Equitable Group Reports Record Quarterly and Annual Earnings, Increases Dividend

TORONTO, Feb. 16, 2017 /CNW/ - Equitable Group Inc. (TSX: EQB and EQB.PR.C) ("Equitable" or the "Company") today reported record financial and operating performance for itself and its wholly owned subsidiary, Equitable Bank (the "Bank") during the three and 12 months ended December 31, 2016 and increased its common share dividend.

2016 ANNUAL HIGHLIGHTS

- Net income was a record $138.3 million, up 10% from $125.9 million in 2015
- Diluted earnings per share were a record $8.49, up 10% from $7.73 per share in 2015
- Return on Equity ("ROE") was 16.9% compared to 17.9% in 2015 as the Bank invested in building its digital banking platform
- Mortgages principal stood at a record $17.7 billion, up 21% from $14.6 billion a year ago
- Book value per common share was $54.96, up 18% from $46.57 at year-end 2015

FOURTH QUARTER HIGHLIGHTS

- Net income was a quarterly record $41.7 million, up 33% from $31.4 million in 2015
- Diluted earnings per share were a quarterly record $2.56, up 33% from $1.93 last year
- ROE was 19.3% compared to 17.2% in 2015
- Originations were a fourth quarter record $2.2 billion, up 25% from $1.7 billion a year ago

DIVIDEND INCREASE AND DECLARATIONS

The Board of Directors today increased Equitable's common share dividend by 4.5% with a dividend declaration of $0.23 per common share, payable April 6, 2017, to common shareholders of record at the close of business on March 10, 2017. This represents the 10th increase in the past six years and reflects the Bank's consistently strong performance and confidence in the future. Even with this increase, the Bank has maintained a low payout ratio, consistent with its strategy of building capital organically to support future earnings growth opportunities. The Board also declared a quarterly dividend of $0.396875 per preferred share, payable March 31, 2017, to preferred shareholders of record at the close of business on March 10, 2017.

CEO's COMMENTARY

"In 2016, Equitable was once again a performance leader among Canada's Schedule I banks measured by earnings growth, ROE and credit metrics, a position we have held for the past decade," said Andrew Moor, President and Chief Executive Officer. "As these results demonstrate, Equitable's strength is not only the absolute level of the Bank's performance but the consistency of it. While devoting considerable resources to transform Equitable through our innovative *EQ Bank* platform, we served the needs of more customers than ever before, pushed MUM past the $20 billion mark for the first time on record levels of Single Family and Commercial originations, and effectively managed our risk profile. These accomplishments speak to the Bank's non-branch business model advantages, disciplined value creation process and to the productivity of our most valued assets: the 555 employees of our Bank whose relentless focus on delivering great service allowed us to expand our market share again."

OPERATING HIGHLIGHTS

- **Single Family Lending** mortgage principal at December 31, 2016 was $7.9 billion, up 22% from $6.5 billion a year ago. Annual originations were a record $3.6 billion up 35% from $2.7 billion in 2015 while fourth quarter originations were $930 million, 29% higher than the $719 million in Q4 2015.
- **Commercial Lending** mortgage principal at December 31, 2016 was $2.8 billion, up 27% from $2.2 billion a year ago. Annual originations were $1.3 billion, up 41% from $903 million in 2015. Fourth quarter originations were $378 million, 46% higher than the $260 million in the fourth quarter of 2015.
- **Securitization Financing** MUM increased 29% to $10.3 billion at December 31, 2016 from $8.0 billion a year ago. Annual Securitization Financing originations were $3.0 billion, up 18% from $2.6 billion in 2015. Fourth quarter originations were $871 million, 15% higher than the $759 million in Q4 2015.
- **Deposit principal** outstanding amounted to $9.7 billion at December 31, 2016, up 19% from $8.1 billion a year ago, due to growth of our mortgage assets

Equitable's credit metrics reflect the high quality of the mortgage portfolio. Net impaired mortgage assets at year-end 2016 were just 0.21% of total mortgage assets compared to 0.22% a year ago. The allowance for credit losses represented 0.19% of total mortgage assets at quarter end, in excess of the Bank's average annual loss rate of 0.04% over the past 10 years. This allowance represents the amount that the Bank has reserved on its balance sheet to absorb credit losses. The provision for credit losses – which represents the net additions to that allowance in the current period – was $2.4 million or 0.02% of the average mortgage portfolio at year end, down from a year ago and a reflection of the Bank's prudent risk management practices.

CAPITAL

Equitable Bank's capital ratios continue to exceed minimum regulatory standards and remain above the levels of the other eight publicly listed Schedule I Canadian banks. Capital ratios were slightly elevated at year-end because the proceeds from Equitable's successful $50 million equity issuance in December have yet to be fully deployed. At December 31, 2016, the bank's

- Common Equity Tier 1 Capital Ratio was 14.0%, surpassing the Basel III minimum of 7.0%, and up from last year's level of 13.6%
- Total Capital Ratio was 16.6%, well above the regulatory requirement of 10.5% on an all-in basis
- Leverage Ratio was 5.1% and as such the Bank was fully compliant with the target that OSFI sets on a confidential, institution-by-institution basis

STRATEGIC UPDATE

Equitable's strategic objectives are to: grow by providing superior service, competitive products and cost-effective operations; build its capabilities and brand; consistently create shareholder value; and maintain a low-risk profile. It delivered on these priorities in several ways in 2016:

- Equitable's *EQ Bank* digital banking platform attracted $1.1 billion of balances in less than a full year of operation. This achievement positioned Equitable to become a digital bank of choice in an increasingly cashless society and diversified its deposit base. Equitable also attracted another $500 million in deposits in 2016 as deposit agents, investment dealers and financial planners continued to recommend Equitable Bank's safe and secure GICs and the Equitable Bank High Interest Savings Account.
- Once again, Equitable outperformed Canada's eight other publicly traded banks on the basis of cost effectiveness with an Efficiency Ratio of 37.8% in 2016, despite $17.3 million of investments made to enable future growth and improve operational efficiency. These investments are expected to create substantial shareholder value in future years. As expected, the Efficiency Ratio improved in the fourth quarter of 2016 to 33.9% from 35.7% in the fourth quarter of 2015.
- Equitable's Single Family Prime MUM reached $3.9 billion at December 31, 2016 on annual originations of $2.1 billion ($1.6 billion in 2015). The volume of internally-originated Prime mortgages more than doubled in 2016 to $669 million. This growth complemented the record performance of Equitable's core Alternative Single Family operations.
- Commercial Lending refreshed its approach to market and strengthened its distribution partnerships and was rewarded with its best rate of origination growth in five years.
- Recurring income from the Bank's successful bid to become the successor issuer on $3.1 billion of NHA-MBS pools was $0.07 per share accretive to fourth quarter earnings and will continue to be accretive through 2020 on a diminishing basis.
- On December 23, 2016, Equitable completed a previously announced $50 million private placement of 809,585 common shares with OMERS, the pension plan for Ontario's municipal employees. The investment served to increase the Bank's Common Equity Tier I capital and provides the Bank with more capacity to fund the growth of its lending businesses.

BUSINESS OUTLOOK

Equitable expects that its strategy, including disciplined approach to capital allocation, will lead to EPS growth and returns on equity that are consistent with the Bank's long-term average throughout the year.

The assumptions used in formulating these expectations can be found in Management's Discussion and Analysis available on the Company's website and on SEDAR.

"We believe Equitable, as a branchless and now digital bank, is well positioned for 2017," said Mr. Moor. "We operate lending businesses across a wide spectrum of real estate assets, enjoy vibrant relationships with customers and distribution partners in every province of Canada, and are able to support asset growth with access to a variety of funding sources. Accordingly, we expect to continue growing our assets at high rates in 2017. This growth platform – along with our risk management discipline - is especially important this year as government interventions in the housing and mortgage markets work their way through the financial system. We expect the changes to ensure long-term stability but in the short run exert downward pressure on housing market activity. Taking this into account, we will not break stride with our core strategies but we will be flexible enough to respond to marketplace changes as they arise. We are confident this is the right formula for shareholder value creation."

"Our agenda for 2017 is ambitious and includes the pursuit of several key initiatives," said Tim Wilson, Vice President and Chief Financial Officer. "We will invest to grow our lending businesses, improve our service proficiency, and support our plan to migrate to AIRB, an approach that will enhance the sophistication of our capital and risk management. As a result, we expect that investments in our strategic initiatives will be similar to 2016 and that overall non-interest expenses will increase at year-over-year rates just below the growth rate of the business."

EQ Bank Launches New Features

Over the past several weeks, Equitable advanced its digital bank offering by adding several new features to the EQ Bank Savings Plus account. Customers can now pre-authorize transactions such as payroll deposits, instantly transfer money to any other EQ Bank accountholder at no cost and easily link up to 10 accounts at other financial institutions. As a result of these and many other features, EQ Bank customers not only earn high interest but gain broad transaction capabilities, all in a single, powerful digital account. Equitable intends to continue to enhance the EQ Bank customer experience through value-added additions like this as part of its vision to become Canada's leading branchless bank.

CONFERENCE CALL AND WEBCAST

The Company will hold its fourth quarter conference call and webcast at 10:00 a.m. ET Friday, February 17, 2017. To access the call live, please dial 416-642-5209 five minutes prior. The listen-only webcast with accompanying slides will be available at www.equitablebank.ca under Investor Relations. The call will be hosted by Andrew Moor, President and Chief Executive Officer.

A replay of the call will be available until Friday, February 24, 2017 and it can be accessed by dialing 647-436-0148 and entering passcode 3575538 followed by the number sign. Alternatively, the call will be archived on the Company's website for three months.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
($ THOUSANDS)

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

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	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	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	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	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		
Current	37,947	27,847
Deferred	10,554	13,751
	48,501	41,598
Net income	$ 138,330	$ 125,865
Earnings per share		
Basic	$ 8.57	$ 7.83
Diluted	$ 8.49	$ 7.73

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	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
	3,060	(25,213)
Income tax (expense) recovery	(812)	6,656
	2,248	(18,557)
Cash flow hedges:		
Net unrealized gains (losses) from change in fair value	3,877	(6,219)
Reclassification of net losses to income	2,986	3,620
	6,863	(2,599)
Income tax (expense) recovery	(1,821)	686
	5,042	(1,913)

	2016	2015
Total other comprehensive income (loss)	7,290	(20,470)
Total comprehensive income	$ 145,620	$ 105,395

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

2016	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Cash flow hedges	Available for sale investments	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	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Cash flow hedges	Available for sale investments	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

ABOUT EQUITABLE GROUP INC.

Equitable Group Inc. is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank. Equitable Bank is Canada's ninth largest independent Schedule I bank and offers a diverse suite of residential lending, commercial lending and savings solutions to Canadians. Through its proven branchless approach and customer service focus, Equitable Bank has grown to over $22 billion of Assets Under Management. In 2016, Equitable Bank launched a digital banking operation, *EQ Bank*, along with its flagship product the *EQ Bank Savings Plus Account*. Equitable Bank employs nearly 600 dedicated professionals across the country, and is a 2017 recipient of Canada's Best Employer Platinum Award, the highest bestowed by AON. For more information about Equitable Bank and its products, please visit equitablebank.ca.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this news release including those entitled "CEO's Commentary", "Operating Highlights", "Capital", "Strategic Update", "Business Outlook", 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 result 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", "might" or "will be taken", "occur" or "be achieved". 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, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" in the Management's Discussion and Analysis 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 at current levels, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

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

This news release references certain non-GAAP measures such as ROE, provision for credit loss rate, Capital Ratios, book value per share, Efficiency Ratio, Assets Under Management, and Mortgages Under Management that management believes provide useful information to investors regarding the Company's financial condition and results of operations. The "NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES" section of the Company's fourth quarter 2016 Management's Discussion and Analysis provides a detailed description of each non-GAAP measure and should be read in conjunction with this report. The Management's Discussion and Analysis also provides a reconciliation between all non-GAAP measures and the most directly comparable GAAP measure, where applicable. Readers are cautioned that non-GAAP measures do not have any standardized meaning, and therefore, may not be comparable to similar measures presented by other companies.

SOURCE Equitable Group Inc.

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