) Allowance for credit losses:

	2016		
	Individual allowance	Collective allowance	Total
Balance, beginning of year	\$ 1,326	\$ 31,890	\$ 33,216
Provision for credit losses	2,445	-	2,445
Realized losses	(1,298)	-	(1,298)
Recoveries	63	-	63
Balance, end of year	\$ 2,536	\$ 31,890	\$ 34,426

	2015		
	Individual allowance	Collective allowance	Total
Balance, beginning of year	\$ 3,937	\$ 29,510	\$ 33,447
Provision for credit losses	1,258	2,380	3,638
Realized losses	(3,901)	-	(3,901)
Recoveries	32	-	32
Balance, end of year	\$ 1,326	\$ 31,890	\$ 33,216

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Note 9 – Derecognition of financial assets

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

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

Obligations under repurchase agreements

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

Securitizations

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

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

The Company's securitization activities include selling uninsured mortgages by entering into an agreement with another Schedule I bank and participating in a securitization program sponsored by that bank. Under this agreement, the Company sells the mortgages to the program and they remain in the program until maturity. The bank that sponsors the securitization program retains all of the refinancing risks related to the program. The sale of these mortgages does not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and the proceeds received are recognized under securitization liabilities. The mortgages transferred are pledged as collateral for these securitization liabilities.

i) MBS securitizations

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

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ii) CMB securitizations

As part of a CMB transaction, the Company may enter into total return swaps with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by the Company. For transactions that fail derecognition, these swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. As at December 31, 2016, the notional amount of these swaps was \$1,887,430 (December 31, 2015 – \$1,424,072).

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to CHT are transferred to CHT on a monthly basis where they are held and invested in eligible investments until the maturity of the bond. To the extent that these eligible investments are not the Company's own issued MBS, the investments are recorded on the Company's consolidated balance sheets under Investments – Canada Housing Trust re-investment accounts. Interest on the CMB securitization liabilities is calculated at the CMB coupon rate and is paid to the CMB holders on a semi-annual basis.

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:

	2016		2015	
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	\$ 8,486,532	\$ 112,488	\$ 6,469,248	\$ -
Carrying amount of associated liability	7,762,632	112,488	6,109,436	-
Carrying value, net position	\$ 723,900	\$ -	\$ 359,812	\$ -
Fair value of assets	\$ 8,567,106	\$ -	\$ 6,659,389	\$ -
Fair value of associated liability	7,811,749	-	6,237,077	-
Fair value, net position	\$ 755,357	\$ -	\$ 422,312	\$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of \$650,959 (December 31, 2015 – \$290,434). The fair value of these assets are \$644,768 (December 31, 2015 – \$291,826).

The carrying amount of assets excludes mortgages held for securitization of \$463,996 (December 31, 2015 – \$484,778).

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

	MBS Liabilities	CMB Liabilities	Other Securitization Liabilities	Total Liabilities
2017	\$ 643,919	\$ 76,346	\$ 100,483	\$ 820,748
2018	405,240	42,302	182,991	630,533
2019	633,651	-	302,329	935,980
2020	1,162,606	509,366	198,818	1,870,790
2021	1,380,758	628,801	216,915	2,226,474
Thereafter	1,235,026	75,688	-	1,310,714
	\$ 5,461,200	\$ 1,332,503	\$ 1,001,536	\$ 7,795,239

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(b) Transfers that are derecognized in their entirety:

Certain securitization transactions undertaken by the Company result in the Company derecognizing the transferred assets in their entirety. This is the case where the Company has securitized and sold pools of residential mortgages with no prepayment option to third parties. The Company does not retain substantially all the risks and rewards of ownership and transfers control over the assets. The Company retains some continuing involvement in the transaction which is represented by the retained interests and the associated servicing liabilities.

The Company also achieves derecognition on the securitization and sale of certain pools of residential mortgages with a prepayment option. In these transactions, the Company securitizes and sells pools of residential mortgages and then engages in a transaction to transfer its rights in the excess interest spread and/or any prepayment risk, thereby transferring substantially all the risks and rewards of ownership in the asset and derecognizing the asset in its entirety.

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

	2016	2015
Mortgages securitized and sold	\$ 1,328,487	\$ 617,015
Carrying value of Securitization retained interests	44,031	27,122
Carrying value of Securitized mortgage servicing liability	12,565	6,099
Gains on mortgages securitized and sold	8,135	5,247
Income from securitization activities and retained interests	537	639

During the year, 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 \$748,077 of multi-residential mortgages and recorded a gain on sale of \$1,645 included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

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

	MBS Liabilities
2017	\$ 432,265
2018	607,047
2019	523,820
2020	618,241
2021	488,331
Thereafter	935,279
	\$ 3,604,983

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 10 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

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

During the year, the Company began hedging the risk of changes in future cash flows related to its floating rate securitization liabilities by entering into interest rate swaps. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

The Company also hedges the risk of changes in future cash flows related to its Restricted share unit plan by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price.

The Company also hedges the risk of changes in future cash flows related to its Deferred share unit plan by entering into a total return equity swap contract with a third party. The value of this derivative financial instrument is linked to the price of the Company's common shares. Changes in fair value of the derivative offsets the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company does not apply hedge accounting to this derivative financial instrument.

Fair value hedges

The Company enters into hedging transactions to manage interest rate exposures on mortgage commitments and certain deposits used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps and bond forwards. The Company does not apply hedge accounting to these hedging relationships.

The Company also enters into hedging transactions to manage interest rate exposure on certain fixed rate deposits and certain securitization liabilities, and applies hedge accounting to these relationships.

(b) Other derivatives:

Total return swaps

As part of its CMB activities, the Company may assume reinvestment risk between the amortizing MBS and the bullet CMB for securitized mortgages which are derecognized. The Company assumes this risk by entering into total return swaps with highly rated counterparties and exchanging the cash flows of the CMB for those of the MBS transferred to CHT. These swaps are recognized on the Company's consolidated balances sheets and fair valued through the Company's consolidated statements of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Financial impact of derivatives:

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

Derivative instrument and term (years)	Notional amount	Positive current replacement cost ⁽¹⁾	Credit equivalent amount ⁽²⁾	Risk-weighted balance ⁽³⁾	Fair value		2016
					Assets	Liabilities	Net ⁽⁴⁾
Cash flow hedges:							
Bond forwards – hedge accounting							
1 or less	\$ 234,860	\$ 916	\$ 916	\$ 522	\$ 263	\$ -	263
Interest rate swaps – hedge accounting							
1 to 5	312,418	4,216	5,778	1,156	4,216	-	4,216
Total return swaps – hedge accounting							
1 or less	1,551	-	93	19	-	(46)	(46)
1 to 5	2,777	261	483	97	261	-	261
Total return swaps – non-hedge accounting							
1 or less	1,833	110	220	44	110	-	110
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	100,000	195	695	139	195	-	195
1 to 5	142,000	-	710	142	-	(205)	(205)
5 and above	24,634	-	123	25	-	(738)	(738)
Interest rate swaps – non-hedge accounting							
1 to 5	1,450	48	55	11	48	-	48
Bond forwards – non-hedge accounting							
1 or less	36,850	80	80	80	80	-	80
Other derivatives:							
Total return swaps							
1 to 5	386,511	176	2,109	422	176	-	176
5 and above	174,325	541	3,155	631	541	-	541
	\$ 1,419,209	\$ 6,543	\$ 14,417	\$ 3,288	\$ 5,890	\$ (989)	4,901

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

	2015						
Derivative instrument and term (years)	Notional amount	Positive current replacement cost ⁽¹⁾	Credit equivalent amount ⁽²⁾	Risk-weighted balance ⁽³⁾	Fair value		Net ⁽⁴⁾
					Assets	Liabilities	
Cash flow hedges:							
Bond forwards – hedge accounting							
1 or less	\$ 210,125	\$ -	\$ -	\$ -	\$ -	\$ (1,287)	\$ (1,287)
Total return swaps – hedge accounting							
1 or less	1,379	-	-	-	-	(33)	(33)
1 to 5	2,725	-	13	3	-	(469)	(469)
Total return swaps – hedge accounting							
1 or less	1,941	-	-	-	-	(377)	(377)
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 to 5	100,000	990	1,490	298	990	-	990
Bond forwards – non-hedge accounting							
1 or less	52,040	-	-	-	-	(305)	(305)
	\$ 368,210	\$ 990	\$ 1,503	\$ 301	\$ 990	\$ (2,471)	\$ (1,481)

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Cash flow hedges:

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

	2016	2015
Fair value gains (losses) recorded in Other comprehensive income	\$ 6,863	\$ (2,599)
Fair value losses recorded in income	(127)	(636)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(3,145)	(3,090)
Amounts reclassified from Other comprehensive income to Interest expense – deposits	(52)	-
Amounts reclassified from Other comprehensive income to Non-Interest expenses – compensation and benefits	210	(530)

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

Time period	2016	2015
Less than 1 year	\$ 66,743	\$ 68,562
1 – 3 years	110,174	120,367
4 – 5 years	81,072	75,817
Greater than 5 years	69,825	73,240
	\$ 327,814	\$ 337,986

Fair value hedges:

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

	2016	2015
Interest rate swaps – hedge accounting	\$ (1,001)	\$ 2,432
Interest rate swaps – non-hedge accounting	-	(6)
Bond forwards	318	(57)
Changes in fair value recognized in income	\$ (683)	\$ 2,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 11 – Offsetting Financial Assets and Financial Liabilities

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

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

The Company's securities purchased under reverse repurchase agreements and obligations under repurchase agreements are covered by industry standard master agreements, which include netting provisions.

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

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

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

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

	2016					
	Related amounts not offset on the consolidated balance sheets					
	Gross amounts of recognized financial assets	Gross amounts of recognized liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Types of financial assets						
Derivatives held for risk management:						
Interest rate swaps	\$ 391	\$ (149)	\$ 242	\$ -	\$ (242)	-
Securities purchased under reverse repurchase agreements	199,401	-	199,401	-	(199,401)	-
	\$ 199,792	\$ (149)	\$ 199,643	\$ -	\$ (199,643)	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2016					
				Related amounts not offset on the consolidated balance sheets		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral pledged)	Net amount
Types of financial liabilities						
Derivatives held for risk management:						
Interest rate swaps	\$ 354	\$ (149)	\$ 205	\$ -	\$ (205)	\$ -
Obligations under repurchase agreements	112,488	-	112,488	(112,488)	-	-
	\$ 112,842	\$ (149)	\$ 112,693	\$ (112,488)	\$ (205)	\$ -

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

	2015					
				Related amounts not offset on the consolidated balance sheets		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Types of financial assets						
Derivatives held for risk management:						
Interest rate swaps	\$ 990	\$ -	\$ 990	\$ -	\$ (885)	\$ 105
Securities purchased under reverse repurchase agreements	19,918	-	19,918	-	(19,918)	-
	\$ 20,908	\$ -	\$ 20,908	\$ -	\$ (20,803)	\$ 105

There are no financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

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Note 12 – Other Assets

	2016	2015
Capital assets	\$ 20,445	\$ 14,369
Intangible assets	18,998	18,836
Prepaid expenses and other	9,945	8,223
Receivable relating to securitization activities	8,998	5,524
Real estate owned	7,596	8,200
Derivative financial instruments:		
interest rate swaps	3,673	990
total return swaps	1,042	-
bond forwards	456	-
Accrued interest and dividends on non-mortgage assets	1,626	420
Mortgage commitments	48	2
Income taxes recoverable	-	3,578
	\$ 72,827	\$ 60,142

Capital assets include leasehold improvements of \$11,522 (December 31, 2015 – \$6,320) related to an expansion and renovation of the Company's leased head office premises in Toronto.

Intangible assets are comprised of internally generated system and software development costs relating to the bank's information systems.

Included in Prepaid expenses and other is a net receivable of \$3.2 million (December 31, 2015 – \$3.2 million) related to an alleged fraud that was identified in 2011. The Company is currently pursuing 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.

Note 13 – Deposits

	2016	2015
Term and other deposits	\$ 9,680,163	\$ 8,115,483
Accrued interest	103,362	113,563
Deferred deposit agent commissions	(20,443)	(17,781)
	\$ 9,763,082	\$ 8,211,265

Term and other deposits include \$43,632 (December 31, 2015 – \$45,193) of deposits designated as at fair value through income and 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 December 31, 2016 is \$232 (December 31, 2015 – \$238).

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

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

	2016	2015
Fair value gain (loss) recognized in income	\$ 6	\$ (347)

Term and other deposits also include \$242,000 (December 31, 2015 – \$100,000) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at December 31, 2016 is (\$93) (December 31, 2015 – \$946).

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

	2016	2015
Fair value gain (loss) recognized in income	\$ 1,039	\$ (2,410)

Note 14 – Income Taxes

(a) Income tax provision:

	2016	2015
Current tax expense:		
Current year	\$ 37,602	\$ 27,899
Adjustments for prior years	345	(52)
	37,947	27,847
Deferred tax expense:		
Reversal of temporary differences	10,676	13,683
Adjustments for prior years	(101)	(59)
Changes in tax rates	(21)	127
	10,554	13,751
Total income tax expense	\$ 48,501	\$ 41,598

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

	2016	2015
Canadian statutory income tax rate	26.5%	26.5%
Increase (decrease) resulting from:		
Tax-exempt income	(1.0%)	(2.0%)
Future tax rate changes	0.0%	0.1%
Non-deductible expenses and other	0.5%	0.2%
Effective income tax rate	26.0%	24.8%

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(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	2016	2015
Deferred income tax assets:		
Allowance for credit losses	\$ 8,520	\$ 8,502
Share issue expenses	1,049	1,011
Other	1,349	1,248
	10,918	10,761
Deferred income tax liabilities:		
Securitization activities	24,936	19,310
Deposit agent commissions	5,409	4,638
Net origination fees	13,937	10,264
Intangible costs	3,477	3,645
Other	1,930	1,602
	49,689	39,459
Net deferred income tax liabilities	\$ 38,771	\$ 28,698

Note 15 – Other Liabilities

	2016	2015
Accounts payable and accrued liabilities	\$ 114,314	\$ 24,999
Mortgagor realty taxes	46,963	39,268
Securitized mortgage servicing liability	22,972	14,552
Income taxes payable	19,945	-
Derivative financial instruments :		
interest rate swaps	158	-
bond forwards	113	1,592
total return swaps	-	879
	\$ 204,465	\$ 81,290

Note 16 – Bank Facilities

(a) Operating credit facility:

The Company has a \$35,000 credit facility in place with a major Schedule I Canadian Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance as at December 31, 2016 and December 31, 2015.

(b) Secured funding facilities:

The Company has two credit facilities totaling \$700,000 with major Schedule I Canadian Banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at December 31, 2016 is \$50,000 (December 31, 2015 – \$235,779).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 17 – Debentures

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

The series 10 debentures may be redeemed at any time at the option of the Company, subject to the terms and conditions of the debenture agreements, including any applicable penalties and its liquidity position. Interest on Series 10 debentures is paid semi-annually at a fixed rate of 5.40% per annum.

2016

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2015	Issued during the year	Repaid during the year	Outstanding December 31, 2016
Series 10	5.40%	2012	October 2017	\$ 65,000	\$ -	\$ -	\$ 65,000

2015

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2014	Issued during the year	Repaid during the year	Outstanding December 31, 2015
Series 9	6.09%	2010	December 2020	\$ 20,000	\$ -	\$ 20,000	\$ -
Series 10	5.40%	2012	October 2017	65,000	-	-	65,000
				\$ 85,000	\$ -	\$ 20,000	\$ 65,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 18 – Shareholders’ Equity

(a) Capital stock:

Authorized:

- Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1, par value \$25.00 per share
- Unlimited number of non-cumulative floating rate preferred shares, Series 2, par value \$25.00 per share
- Unlimited number of 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:

	2016			2015		
	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	\$ 1.59	3,000,000	\$ 72,557	\$ 1.59
Common shares:						
Balance, beginning of year	15,538,605	\$ 143,690		15,435,356	\$ 140,657	
Shares issued, net of issuance cost	809,585	49,333		-	-	
Contributions from exercise of stock options	111,952	2,877		103,249	2,473	
Transferred from contributed surplus relating to the exercise of stock options	-	708		-	560	
Balance, end of year	16,460,142	\$ 196,608	\$ 0.84	15,538,605	\$ 143,690	\$ 0.76

⁽¹⁾ Dividends per share represent dividends declared by the Company during the year.

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(b) Preferred shares:

Series 3 - 5-year rate reset preferred shares

Holders of Series 3 preferred shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 6.35% per share for an initial period ending September 30, 2019. Thereafter, the dividend rate will reset every five years at a level of 4.78% over the then five-year Government of Canada bond yield. Series 3 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on September 30, 2019 and on September 30 every five years thereafter, in whole or in part, at a price of \$25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 3 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 4 (the "Series 4 preferred shares"), subject to certain conditions, on September 30, 2019 and on September 30 every five years thereafter.

Series 4 - floating rate preferred shares

Holders of the Series 4 preferred shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.78%, as and when declared by the Board of Directors. Series 4 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on (i) September 30, 2024 and on September 30 every five years thereafter, in whole or in part, at a price of \$25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) \$25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2019. Series 4 preferred shares are convertible at the holder's option to non-cumulative 5-year rate reset preferred shares, Series 3 (the "Series 3 preferred shares"), subject to certain conditions, on September 30, 2024 and on September 30 every five years thereafter.

(c) Common shares:

Issuance of common shares

During the year, 111,952 (2015 – 103,249) shares were issued as a result of the exercise of stock options for cash consideration of \$2,877 (2015 – \$2,473). The Company also issued 809,585 shares through a private placement for \$49,333 (2015 – nil) and \$708 (2015 – \$560) was transferred from Contributed surplus to Common shares as a result of the stock option exercises.

(d) Dividend reinvestment plan:

The Company has a dividend reinvestment plan. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price. The Company suspended the plan in 2014 but retains the option to reinstate it in a future period.

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(e) Dividend restrictions:

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

Note 19 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of six to seven years and vest over a four or five-year period. As at December 31, 2016, the maximum number of common shares available for issuance under the plan was 1,475,570 (December 31, 2015 – 1,475,570). The outstanding options expire on various dates to March 2023. A summary of the Company's stock option activity and related information for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	540,236	\$ 40.12	544,449	\$ 33.52
Granted	136,239	53.15	109,195	59.66
Exercised	(111,952)	25.70	(103,249)	23.95
Forfeited/cancelled	(7,056)	54.06	(10,159)	60.83
Outstanding, end of year	557,467	\$ 46.03	540,236	\$ 40.12
Exercisable, end of year	268,751	\$ 38.37	267,725	\$ 30.99

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2016:

Exercise price	Options outstanding		Options exercisable
	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
\$ 26.01	7,500	1.9	7,500
\$ 29.32	98,854	2.2	98,854
\$ 27.23	10,000	2.4	10,000
\$ 36.11	100,081	3.2	72,596
\$ 37.43	4,000	3.4	3,000
\$ 46.65	6,000	3.9	4,500
\$ 52.90	92,856	4.2	45,982
\$ 59.98	96,842	5.2	24,445
\$ 55.32	7,500	5.9	1,875
\$ 53.15	133,834	6.2	-

Under the fair value-based method of accounting for stock options, the Company recorded compensation expense in the amount of \$1,058 (2015 – \$935) related to grants of options under the stock option plan. This amount was credited to Contributed surplus. The fair value of options granted during 2016 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

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	2016	2015
Risk-free rate	0.5%	0.9%
Expected option life (years)	4.8	4.8
Expected volatility	25.9%	24.7%
Expected dividends	1.3%	1.2%
Weighted average fair value of each option granted	\$ 9.0	\$ 10.74

(b) Employee share purchase (“ESP”) plan:

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

During the year ended December 31, 2016, the Company expensed \$659 (2015 – \$508) under this plan.

(c) Deferred share unit (“DSU”) plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. A director will be credited with additional DSUs whenever a cash dividend is declared by the Company. When an individual ceases to be a Director (the “Separation Date”), the individual may elect up to two separate redemption dates to be paid out the value of the DSUs. The redemption date elected by the participant is a date after the Separation Date and no later than December 15 of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days immediately prior to the redemption date.

In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU Plan, any proportionate adjustment as it considers appropriate to reflect that change. The DSU plan is administered by the Board or a committee thereof.

The Company hedges the risk of change in future cash flows related to the DSU plan. Please refer to Note 10 – Derivative Financial Instruments for further details.

A summary of the Company’s DSU activity for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	30,133	24,709
Granted	6,666	5,117
Dividend Reinvested	439	307
Exercised	(5,022)	-
Outstanding, end of year	32,216	30,133

In 2016, 5,022 (2015 – nil) DSUs were exercised for a total value of \$101 (2015 – nil). Compensation expense (income) recorded in 2016, relating to DSUs outstanding during the year amounted to \$678 (2015 – (\$21)). The liability associated with DSUs outstanding as at December 31, 2016 was \$1,944 (December 31, 2015 – \$1,565).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

(d) Restricted share unit (“RSU”) plan:

The Company has a RSU plan for eligible employees. Under the plan, RSUs or PSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years (“cliff vest”). Under the plan, each RSU or PSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs or PSUs when cash dividends are paid on the Company’s common shares. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employees in cash, the value of which will be based on the volume-weighted average closing price of the Company’s common shares on the TSX for the five consecutive trading days immediately prior to, and including the vesting date. The value of PSUs may be increased or decreased up to 25%, based on the Company’s relative total shareholder return compared to a defined peer group of financial institutions in Canada.

The Company hedges the risk of change in future cash flows related to the RSU plan. Please refer to Note 10– Derivative Financial Instruments for further details.

A summary of the Company’s RSU and PSU activity for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	Number of RSUs	Number of RSUs
Outstanding, beginning of year	42,861	39,794
Granted	33,888	26,855
Dividend reinvested	1,021	445
Exercised	(16,952)	(21,764)
Forfeited/cancelled	(2,692)	(2,469)
Outstanding, end of year	58,126	42,861

In December 2016, 16,952 (2015 – 21,764) RSUs were exercised for a total value of \$1,045 (2015 – \$1,166). Compensation expense recorded relating to RSUs and PSUs outstanding during the year amounted to \$1,646 (2015 – \$886). The liability associated with RSUs and PSUs outstanding as at December 31, 2016 was \$1,668 (December 31, 2015 – \$1,093).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Note 20 – Earnings Per Share

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

	2016	2015
Earnings per common share – basic:		
Net income	\$ 138,330	\$ 125,865
Dividends on preferred shares	4,763	4,763
Net income available to common shareholders	\$ 133,567	\$ 121,102
Weighted average basic number of common shares outstanding	15,591,297	15,466,907
Earnings per common share – basic	\$ 8.57	\$ 7.83
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 133,567	\$ 121,102
Weighted average basic number of common shares outstanding	15,591,297	15,466,907
Adjustment to weighted average number of common shares outstanding:		
Stock options	137,691	205,427
Weighted average diluted number of common shares outstanding	15,728,988	15,672,334
Earnings per common share – diluted	\$ 8.49	\$ 7.73

For the year ended December 31, 2016, the calculation of the diluted earnings per share excluded 221,169 (2015 – 110,759) average options outstanding with a weighted average exercise price of \$56.23 (2015 – \$58.39) as the exercise price of these options was greater than the average price of the Company's common shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Note 21 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to pages 27-29 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:

(\$ THOUSANDS)	2016	2015
Common Equity Tier 1 Capital ("CET1"):		
Common shares	\$ 199,089	\$ 145,836
Contributed surplus	6,148	6,126
Retained earnings	721,117	600,128
Accumulated other comprehensive loss ⁽¹⁾	(20,210)	(22,458)
Less: Regulatory adjustments	(15,037)	(14,574)
Common Equity Tier 1 Capital	891,107	715,058
Additional Tier 1 capital:		
Non-cumulative preferred shares	72,554	72,554
Tier 1 Capital	963,661	787,612
Tier 2 Capital:		
Collective allowance	31,890	31,890
Subordinated debentures	65,000	65,000
Tier 2 Capital	96,890	96,890
Total Capital	\$ 1,060,551	\$ 884,502

⁽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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Note 22 – Commitments and Contingencies

(a) Lease commitments:

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

	2016	2015
Less than 1 year	\$ 2,106	\$ 1,819
1-5 years	12,187	9,358
Greater than 5 years	7,512	7,458
	\$ 21,805	\$ 18,635

In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the terms of the leases. Lease expense recognized in the consolidated statements of income for 2016 amounted to \$4,477 (2015 – \$2,333).

(b) Credit commitments:

As at December 31, 2016, the Company had outstanding commitments to fund \$1,037,929 (December 31, 2015 – \$1,009,763) of mortgages in the ordinary course of business. Of these commitments, \$569,338 (December 31, 2015 – \$540,332) are expected to be funded within 1 year and \$468,591 (December 31, 2015 – \$469,431) after 1 year.

The Company has issued standby letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letter of credits in the amount of \$5,917 were outstanding at December 31, 2016 (December 31, 2015 – \$8,560), none of which have been drawn upon at that date.

(c) Contingencies:

In September 2013, Equitable entered into an agreement to resolve the litigation related to an alleged fraud that was identified in 2011. The net outstanding receivable balance is \$3.2 million (December 31, 2015 – \$3.2 million) and the Company is currently pursuing a claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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

Note 23 – Related Party Transactions

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

(a) Key management personnel compensation table:

	2016	2015
Short-term employee benefits	\$ 3,334	\$ 3,306
Post-employment benefits	46	45
Share-based payments	1,707	728
	\$ 5,087	\$ 4,079

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

As at December 31, 2016, key management personnel held 2,196,242 (December 31, 2015 – 2,154,585) common shares and 9,000 (2015 – 9,000) preferred shares. These shareholdings include common shares of 2,007,118 (December 31, 2015 – 2,001,400) that were beneficially owned by the non-management Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management held 325,663 (December 31, 2015 – 312,126) options to purchase common shares of the Company at prices ranging from \$26.01 to \$53.15.

(c) Other transactions:

As at December 31, 2016, deposits of \$572 (December 31, 2015 – \$32) were held by key management personnel and related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the Directors. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

Note 24 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at December 31, 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	Total ⁽¹⁾
Assets:								
Cash and cash equivalents and restricted cash	\$ 476,871	\$ 187	\$ -	\$ 477,058	\$ -	\$ -	\$ -	477,058
<i>Effective interest rate</i>	0.82%	0.50%	-	0.82%	-	-	-	0.82%
Securities purchased under reverse repurchase agreements	-	199,401	-	199,401	-	-	-	199,401
<i>Effective interest rate</i>	-	0.50%	-	0.50%	-	-	-	0.50%
Investments	16,050	219,246	27,617	262,913	90,638	6,720	(30,596)	329,675
<i>Effective interest rate</i>	3.74%	1.36%	6.03%	1.99%	5.20%	5.05%	-	3.12%
Mortgage receivable- securitized	562,137	193,502	641,826	1,397,465	4,527,678	1,091,983	88,225	7,105,351
<i>Effective interest rate</i>	1.99%	3.02%	2.85%	2.53%	2.79%	2.92%	-	2.73%
Mortgage receivable	2,791,256	789,554	3,682,877	7,263,687	3,368,063	13,345	33,357	10,678,452
<i>Effective interest rate</i>	4.46%	4.42%	4.39%	4.42%	4.28%	5.72%	-	4.36%
Securitized Retained Interest	-	-	-	-	-	-	110,824	110,824
Other assets	-	-	-	-	-	-	72,827	72,827
Total assets	\$ 3,846,314	\$ 1,401,890	\$ 4,352,320	\$ 9,600,524	\$ 7,986,379	\$ 1,112,048	\$ 274,637	\$ 18,973,588
Liabilities:								
Deposits ⁽²⁾	\$ 213	\$ 3,050,716	\$ 3,389,601	\$ 6,440,530	\$ 3,250,759	\$ -	\$ 71,794	9,763,083
<i>Effective interest rate</i>	1.31%	1.59%	1.75%	1.67%	2.03%	-	-	1.78%
Securitization liabilities	-	1,393,899	956,487	2,350,386	4,713,011	654,067	45,168	7,762,632
<i>Effective interest rate</i>	-	1.54%	1.64%	1.59%	2.00%	4.51%	-	2.06%
Bank facilities	-	50,000	-	50,000	-	-	-	50,000
<i>Effective interest rate</i>	-	2.38%	-	2.38%	-	-	-	2.38%
Obligations Under REPO	-	112,488	-	112,488	-	-	-	112,488
<i>Effective interest rate</i>	-	0.85%	-	0.85%	-	-	-	0.85%
Other liabilities and deferred taxes	-	-	-	-	-	-	243,235	243,235
Debentures ⁽³⁾	-	-	65,000	65,000	-	-	-	65,000
<i>Effective interest rate</i>	-	-	5.47%	5.47%	-	-	-	5.40%
Shareholders' equity	-	-	-	-	75,000	-	902,150	977,150
Total liabilities and shareholders' equity	\$ 213	\$ 4,607,103	\$ 4,411,088	\$ 9,018,404	\$ 8,038,770	\$ 654,067	\$ 1,262,347	\$ 18,973,588
Off-balance sheet items ⁽⁴⁾	\$ -	\$ (75,864)	\$ 118,557	\$ 42,693	\$ (60,850)	\$ 18,157	\$ -	-
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	\$ 3,846,101	\$ (3,281,077)	\$ 59,789	\$ 624,813	\$ (113,241)	\$ 476,138	\$ (987,710)	\$ -
Total assets – 2015	\$ 2,923,782	\$ 891,511	\$ 3,802,644	\$ 7,617,937	\$ 6,409,704	\$ 1,326,194	\$ 173,749	\$ 15,527,584
Total liabilities and shareholders' equity – 2015	\$ 184	\$ 2,720,378	\$ 4,281,275	\$ 7,001,837	\$ 6,353,503	\$ 1,240,248	\$ 931,996	\$ 15,527,584
Off-balance sheet items – 2015	\$ -	\$ (159,009)	\$ 36,747	\$ (122,262)	\$ 217,000	\$ (94,738)	\$ -	\$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items – 2015	\$ 2,923,598	\$ (1,987,876)	\$ (441,884)	\$ 493,838	\$ 273,201	\$ (8,792)	\$ (758,247)	\$ -

⁽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.

DIRECTORS

Eric Beutel

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

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

OFFICERS

Andrew Moor

President and Chief Executive Officer

Ron Tratch

Vice-President and Chief Risk Officer

Tim Wilson

Vice-President and Chief Financial Officer

Aviva Braude

Vice-President, Mortgage Services

Dan Dickinson

Vice-President, Digital Banking

David Downie

Vice-President, Commercial Mortgage Origination

Isabelle Farella

Vice-President, Internal Audit

Scott Fryer

Vice-President, Deposit Services

Kimberly Kukulowicz

Vice-President, Residential Sales and Partner Relations

Brian Leland

Vice-President, Residential Credit

Darren Lorimer

Vice-President, Commercial Lending

Tamara Malozewski

Vice-President, Finance

Mark McPhail

Vice-President, Risk and Capital Analytics

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 and Treasurer

David Yu

Vice-President, Information Technology

SHAREHOLDER AND CORPORATE INFORMATION

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Quarterly Conference Call and Webcast

Friday, February 17, 2017, 10:00 a.m. EST
Live: 416.642.5209
Replay: 647.436.0148 (code 3575538)
Archive: www.equitablebank.ca

Annual Meeting of Shareholders

Wednesday, May 17, 2017, 10:00 a.m. EST
Equitable Bank Tower
30 St. Clair Avenue West
5th Floor
Toronto, Ontario, Canada, M4V 3A1