EQUITABLE
GROUP INC.

FOURTH QUARTER 2011
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2011

EQUITABLE GROUP INC.

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Statements made by the Company in the sections entitled "Business Profile and Objectives", "2011 Highlights", "2012 Business Outlook", "International Financial Reporting Standards", "Net Interest Income", "Non-interest Expenses", "Income Taxes", "Mortgage Portfolio", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Deposit Liabilities", "Securitization", "Shareholders' Equity", "Capital Management", "Basel III", "Fourth Quarter Overview", "Future Accounting Policy Changes", "Critical Accounting Estimates" and "Risk Management" of this report, 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") is provided in order to enable readers to assess the financial position and the results of operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and year ended December 31, 2011. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 18, 19 and 20 on pages 29, 30 and 31 of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2011. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This report, and the information provided herein, is dated as at February 28, 2012. 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.equitabletrust.com and on SEDAR at www.sedar.com.

BUSINESS PROFILE AND OBJECTIVES

Equitable Group Inc. ("the Company") is a niche mortgage lender that provides loans secured by first mortgages and by Canada Mortgage and Housing Corporation ("CMHC") insured mortgages, through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust is a federally-regulated financial institution, founded in 1970, whose activities are supervised by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company operates without a branch network, choosing instead to achieve lower overheads by using independent mortgage brokers to originate mortgages and independent deposit agents to originate deposits. This business model and the Company's strong competitive position have established it as a leader in its mortgage lending niches and have contributed to excellent long-term financial results.

The primary sources of the Company's revenues are interest income as well as commitment, renewal and other ancillary fees derived from its mortgage financing business, which focuses on both uninsured ("conventional") mortgages and insured mortgages whose securitization is facilitated by CMHC. In addition, the Company earns interest and dividend income from investments. Equitable Trust funds its mortgage business by attracting depositors as a regulated Canada Deposit Insurance Corporation ("CDIC") member. Its deposit raising ability is a core strength of enduring enterprise value that has allowed Equitable to build a diversified mortgage portfolio secured by residential and commercial real estate. The Company periodically securitizes mortgages in order to reduce its funding costs, diversify its funding sources, and enhance its liquidity position.

The Company focuses on identifying and investing in the development of mortgage products for selected niches and geographic markets that offer the potential for long-term growth and superior returns on capital. Given that focus and its assessment of the current economic environment, management has aligned the Company with the following principles:

- Optimize return on equity ("ROE") adjusted for risk, by growing the lending businesses in which the Company has the best opportunity to earn attractive and sustainable risk-adjusted returns.
- Invest in the continuous improvement of processes and create operating efficiencies, recognizing that the provision of superior service to its mortgage brokers, deposit agents and customers is critical to its growth objectives.
- Protect shareholder value through effective management of the Company's risks, including prudent credit risk practices, the disciplined management of arrears, and the maintenance of strong levels of regulatory capital and liquidity.

Lending Businesses

The Company has three core lending businesses, which align well with its competitive strengths, competencies and profitability objectives:

- **Single Family Lending Services ("Single Family"):** This business funds mortgages for owner occupied and investment properties with up to four units, including detached or semi-detached houses, townhouses, and condominiums. It benefits from Equitable Trust's well-established relationships with a large and growing independent broker network, its service-oriented culture, and its experience utilizing a disciplined approach to credit evaluation and collections.
- **Commercial Mortgage – Broker Services ("Broker Services"):** This line of business funds mortgages on a variety of property types, including mixed-use (storefront), multi-unit residential, retail and office condominium, retail plaza and medical and commercial properties sourced from independent mortgage brokers. Broker Services specializes in assisting experienced entrepreneurs, business operators and real estate investors. Its broad mortgage broker relationships and strong underwriting capabilities are among its key strengths.
- **Commercial Lending Services:** This business funds larger, more sophisticated transactions that are secured by mortgages on commercial real estate originated through commercial broker specialists and other financial institutions. These commercial mortgages provide low risk and good return characteristics for Equitable. The Company has been successful in this segment due to its extensive relationships with mortgage brokers and bankers, strong underwriting capabilities, and the high quality customer service it delivers as a result of its agility and market knowledge.

2011 HIGHLIGHTS

In 2011, Equitable produced record earnings on strong ongoing growth in its mortgage assets, low levels of loan loss provisions, and highly efficient operations. Consistent with its strategy and on the basis of stable market conditions in the latter half of the year, the Company grew its Single Family business faster than its other mortgage businesses. It also continued to reshape various aspects of its commercial mortgage portfolio in order to enhance its interest rate and credit risk profile. Equitable Trust also continued to prudently expand its geographic footprint in 2011, as its Single Family business commenced lending in the Province of Saskatchewan during the year. The Company's solid financial and operational results validated its strategy and positioned it for further growth in 2012.

Asset Growth

During 2011, management met its objective of expanding the lending businesses in which Equitable has the best opportunity to earn attractive and sustainable risk-adjusted returns, while adhering to its proven risk management processes, capital plan and focus on high levels of productivity. As a result:

- Conventional mortgage principal outstanding amounted to $4.3 billion, up 22.9% from 2010 (see Table 5);
- Conventional single family mortgage principal balances grew by 33.4% year-over-year to $2.1 billion, and now represents 48.7% of total conventional mortgage principal up from 44.8% at the end of 2010;
- Mortgage originations were $2.8 billion in 2011 compared to $2.5 billion in 2010, with conventional single family residential mortgage production at $1.2 billion, up by 20.6% from 2010 (see Table 7);
- Total assets reached a record $10.3 billion at year end, up 15.5% from a year earlier, driven by growth in the mortgage portfolio.

Growth of the Company's conventional mortgage assets, particularly single family residential mortgages, is intended to enhance the Company's earnings and support ROE growth over time.

Earnings Performance

In 2011, Equitable produced record earnings, despite an operational provision ("the provision") relating to an alleged fraud with respect to four condominium corporation loans (see Operational Provision section below) in the amount of $5.0 million ($0.24 per share). To assist readers in reviewing the underlying results of the business, the table below shows i) earnings per share ("EPS") on a GAAP basis, ii) Adjusted EPS, a non-GAAP measure that removes gains and losses associated with unmatched derivative measurement volatility and iii) EPS adjusted to remove these fair value fluctuations and the provision.

Diluted Earnings Per Share

		2011		2010
EPS - diluted	**$**	**3.88**	$	3.48
Adjusted EPS – diluted[1]	**$**	**3.91**	$	3.83
Adjusted EPS – diluted, excluding provision[2]	**$**	**4.15**	$	3.83

[1] Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities (see "Adjusting for Accounting Changes").
[2] Excludes the provision related to an alleged fraud of $0.24 per share recorded in 2011.

Other 2011 highlights were as follows:

- Net income increased 11.3% over 2010 to $62.2 million;
- Adjusted net income was $62.7 million or $66.3 million excluding the provision, compared to $61.1 million a year ago;
- Net interest income was $133.8 million, up 11.5% from $119.9 million in the corresponding period of 2010;
- ROE decreased to 16.5% in 2011 compared with 17.0% in 2010;
- Adjusted ROE was 16.6% or 17.5% excluding the provision, compared to 18.6% in 2010.

The Company's strong 2011 earnings reflect robust growth in its mortgage book, relatively stable net interest margins, and lower levels of credit provisions as compared with 2010, which were partially offset by the operational provision taken in the third quarter. Year-over-year comparables are clouded by the provisions and by several unusual items in the fourth quarter of 2010 (see "Summary of Quarterly Results" section of this MD&A), such as higher than normal prepayment charge income and a low effective tax rate.

Operational Provision

During 2011, the Company reported an alleged fraud relating to four condominium corporation loans with a total outstanding balance of $14.0 million. This amount was reduced to $13.9 million as a result of a partial recovery. Management has engaged external counsel to assist in this matter. The Company has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing and has commenced an action against several parties involved in the remaining two loan transactions. In addition to any potential recoveries under its claims, the Company will also claim under its Financial Institution Bond, which is intended to protect against fraud losses, however, there is no assurance that proceeds or recoveries, if any, will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the loans. Accordingly, the Company recorded a pre-tax operational provision of $5.0 million ($0.24 per share) in the third quarter and reclassified the mortgages in question from mortgages receivable to other assets. The net outstanding balance reported in other assets is $8.9 million. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

Credit Quality

The Company's credit quality remained strong throughout and at the end of 2011:

- Net impaired mortgages was 0.24% of total mortgage principal outstanding at the end of 2011 compared to 0.23% at September 30, 2011 and improved from 0.42% at the end of 2010;
- Mortgage principal in arrears 90 days or more improved to 0.22% of total mortgage principal outstanding at December 31, 2011 compared to 0.24% at September 30, 2011 and 0.46% a year earlier;
- The Company realized net loan losses of $8.6 million in 2011 as compared with $3.3 million in 2010, and the majority of those losses had been provided for in prior years.

Management is comfortable that provisions taken adequately provide for the risk of loss inherent in the Company's mortgage portfolio. As at December 31, 2011, 73.6% of the portfolio's gross impaired principal was provided for within the Company's allowance for credit losses, compared to 77.4% at September 30, 2011. The Company's total allowance for credit losses as a percentage of total mortgage principal outstanding amounted to 0.21% at December 31, 2011, compared to 0.26% at the end of the prior year. The total allowance for credit losses as a percentage of principal outstanding, excluding CMHC-insured mortgages, amounted to 0.45% at December 31, 2011 compared to 0.63% at year-end 2010.

Capital Measures

Owing to the high rate of retention of its earnings and prudent growth in its loan book, Equitable Trust maintained a strong capital position throughout 2011, achieving capital ratios that consistently exceeded the Company's targets and those required under the international banking standards known as Basel III. The Company deployed capital during the year to fund growth in its mortgage portfolio, notably in its single family residential business, and believes that its earnings in future periods will generate adequate capital to support its strategic objectives and ongoing growth of its mortgage portfolio.

Equitable Trust's total capital ratio was 15.8% (including its collective impairment allowance) at December 31, 2011, compared to 16.9% at December 31, 2010. The Company's Tier 1 capital and tangible common equity ("TCE") ratios at December 31, 2011 were 13.4% and 11.9%, respectively, compared to 14.3% and 12.6%, respectively, at the end of the prior year (see explanation of TCE in the Non-GAAP Financial Measures section of this MD&A).

Dividends

On February 28, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.12 per common share, payable on April 4, 2012, to common shareholders of record at the close of business on March 15, 2012. Equitable increased its dividends twice during 2011, reflecting, among other things, the Board's confidence in the growth and earnings potential of the Company, the strength of its capital position and ability to fund future asset expansion. In total, the Company increased its dividends declared to $0.45 per common share in 2011 from $0.40 in 2010, a 12.5% increase year-over-year.

Also, on February 28, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on March 31, 2012, to preferred shareholders of record at the close of business on March 15, 2012.

2012 BUSINESS OUTLOOK

Equitable ended 2011 with good momentum and with the foundations of its business strengthened. Management is confident that this momentum and consumer demand for its products will carry into 2012, and that the Company will be able to successfully grow earnings, strengthen capital levels, and improve its ROE. In 2012, the Company will remain focused on its core mortgage lending businesses, and will selectively seek opportunities to better serve segments of the Canadian financial services marketplace that are generally not the focus of Canada's large banking institutions. The Company will continue to benefit from prudent expansion into new geographic areas and anticipates portfolio growth from these markets in 2012.

Management will also continue to pursue its goal of providing outstanding service and thoughtful product solutions which are expected to produce ongoing benefits for mortgage brokers, their clients, and Equitable's shareholders. In order to support its growth and higher levels of service within its niches during 2011 the Company completed the expansion of its Toronto and Calgary office facilities and activated a document imaging system to improve efficiencies in its Single Family business. The functionality of the imaging system will be introduced to other business units in 2012 and through additional future phases of the project.

Equitable continues to operate in a favourable competitive environment relative to years past, and recent developments in the marketplace may further improve the Company's relative competitive position. While it is too early to fully gauge the potential impact of these developments, such as recently introduced changes to CMHC's mortgage portfolio insurance program for 2012, the early signs are encouraging. The Company also does not believe that any of the developments to date will have a material adverse impact on Equitable's business prospects.

Equitable continues to monitor the economic and credit market landscape, and will remain vigilant with respect to risk as it pursues its strategy in 2012. Recent forecasts from the Bank of Canada are for moderate GDP growth over the next twelve months, despite risks of a recession in Europe and slower growth in emerging markets. Management's view is consistent with CMHC's expectations that Canadian real estate market conditions will remain stable in 2012, acknowledging that forecasts for the Canadian housing market vary widely.

To mitigate the risk associated with potential market corrections, management has long focused on markets where it believes long-term fundamentals support the demand for real estate, principally in urban centers that enjoy a diversified economy and population growth due to migration from within and immigration from outside of Canada. Management will continue to apply this approach, along with its traditional discipline in setting loan-to-value ratios and other prudent lending criteria going forward within its active sales strategies. While management continues to be concerned that there is some potential for further volatility in real estate markets, it expects defaults and arrears to remain low in 2012.

In the context of the current economic and competitive environment, the Company expects a continuing opportunity to maintain sound interest rate spreads on its mortgage portfolio. Current market expectations are that benchmark interest rates will remain flat in 2012, and as such the Company does not anticipate changes in the prime rate of interest from its current very low level. The company also expects GIC and securitization funding rates to remain in and around current levels throughout 2012, and as such, overall net interest margin ("NIM") to remain stable.

With respect to funding, the GIC market continues to provide ample funding for Equitable's business. Management also intends to continue originating insured multi-unit residential mortgage volumes in 2012 and securitizing these mortgages through the National Housing Act ("NHA") Mortgage-backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs. Given the changes to the manner in which these mortgages are accounted for under IFRS, however, the Company intends to reduce the volume of mortgages securitized relative to previous years.

Equitable expects non-interest expenses to increase in 2012 to a level that will support the growth of the business and sustain high levels of customer service, while allowing for continued growth in its operating margins.

As part of its long-term capital plan, Equitable is committed to maintaining its sound capital base and conservative liquidity position. Management believes that these fundamentals, along with its diversified mortgage lending operations and proven

deposit-taking capabilities, will enable the Company to capitalize on market opportunities as they arise and provide flexibility to operate profitably in challenging markets. Management also believes that Equitable's current capital ratios are more than sufficient to meet or exceed the requirements under Basel III.

In recent years, management has maintained higher than normal levels of liquidity on its balance sheet as a prudent measure, intended to insulate the Company's business and ensure it is well-positioned to manage any unforeseen events or uncertainty in Canadian and international capital markets. Notwithstanding the impact on NIM associated with maintaining higher levels of liquidity, management intends to maintain the Company's liquidity at levels similar to those experienced in 2011.

Equity securities held by the Company are comprised of almost exclusively investment grade preferred shares. Management's view continues to be that, while economic volatility in Canadian stock markets and resultant unrealized losses have affected these high-quality investments in recent years, there is no permanent impairment in this portfolio.

Management is confident that the trends driving demand in Equitable's niches – including growth in mortgage originations through the independent mortgage broker channel, in business-for-self Canadians, and in immigration – will remain well entrenched for the long term. Consequently, management believes that significant business opportunities will continue to exist, particularly in light of recent marketplace developments, but that a measured approach to capturing that growth is warranted.

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 3 of this MD&A.**

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS as its financial reporting framework on January 1, 2011, with a transition date of January 1, 2010, such that prior period comparative information in the financial statements and the MD&A reflects conversion from previous Canadian GAAP to an IFRS basis. On transition, IFRS required the application of certain mandatory and optional transition exemptions. The details of the restatement and the mandatory and selected optional exemptions, which the Company applied on transition, are set out in Note 4 to the accompanying consolidated financial statements. Additionally, results for each quarter of 2010, restated on an IFRS basis, have been disclosed on pages 81 to 84 of the Company's 2010 Annual Report.

It is generally not appropriate to directly compare the Company's financial position and results of operations as stated under IFRS with those stated under previous Canadian GAAP, given the differences entailed in IFRS. Although many of the principles and standards comprising IFRS are similar to previous Canadian GAAP, certain standards are fundamentally different, resulting in significant restatement of previously reported financial results and financial position. The restatement of the Company's results and financial position to IFRS impacts asset and liability categorization as well as certain performance indicators, including credit quality and credit provision ratios, liquidity ratios, the efficiency ratio, EPS, ROE and return on assets (see Table 1, below). Readers are cautioned when making comparisons to prior years.

The IFRS opening retained earnings and accumulated other comprehensive income as of the transition date to IFRS of January 1, 2010 were adjusted retrospectively for the net impact of the accounting differences between previous Canadian GAAP and IFRS. This resulted in a downward adjustment to retained earnings of $37.7 million, which is now being recovered incrementally through earnings. Accumulated other comprehensive income was reduced by $6.5 million to remove fair value adjustments for debt securities issued and retained by the Company and securitization retained interests, both of which are not part of the IFRS balance sheet. Details related to components of IFRS transition adjustments can be found in the reconciliations provided in Note 4 to the accompanying consolidated financial statements, as well as commentary provided in the Company's MD&A for the three months ended March 31, 2011, which was the first time the Company results were issued under IFRS.

The most significant impact of conversion to IFRS relates to the accounting for the Company's securitization activities and the timing of income and expense recognition related to the respective securitization assets and liabilities. More specifically, adoption of IFRS resulted in the re-recognition of $4.7 billion of securitized mortgage assets and the related securitization liabilities in the Company's balance sheet as at January 1, 2011.

Under previous Canadian GAAP, assets securitized and sold by the Company were removed from its balance sheet and income and expense recognition resulted from this transaction. Under IFRS, previous securitization gains have been reversed and the securitized mortgage assets continue to be recognized on the Company's balance sheet. Interest income earned on the securitized assets is recognized on an effective interest rate method, amortizing origination costs over the term of the mortgage. Interest expense is recognized on the securitization liability over the term of the securitization, amortizing transaction costs and the discount or premium over that term. As such, under IFRS, securitized mortgages earn interest spread (less amortization of transaction expenses, ongoing servicing and other costs) over the course of their term. IFRS has been applied retroactively to all securitization transactions occurring after January 1, 2004, with an adjustment to opening retained earnings that is intended to unwind the previously reported impact of these securitization transactions.

Also, unlike previous Canadian GAAP, the recognition of mortgage prepayment charges associated with the unscheduled prepayment of securitized mortgages is no longer offset by a write-down in the retained interests the Company held in these mortgages. The receipt of this prepyament charge income under IFRS, net of any indemnities paid to third party investors, may cause a positive income inflow that impacts the Company's results in the period received.

In addition to being affected by differences in the method of accounting for securitized assets, described above, the restatement of the Company's financial results from previous Canadian GAAP to IFRS is affected by differences in the method of accounting for the related derivatives that are within its securitization activities, including the activities it undertakes to hedge interest rate risk associated with mortgage commitments and mortgages issued but awaiting

securitization, as well as the interest rate risk associated with the respective securitization liabilities. Prior to January 1, 2011, the Company had generally used short sale and repurchase agreements to hedge this interest rate risk. Under previous Canadian GAAP, the hedges and the hedged items were carried at fair value and fair value changes would typically offset each other. This is not the case under IFRS, since the hedges are accounted for at fair value and the hedged items are accounted for at amortized cost. In 2011, the Company began utilizing bond forward agreements in place of short sale and repurchase agreements and implemented a hedge accounting program which designates these agreements as hedges of interest rate risk with respect to its securitization activities in order to remove much of the associated measurement volatility that would otherwise result under IFRS. This was not an issue under previous Canadian GAAP and although hedged on an economic basis, the requirements for hedge accounting were not in place in 2010, leading to unmatched accounting for movements in fair value and an unfavorable pre-tax impact on the measurement of 2010 results under IFRS.

Impact of Hedge Accounting on Book Value

As discussed under the section entitled "International Financial Reporting Standards", the Company maintains a hedge accounting program to account for its hedging transactions related to its activities under CMHC's securitization programs. Using this hedging approach, bond forwards are entered into to hedge the interest rate risk associated with CMHC-insured mortgages prior to securitization. To the extent that the hedges are effective, any change in the value of the hedge is marked to market and recorded in other comprehensive income, net of income taxes. During 2011, fixed rate yields declined steadily, resulting in losses from the change in fair value of $9.9 million after tax. This charge had no impact on reported EPS, but did reduce reported book value per share by $0.66. This fair value loss will be amortized into income over the life of the securitization and offset by a lower level of securitization interest expense relative to what would have been the expense in the absence of the hedges.

Adjusting for Accounting Changes

To assist readers in analyzing results during this introductory phase of the new accounting standards, the Company has supplemented its reporting by comparing its 2011 performance to 2010 on an adjusted basis. Adjusted net income, EPS and ROE result from the removal of gains and losses associated with unmatched derivative measurement volatility when comparing period-over-period results. Adjusted figures used in this MD&A are non-GAAP financial measures and do not remove the operational provision taken in the third quarter of 2011.

FINANCIAL OVERVIEW

Table 1: Selected financial information[1]

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	IFRS 2011	IFRS 2010	Previous CDN GAAP 2009	Change from 2010	
OPERATIONS					
Net income	**62,186**	55,893	51,438	6,293	11.3%
Adjusted net income[2]	**62,652**	61,130	N/A	1,522	2.5%
Net income available to common shareholders	**58,561**	52,268	50,226	6,293	12.0%
Adjusted net income available to common shareholders[2]	**59,027**	57,505	N/A	1,522	2.6%
EPS - basic	**$ 3.91**	$ 3.50	$ 3.37	$ 0.41	11.6%
EPS - diluted[5]	**$ 3.88**	$ 3.48	$ 3.36	$ 0.40	11.5%
Adjusted EPS - basic[2]	**$ 3.94**	$ 3.85	$ N/A	$ 0.09	2.3%
Adjusted EPS - diluted[2]	**$ 3.91**	$ 3.83	$ N/A	$ 0.08	2.1%
Total revenue	**438,990**	393,245	207,824	45,745	11.6%
Net interest income	**133,771**	119,949	73,169	13,822	11.5%
Net interest margin - TEB - total assets[3]	**1.4%**	1.5%	1.9%		
Net interest margin - TEB - non-securitization assets	**2.5%**	2.7%	N/A		
Net interest margin - TEB - securitization assets	**0.5%**	0.5%	N/A		
Return on equity - annualized[4][6]	**16.5%**	17.0%	17.0%		
Adjusted return on equity - annualized[2][4]	**16.6%**	18.6%	N/A		
Return on average assets – annualized	**0.6%**	0.6%	1.3%		
Adjusted return on average assets – annualized[2][6]	**0.6%**	0.7%	N/A		
Mortgage originations	**2,848,739**	2,470,630	2,272,537	378,109	15.3%
Productivity ratio – TEB[5][6]	**32.4%**	26.1%	24.9%		
BALANCE SHEET					
Total liquid assets	**784,386**	799,740	913,593	(15,354)	(1.9%)
Total assets	**10,257,013**	8,884,129	3,846,074	1,372,884	15.5%
Total liquid assets as a % of non-securitization assets	**16.2%**	19.8%	N/A		
Total liquid assets as a % of total assets	**7.6%**	9.0%	23.8%		
Mortgages receivable	**9,577,087**	8,217,301	2,763,020	1,359,786	16.5%
Shareholders' equity	**426,640**	381,455	373,861	45,185	11.8%
COMMON SHARES					
Number of common shares outstanding at year end	**15,018,401**	14,943,437	14,903,846		
Dividends declared per common share	**$ 0.45**	$ 0.40	$ 0.40	$ 0.05	12.5%
Book value per common share	**$ 25.18**	$ 22.28	$ 21.83	$ 2.90	13.0%
Common share price – close	**$ 25.00**	$ 24.99	$ 21.25	$ 0.01	-%
Dividends declared per preferred share	**$ 1.81**	$ 1.81	$ 0.61	$ -	-%
Market capitalization	**375,460**	373,436	316,707	2,024	0.5%
EQUITABLE TRUST CAPITAL RATIOS[7]					
Tangible common equity ratio[8]	**11.9%**	12.6%	12.6%		
Tier 1 capital ratio	**13.4%**	14.3%	14.6%		
Total capital ratio (including collective allowance)	**15.8%**	16.9%	17.6%		
CREDIT QUALITY					
Realized loan losses – net of recoveries	**8,636**	3,308	6,516		
Net impaired mortgages as a % of total mortgages[9]	**0.24%**	0.42%	1.20%		
Gross impaired mortgage principal	**26,691**	43,679	37,562		
Allowance for credit losses	**19,650**	21,103	14,635		
Allowance for credit losses as a % of total mortgage principal	**0.21%**	0.26%	0.53%		

(1) *Selected financial information for 2009 has been calculated in accordance with previous Canadian GAAP.*
(2) *Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities.*
(3) *Average rates reported in prior years were calculated as a simple average with reference to opening and closing period balances.*
(4) *Return on equity is calculated based on net income available to common shareholders divided by the weighted average common equity outstanding during the year.*
(5) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(6) *The Company recorded a provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in the third quarter of 2011. Excluding the provision, net income in 2011 was $65.8 million or $4.12 per diluted share; ROE was 17.4%; and productivity ratio TEB was 28.8%.*
(7) *Equitable Trust capital ratios for December 31, 2010 and 2009 have been calculated in accordance with previous Canadian GAAP.*

(8) The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.

(9) Net impaired mortgages do not include CMHC-insured mortgages that are less than 365 days in arrears and reflect gross mortgage principal of impaired mortgages less individual allowances.

FINANCIAL REVIEW – EARNINGS

Net Income

Net income increased 11.3% year-over-year to $62.2 million in 2011 from $55.9 million in the prior year. Excluding the impact of the provision noted above, net income in 2011 was $65.8 million. Net income available to common shareholders increased 12.0% to $58.6 million from $52.3 million in 2010. Diluted earnings per share for 2011 were $3.88 – or $4.12 excluding the provision – compared to $3.48 for 2010.

Removing the volatility associated with unmatched derivative measurement accounting from earnings, adjusted net income for 2011 was $62.7 million compared to $61.1 million in 2010. Adjusted basic and diluted EPS for 2011 were $3.94 and $3.91, respectively, compared to $3.85 and $3.83, respectively, for 2010. Excluding the provision, adjusted net income in 2011 increased 8.4% from the prior year to $66.3 million ($4.15 per share diluted). The increase in net income resulted primarily from higher mortgage interest income, which was partly offset by increases in both interest and non-interest expenses as well as the Company's higher effective tax rate.

Net Interest Income

Net interest income is the main driver of profitability for the Company. It is measured on a taxable equivalent basis ("TEB" – see Non-GAAP Measures section of this MD&A) so that income from equity securities may be compared on a pre-tax basis to ordinary interest income. Table 2 illustrates the Company's NIM in 2011 compared to 2010 on a TEB. Net interest income − TEB increased $12.4 million or 9.9% to $137.6 million for the year ended December 31, 2011 compared to $125.2 million earned during 2010.

Total interest revenues, using the TEB approach, increased 11.1% year-over-year to $439.1 million in 2011. Underpinning this result was 11.2% growth in mortgage interest income, which was driven by the increased size of the Company's overall mortgage portfolio in 2011. This increase in mortgage interest income was comprised of 16.2% and 6.8% growth in income related to non-securitized and securitized mortgages, respectively. Growth in mortgage balances was offset in part by a slightly lower NIM on the portfolio. The company realized higher rates of return on its liquidity portfolio mainly due to a rise in benchmark interest rates, with income from the Company's liquidity investments approximately $2.9 million higher in 2011 than in 2010. Income derived from equity securities on a TEB was $11.0 million in 2011, compared to $12.5 million 2010.

During 2011, interest expense on deposits increased by $18.9 million or 19.5% over 2010, due primarily to the higher average GIC balance that was required to support the Company's matched mortgage portfolio. Overall, funding rates on GICs in 2011 were consistent with those of the prior year. During 2011, interest expense related to the Company's securitization liabilities increased $12.9 million over 2010, also primarily due to the increased size of the obligations required to carry a larger securitized mortgage portfolio. Average funding rates related to the securitization liability decreased by 0.3% during the year compared to 2010, which partly offset the effect of growth of the securitization liability.

NIM was 1.4% in 2011, down marginally from the 1.5% achieved in 2010. The Company experienced a comparable decrease of 0.2% in the rates earned on its interest bearing assets and in the rates paid on its interest bearing liabilities. Table 2 details the rate changes on each side of the balance sheet by asset and liability category. The Company benefitted from a shift in mix over the year, as balances and net interest income growth in the higher NIM conventional mortgage portfolio outpaced growth in securitized assets. NIM on conventional mortgages was 2.5% in 2011 compared to 2.7% in 2010, reflecting the lower interest rate environment we have experienced since late 2008, while the cost of funding those mortgages was flat year-over-year. NIM on securitized mortgages in 2011 was consistent with 2010, at 0.5% despite an unusually high level of mortgage prepayment charge income received and reported as interest income in 2010, as securitization costs also fell over the year. NIM on securitized assets of 0.5% in 2011 and 2010 was lower than NIM on non-securitized assets in both years because securitized assets generally earn lower interest spreads as they are insured under government programs and require less regulatory capital.

Table 2 outlines the components of the Company's net interest income, as well as NIM for 2011 and 2010 on a TEB.

Table 2: Net interest income

	2011			2010		
($ THOUSANDS)	**Average balance**	**Revenue/ expense**	**Average rate[1]**	Average balance	Revenue/ expense	Average rate[1][2]
Interest revenues derived from:						
Assets:						
Liquidity investments	**$ 470,024**	**$ 7,562**	**1.6%**	$ 451,816	$ 4,680	1.0%
Equity securities – TEB	**193,706**	**10,993**	**5.7%**	182,556	12,490	6.8%
Mortgages	**3,903,676**	**206,987**	**5.3%**	3,151,146	178,114	5.7%
Mortgages - Securitized portfolio	**4,989,251**	**213,604**	**4.3%**	4,399,709	199,980	4.5%
Total interest earning assets – TEB	**$ 9,556,657**	**$ 439,146**	**4.6%**	$ 8,185,227	$ 395,264	4.8%
Total assets – TEB	**$ 9,608,918**	**$ 439,146**	**4.6%**	$ 8,226,103	$ 395,264	4.8%
Interest expenses related to:						
Liabilities and shareholders' equity:						
Deposits	**$ 4,206,107**	**$ 115,314**	**2.7%**	$ 3,513,395	$ 96,462	2.7%
Securitization liability	**4,764,110**	**181,694**	**3.8%**	4,151,664	168,796	4.1%
Bank term loans	**12,500**	**812**	**6.5%**	26,346	2,059	7.8%
Subordinated debentures	**52,671**	**3,493**	**6.6%**	38,825	2,626	6.8%
Other interest bearing liabilities	**10,548**	**217**	**2.1%**	15,778	120	0.8%
Total interest bearing liabilities	**$ 9,045,937**	**$ 301,530**	**3.3%**	$ 7,746,008	$ 270,063	3.5%
Total liabilities and shareholders' equity	**$ 9,608,918**	**$ 301,530**	**3.1%**	$ 8,226,103	$ 270,063	3.3%
Net interest income – TEB		**$ 137,616**			$ 125,201	
Less: taxable equivalent adjustment		**(3,845)**			(5,252)	
Net interest income		**$ 133,771**			$ 119,949	
Net interest margin – TEB						
Non-securitized assets	**$ 4,522,264**	**$ 112,583**	**2.5%**	$ 3,768,443	$ 101,270	2.7%
Securitized assets	**5,086,654**	**25,034**	**0.5%**	4,457,660	23,931	0.5%
Total assets – TEB	**$ 9,608,918**	**$ 137,616**	**1.4%**	$ 8,226,103	$ 125,201	1.5%

(1) *Average rates are calculated based on the average of the month-end balances outstanding during the year.*
(2) *Average rates reported in prior years were calculated as a simple average with reference to opening and closing period balances.*

Other Income

Other income includes ancillary fees related to the origination and administration of the mortgage portfolio. Sundry income, gains or losses on investments, and other non-mortgage related fees are also included in other income. Other income increased by $0.5 million to $3.7 million in 2011, compared to $3.2 million in 2010.

Table 3: Other income

($ THOUSANDS)	2011	2010	Change from 2010	
Fees and other income	**$ 3,545**	$ 3,003	$ 542	18.0%
Net gain on investments	**144**	230	(86)	(37.4%)
Total	**$ 3,689**	$ 3,233	$ 456	14.1%

Non-interest Expenses

The year-over-year increase of $12.2 million or 36.3% in 2011 compared to 2010 reflected i) healthy growth in the Company's underlying business and higher administrative costs to support this growth, ii) the provision recorded for the alleged fraud in the amount of $5.0 million, iii) a $4.2 million increase in payroll costs due to higher average staffing levels to support the Company's growth objectives and executive severance. Mortgage portfolio growth required Equitable to invest in resources to maintain the high levels of service it provides to brokers and borrowers, a competitive advantage of the Company.

The Company continues to operate a very efficient operation both on an absolute basis and in comparison to other financial institutions. Equitable's productivity ratio – TEB was 32.4% in 2011 compared to 26.1% in 2010. Excluding the provision recorded during the year, the productivity ratio – TEB was 28.8% in 2011. This ratio is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. While a lower productivity ratio is generally associated with a more efficient cost structure, the Company's productivity index can also be affected by growth in single family mortgage production, increases and declines in funding volumes and the Company's need to maintain human resource staffing levels commensurate with volume expectations.

Table 4: Non-interest expenses and productivity ratio

($ THOUSANDS)	2011	2010	Change from 2010	
Compensation and benefits	**$ 22,856**	$ 18,632	$ 4,224	22.7%
Licenses, regulatory fees and insurance	**3,303**	2,625	678	25.8%
Premises and equipment	**3,818**	2,758	1,060	38.5%
Marketing, travel and communications	**1,790**	1,564	226	14.5%
Mortgage servicing	**4,024**	3,342	682	20.4%
Legal, audit and related services	**1,327**	942	385	40.9%
Other	**8,596**	3,687	4,909	133.1%
Total	**$ 45,714**	$ 33,550	$ 12,164	36.3%
Productivity ratio – TEB	**32.4%**	26.1%		
Productivity ratio – TEB – Adjusted for the operational provision	**28.8%**	26.1%		

Income Taxes

The Company's effective income tax rate in 2011 was 25.9% compared to 22.7% in 2010. The effective tax rate was less than the statutory tax rate of 28.1% primarily as a result tax-exempt dividend income earned from its equity securities portfolio and movements of the Company's temporary differences into years with lower taxation rates. In 2010, the Company recorded a one-time tax benefit of $0.8 million related to the tax treatment accorded to a preferred share redemption.

Income taxes are allocated between current and deferred taxes. Deferred taxes result from timing differences between the Company's financial statement income and net income for tax purposes. Deferred taxes are established at the rates expected to be in effect at the date of the reversal of the timing differences. The net increase in deferred income tax expense of $0.3 million from the prior year was primarily due to increased timing differences associated with the Company's securitization activities.

Return on Equity and Assets

The Company delivered a solid ROE of 16.5% in 2011, or 17.4% excluding the provision, compared to 17.0% in 2010. Adjusted ROE for the year ended December 31, 2011 was 16.6% compared to 18.6% in 2010. Excluding the provision, adjusted ROE was 17.5% in 2011. The change year-over-year was attributable to growth in average common shareholders' equity outpacing growth in net income available to common shareholders, on both an unadjusted and adjusted basis. Growth in adjusted net income during 2011, as compared with 2010, was muted by the lower effective tax rate and the unusually high level of mortgage prepayment charge income experienced in 2010. Annualized return on average assets was 0.6%, consistent with the prior year period.

FINANCIAL REVIEW – BALANCE SHEET

Mortgage Portfolio

Equitable's mortgage portfolio is diversified across both residential and commercial real estate asset categories and consists of first charge and CMHC-insured mortgages. Net of the effects of natural amortization and the payout of mortgages, total mortgage principal increased $1.4 billion or 16.6% during 2011 to $9.5 billion at year end.

The Company's non-securitized mortgage principal increased by $793.6 million or 22.9% during 2011 to $4.3 billion. This increase reflected the successful ongoing emphasis management has placed on conventional – particularly single family residential – mortgage lending. During 2011, the Company's securitized portfolio increased by $566.5 million or 12.0%. Part of this increase reflected management's decision in the third quarter to obtain insurance on $245.0 million of single family residential mortgage assets previously originated, $234.3 million of which were securitized in 2011. This decision will lower the Company's cost of funding by replacing GIC deposits as the funding source with securitizations.

Table 5: Mortgage principal outstanding – by lending business

($ THOUSANDS)	2011	% of total	2010	% of total	Change from 2010	
Single Family Lending Services	**$ 2,076,660**	**21.8%**	$ 1,556,419	19.0%	$ 520,240	33.4%
Commercial Mortgage – Broker Services	**1,003,589**	**10.5%**	831,032	10.2%	172,557	20.8%
Commercial Lending Services	**1,186,343**	**12.4%**	1,085,507	13.3%	100,836	9.3%
Non-securitized mortgages	**4,266,592**	**44.7%**	3,472,958	42.5%	793,633	22.9%
Securitized mortgages[1]	**5,271,561**	**55.3%**	4,705,075	57.5%	566,487	12.0%
Total mortgage principal outstanding	**$ 9,538,153**	**100.0%**	$ 8,178,033	100.0%	$ 1,360,120	16.6%

[1] *During 2011, the Company securitized $234.3 million of CMHC-insured single family mortgages that were originated as conventional mortgages.*

Insured mortgages as a percentage of the mortgage portfolio represented 56.1% of the mortgage principal outstanding at December 31, 2011 compared to 59.2% a year earlier. Fixed rate mortgages within the portfolio represented 89.0% of the portfolio at December 31, 2011, compared to 90.2% a year earlier. Floating rate mortgages that had no floors amounted to 4.9% of the portfolio at December 31, 2011, compared to 5.1% at December 31, 2010. Floating rate mortgages with floors represent the remaining 6.1% of the portfolio as at December 31, 2011.

Management believes that the Company's mortgage portfolio is well diversified across both property types and geographies. At December 31, 2011, consistent with a year ago, 58.3% of the Company's mortgages were secured by properties located in Ontario. The Company's Alberta business continued to grow at a conservative pace in 2011 to 14.9% of the portfolio. Of the remaining portfolio, 13.1% is located in Quebec, 5.8% in British Columbia, 1.5% in Manitoba, with the remaining 6.4% in the rest of Canada.

Single family dwelling mortgages increased by $651.7 million or 32.2% from December 31, 2010, consistent with the Company's strategy of shifting the mix of its conventional mortgage business towards lower risk-weighted assets. At December 31, 2011, single family dwelling mortgages comprised 28.0% of the portfolio, up from 24.7% in 2010.

Table 6: Mortgages receivable – by property type

($ THOUSANDS)	2011	% of total	2010	% of total	Change from 2010	
Single family dwelling[1]	**$ 2,672,512**	**28.0%**	$ 2,020,806	24.7%	$ 651,706	32.2%
Mixed-use property	**345,154**	**3.6%**	321,951	3.9%	23,203	7.2%
Multi-unit residential	**431,714**	**4.5%**	404,367	5.0%	27,347	6.8%
CMHC-insured multi-unit residential	**4,796,341**	**50.3%**	4,442,588	54.3%	353,753	8.0%
Commercial	**962,457**	**10.1%**	823,834	10.1%	138,623	16.8%
Mortgages held for sale	**31,536**	**0.3%**	44,332	0.5%	(12,796)	(28.9%)
Construction	**298,439**	**3.2%**	120,155	1.5%	178,284	148.4%
Total mortgage principal	**9,538,153**	**100.0%**	8,178,033	100.0%	1,360,120	16.6%
Deferred net mortgage origination fees, net (discounts) premiums and sundry	**23,461**		29,283		(5,822)	(19.9%)
Mortgages receivable	**9,561,614**		8,207,316		1,354,298	16.5%
Accrued interest	**35,123**		31,088		4,035	13.0%
Allowance for credit losses	**(19,650)**		(21,103)		1,453	6.9%
Total mortgages receivable	**$ 9,577,087**		$ 8,217,301		$ 1,359,786	16.5%

[1] *Includes $514,078 (December 31, 2010 – $363,682) of CMHC-insured and $25,364 (December 31, 2010 – $30,409) of other insured single family dwelling mortgages.*

Overall mortgage production was $2.8 billion for the year, up $378.1 million or 15.3% from 2010. Commensurate with Equitable's strategic focus, $1.2 billion or 43.2% of the mortgages funded during the year were conventional single family residential mortgages. Conventional commercial mortgage production also increased substantially on a year-over-year basis reflecting the ongoing success of the Company's two commercial lending businesses and robust market demand for Equitable's products. While CMHC-insured multi-unit residential production also increased in 2011, management expects to reduce production over the coming year due to planned curtailment of its securitization activity.

Table 7: Mortgage production – by lending business

	2011		2010			
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Change from 2010	
Single Family Lending Services:						
CMHC-insured single family	**$ 29,132**	**1.0%**	$ 255,777	10.4%	$ (226,645)	(88.6%)
Conventional mortgages	**1,231,796**	**43.2%**	1,021,866	41.3%	209,930	20.5%
Commercial Mortgage – Broker Services	**306,902**	**10.8%**	283,719	11.5%	23,183	8.2%
Commercial Lending Services:						
CMHC-insured multi-unit residential	**826,463**	**29.0%**	675,155	27.3%	151,308	22.4%
Conventional mortgages	**454,446**	**16.0%**	234,113	9.5%	220,333	94.1%
Total	**$ 2,848,739**	**100.0%**	$ 2,470,630	100.0%	$ 378,109	15.3%

The majority of the Company's mortgages are sourced each year by a network of independent mortgage brokers and other mortgage originators. A mortgage brokerage arrangement exists with First National Financial LP ("FNFLP"), one of Canada's leading mortgage banking organizations, to source and administer CMHC-insured multi-unit residential and conventional mortgages, including a component of mortgages held for sale.

Credit Quality and Allowance for Credit Losses

Table 8: Mortgage credit quality

($ THOUSANDS)	**2011**	2010	Change from 2010	
Net realized loan losses for the year	**$ 8,636**	$ 3,308	$ 5,328	161.1%
Gross impaired mortgage principal	**26,691**	43,679	(16,988)	(38.9%)
Allowance for credit losses	**19,650**	21,103	(1,453)	(6.9%)
Allowance for credit losses as a % of total mortgage principal	**0.21%**	0.26%		
Mortgage principal in arrears 90 days or more[1]	**20,770**	37,349	(16,579)	(44.4%)
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[1]	**0.22%**	0.46%		
Continuity of allowances for credit losses:				
Balance, beginning of year	**$ 21,103**	$ 15,937		
Provision charged to statements of income	**7,183**	9,748		
Allowance for credit losses on acquired portfolio	**-**	(1,274)		
Recovery of prior losses	**79**	231		
Realized losses deducted from allowance	**(8,715)**	(3,539)		
Balance, end of year	**$ 19,650**	$ 21,103		

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

Management actively analyzes the profile of its lending businesses and its originations in tandem with external market conditions, including market values and employment conditions that prevail in the markets where it lends. When management judges that the commensurate risk associated with a particular region or product is no longer acceptable, it adjusts its underwriting criteria to ensure that its underwriting policies continue to be prudent and reflective of current and expected economic conditions and thereby safeguards the future health of its portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to ensure a prudent credit risk profile for its portfolio. The low level of loan losses that the Company has incurred in recent years reflects the quality of its mortgage portfolio and the effectiveness and prudence of its underwriting.

Management's workout activities on impaired loans continue to yield positive results. Net impaired mortgages were 0.24% of total mortgage principal outstanding at December 31, 2011, compared to 0.23% at September 30, 2011 and 0.42% at the end of December 2010. Mortgages in arrears 90 days or more were 0.22% of total mortgage principal outstanding at December 31, 2011 compared to 0.46% a year earlier. Mortgages in early stage delinquency, between 30 to 89 days past due amounted to 0.22% of total outstanding principal at December 31, 2011, an improvement from 0.34% at December 31, 2010. Early stage delinquency is a leading indicator of credit quality in future periods and management believes these continuing low levels of delinquency reflect the health of the Company's mortgage portfolio and its ongoing success in managing defaults.

At December 31, 2011, total allowances for credit losses as a percentage of total mortgage principal outstanding was 0.21%, compared to 0.26% at December 31, 2010. At December 31, 2011, individual allowances amounted to $3.9 million, which is down significantly from the $9.5 million individual allowance balances at December 31, 2010. The Company recognized $8.7 million of realized loan losses during 2011 and charged these against specific allowances recorded in prior quarters. As a measure of the adequacy of total allowances at the end of 2011, 73.6% of the portfolio's gross impaired principal had been provided for within the Company's total allowances for credit losses. Management is comfortable that the allowances adequately provide for the risk of loss entailed in the Company's mortgage portfolio.

In actively managing its arrears, the Company has foreclosed on certain properties in order to ensure successful collection of the respective mortgage principal. Real estate owned is recorded as held for sale at its net realizable value and as an other asset on the balance sheet. Fair value of real estate owned as a result of foreclosure was $0.2 million at December 31, 2011 and related to two properties, compared with a balance of $1.1 million in 2010 related to seven properties. Real estate owned at December 31, 2011 has been appraised by third-party consultants and the amounts recorded represent management's best estimate of the net proceeds to be received on sale.

Liquidity Investments and Equity Securities

The Company holds sufficient levels of liquidity on its balance sheet to insulate its business and ensure it is well-positioned to manage unexpected and unforeseen events that may impact its ability to obtain funding. The Company drew down its liquidity position relative to its asset base marginally over the course of 2011, largely as a result of a shift in its book towards longer-term funding sources. It intends to keep liquidity at current levels through 2012, though actual liquidity will vary month to month, mainly due to the timing of securitization related cash flows. At all times, liquidity levels have and will remain well in excess of those stipulated by Company and regulatory requirements.

Management closely monitors the Company's liquidity position and believes that the level of liquid resources held, together with Equitable's ability to raise GIC deposits, is sufficient to meet funding and GIC maturity commitments, as well as ensure the collection of its other receivables and the discharge of its liabilities and other obligations. Liquidity is used by the Company to manage its funding needs, which include the funding of $388.1 million in mortgage commitments issued by the Company that were outstanding at December 31, 2011.

At December 31, 2011, assets held for the purpose of providing liquidity protection amounted to $585.9 million and represented 5.7% of Equitable Trust's total assets, compared to 6.9% at December 31, 2010. In addition to assets that are held for the purpose of providing liquidity protection, the Company holds other liquid assets, which include other deposits held with the Company's bank and the Equitable Trust's investments in preferred shares. Total liquid assets were $784.4 million at December 31, 2011, as compared to $799.7 million at the prior year end, and represented 7.6% of the Company's total assets.

Equity securities in which the Company invests are comprised of preferred shares that are held to yield tax-preferred dividend income, and those shares are classified as available for sale assets for accounting purposes. Unrealized changes in fair value on this portfolio are included in the Company's other comprehensive income, net of tax. At December 31, 2011, equity securities were $11.0 million or 5.9% higher than at December 31, 2010. The increase resulted from $14.7 million of net purchases, $3.1 million of premium amortization and $0.6 million of unrealized and realized losses in the year.

Table 9: Liquid assets

($ THOUSANDS)	2011	2010	Change from 2010	
Eligible deposits with regulated financial institutions[1]	**$ 170,558**	$ 155,114	$ 15,444	10.0%
Debt securities issued by regulated financial institutions	**94,999**	67,060	27,939	41.7%
Government guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**9,967**	74,908	(64,941)	(86.7%)
Debt securities issued by Government of Canada	**34,145**	26,213	7,932	30.3%
Debt securities guaranteed by Government of Canada	**28,400**	44,158	(15,758)	(35.7%)
Mortgages held in the form of debt securities guaranteed by Government of Canada	**247,785**	244,957	2,828	1.2%
Assets held for the purpose of providing liquidity protection	**$ 585,854**	$ 612,410	$ (26,556)	(4.3%)
Other deposits with regulated financial institutions	**287**	128	159	124.4%
Equity securities	**198,245**	187,202	11,043	5.9%
Total liquid assets	**$ 784,386**	$ 799,740	$ (15,354)	(1.9%)
Total assets held for regulatory purposes as a % of total Equitable Trust assets	**5.7%**	6.9%		
Total liquid assets as a % of total assets	**7.6%**	9.0%		

[1] *Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $16.2 million (December 31, 2010 – $9.0 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $66.9 million (December 31, 2010 – $77.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

Other Assets

Other assets increased $13.9 million or 119.2% to $25.6 million from $11.7 million a year earlier. Other assets include the fair value of derivative financial instruments, income taxes recoverable, real estate held for sale, capital assets consisting of leasehold improvements, office furniture and computer equipment, sundry receivables and prepaid expenses. Other receivables and prepaids increased $12.9 million, of which, $8.9 million related to the reclassification of mortgage balances relating to the alleged fraud. Previously, these balances were reported in mortgages receivable and were reclassified to Other assets in the third quarter of 2011.

Table 10: Other assets

($ THOUSANDS)	**2011**	2010	Change from 2010	
Other receivables and prepaids	**$ 18,597**	$ 5,666	$ 12,931	228.2%
Capital assets	**3,764**	2,131	1,633	76.6%
Income taxes recoverable	**3,024**	2,247	777	34.6%
Real estate owned	**197**	1,105	(908)	(82.2%)
Derivative financial instruments – hedges	**36**	-	36	N/A
Derivative financial instruments – securitization activities	**-**	537	(537)	(100.0%)
Total	**$ 25,618**	$ 11,686	$ 13,932	119.2%

Deposit Liabilities

As a regulated CDIC member, Equitable Trust's ability to fund its mortgage businesses by attracting depositors and providing excellent service is critical to its business. Equitable Trust is licensed to accept deposits in all Canadian jurisdictions. Deposits are sourced primarily through a national distribution network of independent deposit agents. These deposits, which are primarily in the form of GICs, provide a reliable and stable source of funding that can be properly matched against mortgage maturities, are used to fund most of the Company's liquidity needs, including asset acquisitions. This is a deep and liquid source of funding for the Company.

Total deposit principal outstanding increased $729.2 million or 19.2% to $4.5 billion at year end from $3.8 billion of the prior year. At year end, Cashable GICs represented 15.4% of total deposits outstanding compared to 14.7% in 2010. The Company's Cashable GIC is a one-year product, cashable after its initial 30-day term at any time upon demand. Other GIC products consist of 30-day to five-year fixed term GICs.

Table 11: Deposits

($ THOUSANDS)	**2011**	2010	Change from 2010	
Deposits – cashable GICs	**$ 700,301**	$ 560,729	$ 139,572	24.9%
Deposits – fixed-term GICs	**3,834,837**	3,245,208	589,629	18.2%
	4,535,138	3,805,937	729,201	19.2%
Accrued interest	**104,917**	85,138	19,779	23.2%
Deferred deposit agent commissions	**(12,151)**	(12,222)	71	(0.6%)
Total	**$ 4,627,904**	$ 3,878,853	$ 749,051	19.3%

Securitization

The Company regularly securitizes mortgages to reduce its funding costs, diversify its funding sources, and enhance its liquidity position. The Company securitizes CMHC-insured mortgages through the creation of MBS. The MBS may then either be sold directly to third party investors, or to the Canada Housing Trust ("CHT") through the CMB program. The sale of these MBS provides the Company with a reliable source of funding which is low cost as compared with raising GICs. The transferred mortgages do not qualify for derecognition under the Company's accounting policy on financial instruments; thus are reported as secured financing. The principal amount of the transferred mortgages and associated liabilities relating to securitization as of December 31, 2011 was $5.0 billion (2010 – $4.5 billion) and $5.1 billion (2010 – $4.5 billion), respectively. Overall securitization volumes increased during 2011, partly due to a tranche of single family mortgages that was insured and securitized in the year for purposes of reducing the Company's funding costs. Excluding that portfolio of insured single family mortgages, the Company reduced its securitization activity by 20.6%, due to the impact that IFRS related changes had on the manner in which Equitable accounts for securitized mortgages and on its regulatory assets-to-capital multiple ("ACM"). A further reduction in Equitable's securitization activity is anticipated for 2012.

Table 12: Securitization liabilities

($ THOUSANDS)	**2011**	2010	Change from 2010	
Securitization principal	**$ 5,093,981**	$ 4,536,092	$ 557,889	12.3%
Deferred net discounts and issuance costs	**(14,346)**	(27,968)	13,622	48.7%
Accrued interest	**21,286**	23,556	(2,270)	(9.6%)
Total	**$ 5,100,921**	$ 4,531,680	$ 569,241	12.6%

Subordinated Debentures and Bank Term Loans

Subordinated debentures are subordinated to the rights of Equitable Trust's depositors and other creditors. Such debentures form an integral part of regulatory capital. Subordinated debentures are issued for a period of 10 years. The Company can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements and to the approval of OSFI. During 2011, there were no changes to the outstanding balances of any of the Company's debentures or its term loan. Details related to the Company's bank term loans and subordinated debentures can be found in Notes 16 and 17 to the consolidated financial statements.

The Company is in compliance with all of the covenants required by its bank loan facility.

The Company's bank term loan matures on March 16, 2012 and management is currently evaluating options for managing the maturity thereof.

Table 13: Subordinated debentures and bank term loans

($ THOUSANDS)		**2011**	2010	Change from 2010	
Subordinated debentures					
Series 7	7.10%	**$ 9,450**	$ 9,450	$ -	- %
Series 8	6.50%	**23,221**	23,221	-	- %
Series 9	6.09%	**20,000**	20,000	-	- %
Total subordinated debentures		**$ 52,671**	$ 52,671	$ -	- %
Total bank term loan	6.41%	**$ 12,500**	$ 12,500	$ -	- %
Total subordinated debentures and bank term loan		**$ 65,171**	$ 65,171	$ -	- %

Other Liabilities and Deferred Income Taxes

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, and the fair value of derivative financial instruments. Other liabilities amounted to $36.4 million as at December 31, 2011, up from $27.0 million in 2010. The increase related primarily to increased mortgagor realty tax balances and increased unrealized losses in the fair value of the Company's interest rate swaps as a result of a decline in interest rates experienced during 2011.

Deferred income tax liabilities result from differences between the measurement of assets and liabilities for financial statement purposes versus measurement for tax purposes. The largest components of these differences relate to net mortgage origination fees, allowance for credit losses, securitization costs and deposit agent commissions.

Table 14: Other liabilities and deferred tax liabilities

($ THOUSANDS)	**2011**	2010	Change from 2010	
Mortgagor realty taxes	**$ 18,975**	$ 14,646	$ 4,329	29.6%
Accounts payable and accrued liabilities	**6,802**	4,844	1,958	40.4%
Derivative financial instruments – interest rate swaps	**2,808**	331	2,477	748.3%
Derivative financial instruments – securitization activities	**2**	-	2	N/A
Derivative financial instruments – hedges	**-**	63	(63)	(100.0%)
	28,587	19,884	8,703	43.7%
Deferred tax liabilities	**7,790**	7,086	704	9.9%
Total other liabilities and deferred tax liabilities	**$ 36,377**	$ 26,970	$ 9,407	34.9%

Contractual obligations by year of maturity are outlined in Table 24 – Contractual obligations below. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2011.

Shareholders' Equity

Total shareholders' equity increased $45.2 million or 11.8% to $426.6 million at December 31, 2011 from $381.5 million at December 31, 2010, mainly due to the high level of earnings retained by the Company, which were offset partly by fair value losses recorded through other comprehensive income.

The Company has a Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately preceding the dividend payment date. Common shares issued as a result of participation in the DRIP are issued from the Company's treasury. During the year ended December 31, 2011, 22,264 common shares were issued under the DRIP.

At December 31, 2011, the Company had 15,018,401 common shares issued and outstanding compared to 14,943,437 common shares issued and outstanding at December 31, 2010. As at December 31, 2011 and 2010, the Company had 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding.

During 2011, 7,500 options were granted and 187,000 options were forfeited or expired. In addition, 52,700 stock options were exercised that contributed $0.9 million to common share capital. At December 31, 2011, there were 733,950 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $17.9 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) of the consolidated financial statements.

Table 15: Shareholders' equity

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2011	2010	Change from 2010	
Shareholders' equity:				
Preferred shares	**$ 48,494**	$ 48,494	$ -	- %
Common shares	**129,771**	128,068	1,703	1.3%
Contributed surplus	**4,718**	3,935	783	19.9%
Retained earnings	**254,006**	202,187	51,819	25.6%
Accumulated other comprehensive loss	**(10,349)**	(1,229)	(9,120)	(742.1%)
Total shareholders' equity	**$ 426,640**	$ 381,455	$ 45,185	11.8%
Dividends on common shares	**$ 6,742**	$ 5,971	$ 771	12.9%
Dividends per common share	**$ 0.45**	$ 0.40	$ 0.05	12.5%
Dividends on preferred shares	**$ 3,625**	$ 3,625	$ -	- %
Dividends per preferred share	**$ 1.81**	$ 1.81	$ -	- %

Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS") ("Basel II" and "Basel III" standards). In order to determine prudent capital levels and govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Trust utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

Throughout 2011, Equitable Trust's capital ratios remained strong and in excess of Basel III standards. Equitable Trust's total capital ratio (when its collective impairment allowance is included in capital) was 15.8% at December 31, 2011 as compared to 16.9% at December 31, 2010. Equitable Trust's Tier 1 regulatory capital position was 13.4% compared to 14.3% at December 31, 2010.

Also as at December 31, 2011, tangible common equity was 11.9% as compared to 12.6% one year earlier. The tangible common equity ratio (a non-GAAP measure) is defined as shareholder's equity less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets. The tangible common equity ratio is considered by management and many investors and investment analysts to be a key measure of capital strength. Management considers Equitable Trust to be well capitalized and positioned to maintain strong capital levels through the retention of earnings and the management of its risk-weighted asset mix.

In dollar terms, capital levels increased considerably in 2011, due primarily to the Company's high level of earnings and the rate of retention thereof. Total capital grew by 7.8% and Tier 1 capital grew by 9.0% compared to the prior year, despite the impact of the 2011 operational provision on the Company's equity. Total risk-adjusted assets increased by $478.3 million or 16.5% from 2010 to 2011, with the increase being driven primarily by the 22.9% growth in the Company's conventional mortgage book. As capital was increasingly deployed to fund conventional mortgages, overall capital ratios fell slightly, but remained strong.

Over the course of the next year, management intends to reduce securitization activity in respect of insured multi-family mortgages in order to further optimize its capital structure and maintain a healthy assets-to-capital multiple.

Basel III

In December 2010, the BCBS released its final advisory on new international bank capital adequacy and liquidity requirements (commonly referred to as the 'Basel III' framework), with a phase-in over a 7–10 year horizon, commencing January 1, 2013. In February 2011, OSFI confirmed the implementation of Basel III in Canada – in accordance with the BCBS' proposed timelines and with a stated preference for Canadian-regulated financial institutions '*meeting the 2019*

Basel III capital requirements early in the transition period'. Based on its analysis of the guidance issued to date, the Company has determined that its December 31, 2011 capital levels exceed the 2019 Basel III minimum capital requirements and are more than sufficient to meet its planned growth targets.

Table 16: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)		**2011**		2010[1]
Risk-weighted assets:				
Credit risk	**$**	**3,166,717**	$	2,724,055
Operational risk[2]		**217,088**		181,457
Total risk-weighted assets	**$**	**3,383,805**	$	2,905,512
Tier 1 capital:				
Common shares	**$**	**132,819**	$	129,823
Non-cumulative preferred shares		**50,000**		50,000
Contributed surplus		**4,303**		3,520
Retained earnings		**248,752**		233,775
Accumulated other comprehensive loss[3]		**(2,095)**		(1,676)
IFRS transition adjustment[4]		**18,931**		-
Total		**452,710**		415,442
Tier 2 capital:				
Subordinated debentures (Tier 2B)[5]		**65,171**		65,171
Total		**65,171**		65,171
Total regulatory capital	**$**	**517,881**	$	480,613
Regulatory capital to risk-weighted assets:				
Tier 1 capital		**13.4%**		14.3%
Tier 2 capital		**1.9%**		2.2%
Total regulatory capital as a % of total risk-weighted assets		**15.3%**		16.5%
Total capital calculated as defined under ICAAP:				
Total regulatory capital	**$**	**517,881**	$	480,613
Collective/General allowance[6]		**15,785**		11,541
Total capital as defined under ICAAP	**$**	**533,666**	$	492,154
Total capital ratio as defined under ICAAP		**15.8%**		16.9%
Tangible common equity ratio[7]		**11.9%**		12.6%
Assets-to-capital multiple (ACM)		**12.8**		9.2

(1) *Capital measures for December 31, 2010 are calculated in accordance with previous Canadian GAAP.*
(2) *For operational risk, Equitable Trust 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.*
(3) *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.*
(4) *As permitted by OSFI, the transition adjustment for IFRS will be amortized over an eight quarter period ending on December 31, 2012.*
(5) *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.*
(6) *Equitable Trust includes its collective allowance in capital when assessing its capital requirements under its ICAAP.*
(7) *The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other tangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.*

SUMMARY OF QUARTERLY RESULTS

Table 17 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

Table 17: Summary of quarterly results

	2011				2010			
($ THOUSANDS, EXCEPT BALANCE SHEET AND PER SHARE AMOUNTS)	**Q4**	Q3[1]	Q2	Q1	Q4	Q3	Q2	Q1
OPERATIONS								
Net income	**17,025**	13,363	15,735	16,063	24,084	8,586	11,071	12,152
Adjusted net income[2]	**17,491**	13,628	15,700	15,833	20,088	13,527	13,468	14,046
Net income available to common shareholders	**16,119**	12,456	14,829	15,157	23,178	7,679	10,165	11,246
Adjusted net income available to common shareholders[2]	**16,585**	12,721	14,795	14,927	19,182	12,620	12,562	13,140
EPS – basic	**$ 1.07**	$ 0.83	$ 0.99	$ 1.01	$ 1.55	$ 0.51	$ 0.68	$ 0.75
EPS – diluted	**$ 1.07**	$ 0.82	$ 0.98	$ 1.00	$ 1.54	$ 0.51	$ 0.68	$ 0.75
Adjusted EPS – basic[2]	**$ 1.11**	$ 0.85	$ 0.99	$ 1.00	$ 1.28	$ 0.85	$ 0.84	$ 0.88
Adjusted EPS – diluted[2]	**$ 1.10**	$ 0.84	$ 0.98	$ 0.99	$ 1.28	$ 0.84	$ 0.84	$ 0.88
Net interest income	**35,346**	34,759	32,461	31,205	32,811	30,493	27,984	28,661
Net interest margin – TEB - total assets[3]	**1.4%**	1.4%	1.4%	1.4%	1.6%	1.5%	1.5%	1.5%
Total revenues	**114,336**	112,744	107,453	104,457	106,897	100,675	93,862	91,811
Return on equity – annualized	**17.3%**	13.7%	16.8%	18.0%	28.6%	9.9%	13.7%	15.9%
Adjusted return on equity – annualized[2]	**17.4%**	14.0%	16.7%	17.8%	23.8%	16.2%	16.8%	18.5%
Return on average assets – annualized	**0.6%**	0.5%	0.6%	0.7%	1.1%	0.4%	0.5%	0.6%
Adjusted return on average assets – annualized[2]	**0.6%**	0.5%	0.6%	0.7%	0.9%	0.6%	0.6%	0.7%
Productivity ratio – TEB	**29.7%**	42.8%	28.7%	27.4%	25.2%	26.0%	28.3%	25.2%
Total mortgage production[4]	**643,677**	945,531	602,789	656,743	639,680	672,797	663,722	494,431
Conventional mortgage production[4]	**538,094**	647,973	404,728	402,349	393,442	334,342	495,376	316,318
CMHC-insured production	**105,583**	297,558	198,061	254,394	246,238	338,455	168,346	178,113
BALANCE SHEET ($ millions)								
Total liquid assets	**784**	957	807	754	800	784	589	797
Total assets	**10,257**	10,254	9,567	9,173	8,884	8,624	8,109	7,829
Mortgages receivable	**9,577**	9,423	8,864	8,560	8,217	7,963	7,611	7,167
Shareholders' equity	**427**	408	409	397	381	359	350	342
Book value per common share	**$ 25.18**	$ 24.02	$ 24.05	$ 23.32	$ 22.28	$ 20.83	$ 20.24	$ 19.70

(1) The Company took a pre-tax provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in the third quarter of 2011. Excluding the provision, net income in the third quarter of 2011 was $17.0 million or $1.06 per diluted share; ROE was 17.6%; and productivity ratio-TEB was 29.2%.

(2) Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities.

(3) Q4 2011 average rate is calculated based on the average of the month-end balances outstanding during the period. Average rates reported for prior periods are calculated as a simple average with reference to opening and closing period balances.

(4) Production amounts have been restated to exclude revolving credit facilities previously reported as conventional mortgage production in 2011.

FOURTH QUARTER OVERVIEW

Equitable's results in the fourth quarter were strong, demonstrating the fundamental operating strength of the business, particularly in the single family residential mortgage segment. The solid fourth quarter was an appropriate finish to a record year, and provides Equitable with momentum to carry into 2012.

During the three months ended December 31, 2011:

- net income was $17.0 million, compared to $13.4 million in the third quarter of 2011 and $24.1 million in the fourth quarter of 2010;
- adjusted net income was $17.5 million, which compares to $13.6 million in the prior quarter and $20.1 million in the fourth quarter of 2010;
- diluted earnings per share were $1.07 compared to $0.82 in the immediately preceding quarter and $1.54 in the fourth quarter of 2010;
- adjusted diluted EPS was $1.10 in the quarter and was $1.28 in Q4 2010;
- ROE was 17.3% compared to 13.7% in the prior quarter (17.6% excluding the provision) and 28.6% in the fourth quarter of 2010; and
- adjusted ROE was 17.4%, compared to 14.0% in the prior quarter (17.5% excluding the provision) and 23.8% in the fourth quarter of 2010.

On a year-over-year basis, comparative results were impacted by several non-recurring items that augmented the Company's performance in Q4 2010, and the majority of which are only visible under new IFRS accounting standards. Specifically, $4.1 million of incremental prepayment charges for unscheduled prepayments on securitized mortgages and $5.8 million of fair value gains on derivatives were recorded in the fourth quarter of 2010. The impact of the fair value gains on the derivatives is reflected in the adjusted operating results above. Q4 2010 also benefitted from an unusually low effective tax rate, in part, due to a one-time tax benefit of $0.8 million related to the tax treatment accorded to preferred share redemptions and movements of temporary differences into years with lower taxation rates.

During the fourth quarter, each of Equitable's business lines recorded strong growth:

- Single Family Lending Services mortgage balances increased by $187.1 million over the prior quarter and by $520.2 million over the same period last year. Single Family mortgage production was $361.0 million in the quarter, compared to $348.4 million in Q4 2010, and represented 56.1% of production in the fourth quarter;
- Commercial Mortgage – Broker Services balances were up by $42.1 million over the third quarter of 2011 and by $172.6 million year-over-year. Broker Services production increased to $72.2 million compared to $67.2 million in the fourth quarter of 2010;
- Commercial Lending Services balances decreased by $91.2 million from September 30, 2011 and increased by $100.8 million compared with the same period last year. Commercial Lending Services production was $210.4 million, compared to $224.1 million in the fourth quarter of 2010. Production of conventional mortgages was $120.3 million in the quarter, which compares to $37.4 million in the same quarter last year. Of the fourth quarter production in 2011, $90.1 million related to CMHC-insured multi-unit residential mortgages that were originated for the purpose of being securitized and sold to government sponsored programs, compared to $186.6 million in the fourth quarter of 2010. Securitization activity was curtailed in the fourth quarter of 2011 as the Company executed further on its strategy of shifting focus to its conventional mortgage business and because spreads available on CMB issuances did not meet the Company's thresholds.

Net interest income increased a healthy $2.5 million or 7.7% from the same quarter a year ago, and 1.7% from the prior quarter. During Q4 2011, average total interest-earning assets were $10.2 billion, up 16.9% from $8.7 billion in the same period a year ago, owing primarily to a robust 17.0% increase in mortgage balances. Mortgage interest income increased 7.2% to $109.4 million compared to $102.0 million a year earlier due to this balance growth and despite marginally lower average interest lending rates and the $4.1 million of incremental prepayment charge income in Q4 of the prior year. The

incremental prepayment charge income is reflected in interest income – securitized mortgages. Funding costs were up by $3.9 million or 14.8% year-over-year, as an increase in average GIC balances of $748.1 million was offset in part by a 0.1% drop in GIC funding rates. Overall net interest margins were consistent with all other quarters of 2011 at 1.4%. Net interest margins in Q4 2010 were higher primarily because of the prepayment charge income received; adjusted for that prepayment income, margins were 1.4% in Q4 2010, consistent with the levels achieved in Q4 2011.

The Company's provision for credit losses was $1.0 million in the quarter, down from $2.0 million in the prior quarter and $2.5 million in the same period last year, reflecting the quality of the Company's mortgage assets. Also supporting the Q4 2011 reduction, was the reversal of a $0.9 million allowance for accrued interest on an impaired mortgage which was reversed after the Company collected cash payments for the interest.

Non-interest expenses increased $2.0 million in the fourth quarter compared to the same quarter of 2010. As a component of non-interest expenses, compensation costs for the quarter increased $1.4 million or 31.5% reflecting higher staffing levels, severance amounts, and related recruitment costs during the quarter compared to the corresponding period of 2010.

The Company's effective income tax rate in the quarter was 27.8%, compared to 24.5% in the prior quarter and 13.6% in fourth quarter of 2010. Income tax expense in Q4 2011 was negatively affected by a provision in the quarter related to preferred share gains while the fourth quarter of 2010 benefitted from a one-time tax benefit of $0.8 million related to the tax treatment accorded to preferred share redemptions and a movement of temporary differences into years with lower taxation rates.

At December 31, 2011, book value per share was $25.18 compared to $22.28 at the close of the prior year, reflecting the Company's strong net income performance in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 18: Unaudited interim consolidated statements of income – fourth quarters 2011 and 2010

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	For the three months ended December 31, 2011	December 31, 2010
Interest income:		
Mortgages	**$ 55,037**	$ 47,980
Mortgages – securitized	**54,372**	54,044
Investments	**2,756**	2,892
Other	**1,159**	1,015
	113,324	105,931
Interest expense:		
Deposits	**30,330**	26,425
Securitization liabilities	**46,558**	45,287
Bank term loans	**204**	698
Subordinated debentures	**881**	697
Other	**5**	13
	77,978	73,120
Net interest income	**35,346**	32,811
Provision for credit losses	**1,037**	2,544
Net interest income after provision for credit losses	**34,309**	30,267
Other income:		
Fees and other income	**976**	756
Net gain on investments	**36**	210
	1,012	966
Net interest and other income	**35,321**	31,233
Non-interest expenses:		
Compensation and benefits	**5,994**	4,559
Other	**5,112**	4,554
	11,106	9,113
Income before income taxes and fair value (loss) / gain	**24,215**	22,120
Fair value (loss) gain on derivative financial instruments – securitization activities	**(647)**	5,756
Income before income taxes	**23,568**	27,876
Income taxes:		
Current	**6,684**	4,370
Deferred	**(141)**	(578)
	6,543	3,792
Net income	**$ 17,025**	$ 24,084
Earnings per share:		
Basic	**$ 1.07**	$ 1.55
Diluted	**$ 1.07**	$ 1.54

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 19: Unaudited interim consolidated statements of comprehensive income - fourth quarters 2011 and 2010

	For the three months ended	
($ THOUSANDS)	**December 31, 2011**	December 31, 2010
Net income	**$ 17,025**	$ 24,084
Other comprehensive income (loss), net of tax:		
Available for sale investments:		
Net unrealized gains (losses) from change in fair value	**1,546**	(68)
Reclassification of net gains to income	**(139)**	(93)
	1,407	(161)
Income tax (expense) recovery	**(394)**	49
	1,013	(112)
Cash flow hedges:		
Net unrealized losses from change in fair value	**2,773**	-
Reclassification of net gains to income	**170**	-
	2,943	-
Income tax expense	**(825)**	-
	2,118	-
Total other comprehensive income (loss)	**3,131**	(112)
Total comprehensive income	**$ 20,157**	$ 23,972

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 20: Unaudited interim consolidated statements of cash flows - fourth quarter 2011 and 2010

($ THOUSANDS)	For the three months ended December 31, 2011	December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 17,025**	$ 24,084
Adjustments to determine cash flows relating to operating activities:		
Financial instruments at fair value through income	**(1,778)**	(3,348)
Depreciation of capital assets	**221**	160
Provision for credit losses	**1,037**	2,544
Net loss on sale or redemption of investments	**(52)**	2,489
Income taxes	**6,543**	3,792
Income taxes paid	**(3,878)**	(5,445)
Stock-based compensation	**247**	190
Amortization of premiums/discounts on investments	**767**	559
Net increase in mortgages receivable	**(155,077)**	(257,808)
Net increase in deposits	**(43,234)**	39,856
Net change in securitization liability	**23,869**	196,562
Net interest income, excluding non-cash items	**(36,627)**	(47,984)
Interest paid	**(74,375)**	(60,518)
Other assets	**(1,292)**	(2,769)
Other liabilities	**8,372**	7,035
Interest received	**108,468**	105,635
Dividends received	**2,534**	2,867
Cash flows (used in) from operating activities	**(147,230)**	7,901
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on preferred shares	**(906)**	(906)
Dividends paid on common shares	**(1,482)**	(1,370)
Proceeds from issuance of common shares	**344**	212
Cash flows used in financing activities	**(2,044)**	(2,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(12,952)**	(250,326)
Proceeds on sale or redemption of investments	**21,843**	218,720
Net change in Canada Housing Trust re-investment accounts	**199**	(2,764)
Purchase of investments under reverse repurchase agreements	**(9,967)**	(74,908)
Proceeds on sale or redemption of investments purchased under reverse repurchase agreements	**151,268**	69,862
Changes in restricted cash	**(3,106)**	(53,759)
Purchase of capital assets	**(288)**	(83)
Cash flows from (used in) investing activities	**146,997**	(93,258)
Net decrease in cash and cash equivalents	**(2,277)**	(87,421)
Cash and cash equivalents, beginning of period	**173,122**	242,663
Cash and cash equivalents, end of period	**$ 170,845**	$ 155,242

FUTURE ACCOUNTING POLICY CHANGES

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

Future Accounting Changes

(i) IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") was amended by the IASB in October 2010. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. The amendments include additional disclosures on transfer transactions of financial assets. These amendments will not have an impact on the results of operations of the Company as they pertain only to disclosure requirements.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iii) IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 sets out in a single IFRS framework the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied.

CRITICAL ACCOUNTING ESTIMATES

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

The policies and methodologies used to determine these estimates and their significance to the Company's financial condition are outlined in the notes to the consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges the interest rate risk on CMHC-insured multi-unit residential mortgages and mortgage commitments intended for securitization, certain other mortgages designated as held for trading, as well as GICs to fund floating rate mortgages as required.

In order to protect against rises in interest rates that can occur between the rate commitment date and the date of securitization, which can lead to a reduced value of the mortgage upon securitization, the Company enters bond forward agreements for the sale of Government of Canada guaranteed debt security. The hedges act to significantly reduce the likelihood that, as a result of interest rate movements, the proceeds on the financing (comprised of the fair value of the mortgage and the fair value of hedge) will vary from the fair value of the mortgage at the date of rate commitment. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates. Prior to January 1, 2011, the Company used short sale and repurchase agreements to hedge this exposure and did not apply hedge accounting to these transactions. Therefore, any changes in fair value were recorded in the Company's consolidated statement of income.

The Company securitizes CMHC-insured residential mortgages through the creation of MBS. These MBS are generally sold through the NHA MBS and CMB programs and are retained on the Company's consolidated balance sheet as the transferred assets do not qualify for derecognition. The mismatch and reinvestment risk that exists between the amortizing MBS and the CMB is managed by the Company through the retention of replacement assets, in the form of MBS, on its consolidated balance sheet, and their periodic transfer to CHT to replace the original MBS that has amortized. The transfer of assets does not qualify for derecognition under the Company's accounting policy on financial instruments. In order to participate in the CMB program administered by CHT, the Company enters into certain arrangements with accredited counterparties that are intended to secure the cash flows payable to the CHT. Approved counterparties are limited to Canadian chartered banks, their subsidiaries and other financial intermediaries.

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

With respect to market interest rate exposure on term GICs to fund floating rate mortgages, the Company uses interest rate swaps to manage its interest rate risk as required. The Company has not entered into any complex derivative contracts. For more information on derivative financial instruments see Notes 3, 4, 5, 6 and 11 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

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

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 Board of Directors (the "Board") plays an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

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

The Risk Management Framework, Credit Risk Management, Funding and Liquidity Risk Management, and Interest Rate Risk Management sections below form an integral part of the 2011 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 5 of the annual consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework. The framework is designed to actively monitor all current and emerging risks on a continuous basis, and to provide the Board with timely periodic updates on its risk management practices and economic capital requirements. This framework sets out the Company's approach for identifying, assessing, managing and reporting risk including the establishment of roles, responsibilities, processes and tools to be used in relation to the Company's appetite for risk as established by the Board. The Risk and Capital Committee ("RCC") of the Board of Directors assists the Board in fulfilling its oversight and governance responsibilities for the management of the Company's core and emerging risks and the adequacy of its capital plan. At present, the RCC is comprised of the Chairs of the Board of Directors, Investment Committee, Audit Committee, and Human Resources and Compensation Committee and meets quarterly with the Chief Executive Officer and the Chief Risk Officer.

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

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

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

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

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

Credit Risk Management

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

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

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

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

The Company also invests in preferred share securities to generate returns that meet an acceptable ROE threshold. These securities represent a potential source of liquidity to the Company. However, such investments expose the Company to credit risk if the issuer of the preferred shares cannot make dividend payments, or in the worst case scenario, if the issuer

becomes insolvent. To limit the exposure to credit risk, the Company establishes policies with exposure limits by credit rating and investment type. Securities rated P-2 and higher comprised 74.8% of the preferred share equity securities portfolio at December 31, 2011, compared to 66.1% a year earlier.

The Company's rating scale for the credit quality of its counterparties is based on both internal and external credit grading systems. Table 21 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 and is meant to provide an indication of the risk that a borrower will not fulfill its full obligations in a timely manner. 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.

Table 21: Credit risk exposure ratings scale

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

Management has assessed the credit quality of the Company's assets as at December 31, 2011 and 2010, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Company's credit risk exposure rating scale.

Table 22: Asset credit quality

	Neither past due nor impaired						2011
($ THOUSAND)	Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	Total
Cash and cash equivalents	$ 170,845	$ -	$ -	$ -	$ -	$ -	$ 170,845
Restricted cash	83,156	-	-	-	-	-	83,156
Investments:							
Debt securities[1]	157,544	-	-	-	-	-	157,544
Equity securities - preferred shares	148,394	49,529	322	-	-	-	198,245
Canada Housing Trust re - investment accounts	34,551	-	-	-	-	-	34,551
Reverse repurchase agreements	9,967	-	-	-	-	-	9,967
Mortgages receivable	702,356	3,359,532	176,085	16,527	27,297	19,650	4,262,147
Mortgages receivable - securitized	5,304,771	1,743	-	7,526	900	-	5,314,940
Other assets:							
Receivables related to securitization activities	2,630	-	-	-	-	-	2,630
Accrued interest and dividends on non-mortgage assets	734	252	-	-	-	-	986
Derivative financial instruments – hedges	36	-	-	-	-	-	36
Other	2,185						2,185
	$ 6,617,169	$ 3,411,056	$ 176,407	$ 24,053	$ 28,197	$ 19,650	$ 10,237,232

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

	Neither past due nor impaired						2010
($ THOUSANDS)	Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	Total
Cash and cash equivalents	$ 155,242	$ -	$ -	$ -	$ -	$ -	$ 155,242
Restricted cash	86,570	-	-	-	-	-	86,570
Investments:							
Debt securities[1]	137,431	-	-	-	-	-	137,431
Equity securities - preferred shares	131,670	55,199	333	-	-	-	187,202
Canada Housing Trust re-investment accounts	13,789	-	-	-	-	-	13,789
Reverse repurchase agreements	74,908	-	-	-	-	-	74,908
Mortgages receivable	735,310	2,486,345	203,515	15,703	45,513	17,879	3,468,507
Mortgages receivable - securitized	4,733,273	1,714	309	15,196	1,526	3,224	4,748,794
Other assets:							
Receivables related to securitization activities	825	-	-	-	-	-	825
Accrued interest and dividends on non-mortgage assets	529	225	-	-	-	-	754
Derivative financial instruments – securitization activities	537	-	-	-	-	-	537
	$ 6,070,084	$ 2,543,483	$ 204,157	$ 30,899	$ 47,039	$ 21,103	$ 8,874,559

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

Collateral held as security

All mortgages are secured by real estate property in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated except when a mortgage is individually assessed as impaired. At December 31, 2011, the appraised values of collateral held for mortgages past due but not impaired, as determined when the mortgages were originated, was $30.1 million (2010 - $37.4 million). For impaired mortgages, the most recent appraised value of collateral at December 31, 2011 was $43.0 million (2010 - $58.2 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, 2011 amounted to $0.2 million (2010 - $1.1 million) and are included in Other Assets (Note 12). The Company does not use the real estate obtained through foreclosure for its own operations.

The Company does not hold collateral against investments in debt and equity securities, however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by owner. The Company has a commitment to return collateral to the counterparty in accordance with the terms and conditions stipulated by the master repurchase agreement. At December 31, 2011, the fair value of securities received under reverse repurchase agreements that have been sold to facilitate hedging transactions was $15.1 million (2010 - $14.5 million).

Concentration risk

Concentration of credit exposure may arise when a group of counterparties have similar economic characteristics such as property type or are located in the same geographical region. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. Management believes that it is adequately diversified by borrower, property type, and geography. See Table 6 earlier in the MD&A for a breakdown of mortgage principal outstanding by property type.

The Company's mortgage portfolio includes $5.6 billion (2010 - $4.8 billion) of mortgages secured by properties located in the Province of Ontario, $1.4 billion (2010 - $1.2 billion) of mortgages secured by properties located in the Province of Alberta, and $1.3 billion (2010 - $1.2 billion) of mortgages secured by properties located in the Province of Quebec. As at December 31, 2011, mortgages secured by properties located in Ontario represented 58.3% (2010 - 58.4%), Alberta 14.9% (2010 - 14.7%), and Quebec 13.1% (2010 - 14.1%), of the Company's total mortgage principal outstanding.

Funding and Liquidity Risk Management

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

The Board of Directors defines the Company's funding and liquidity risk tolerance, based on recommendations made by the Investment Committee of the Board, the Risk and Capital Committee of the Board and the Enterprise Risk Management Committee of the Company. The Board of Directors reviews and approves the limits to measure and control funding and liquidity risk at least annually. The Board of Directors and its committees also review, on a regular basis, the Company's liquidity position and risks.

The Company's ALCO has management oversight responsibility for funding and liquidity risk management and reporting. The Company also maintains a Treasury Committee ("TC") that reviews liquidity reports daily and reports to the ALCO. The ALCO reviews positions regularly and recommends changes to limits when necessary to the ERM Committee and the Board of Directors.

The treasury function is responsible for measuring, managing and reporting structural liquidity risk and contingent liquidity risk, as well as managing the liquidity portfolio. This group also monitors longer-term liquidity needs, primarily through

rigorous stress testing. It also maintains a Contingency Funding Plan, which would guide the Company's actions and responses to a potential liquidity crisis. Treasury reports liquidity indicators weekly, which include the Company's overall liquidity and funding position (including limit reporting) and industry liquidity stress indicators.

The Company has a very low tolerance for funding and liquidity risk. It has established a variety of limit-based measures, metrics and stress tests to avoid a liquidity event. The Company adheres to a liquidity and funding risk management policy that requires it to maintain a pool of high quality liquid assets, and specifies parameters for asset eligibility, liquidity portfolio composition criteria, minimum liquidity ratios, the measurement and forecast of cash flows, liquidity stress testing and an approved contingency plan. The Company's liquidity position and adherence to the requirements of this policy are monitored daily by management, and reported quarterly to the Investment Committee of the Board of Directors. Any exceptions to established limits are reported immediately to the appropriate internal governance committee or the Board.

It is the Company's policy to maintain a minimum of 21% of estimated 100-day obligations and 7.5% of adjusted total assets, in liquidity assets. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. The Company was in compliance with its Liquidity and Funding Risk Management Policy at December 31, 2011 and at the date of this report.

Table 23: Assets held for liquidity protection

($ THOUSANDS)

	Policy minimum	**2011**	2010
Liquidity assets held		**$ 585,854**	$ 612,410
Liquidity assets as a % of estimated 100-day obligations[1]	**21.0%**	**48.2%**	66.2%
Liquidity assets as a % of adjusted total assets[1][2]	**7.5%**	**12.4%**	15.8%

[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.*

[2] *Adjusted total assets are total assets less assets held for liquidity protection and securitized mortgages (excluding those held as liquid assets).*

As defined in the Company's Liquidity and Funding Risk Management Policy, the stress analysis model considers scenarios that incorporate institution-specific and financial market disruptions. These scenarios model over a one-year period such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an immediate redemption of notice deposits. In each scenario, the Company must hold sufficient liquid assets combined with deposit raising capacity to meet all obligations for a period of one year while maintaining normal business activities. In order to establish these scenarios, the Company assesses deposit raising capacity and establishes assumptions related to the cash flow behavior of each type of asset and liability. For all scenarios that comprised Equitable's liquidity stress testing conducted during 2011, the Company held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period.

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

Table 24: Contractual obligations

		Payments due by period			
($ THOUSANDS)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
GIC principal and interest[1]	$ 4,782,348	$ 3,138,848	$ 1,259,695	$ 383,805	$ -
Securitization liabilities principal and interest[1]	5,717,849	482,855	2,867,318	1,255,422	1,112,254
Subordinated debentures principal and interest[1]	80,202	3,378	6,755	6,752	63,317
Bank term loans principal and interest[1]	12,667	12,667	-	-	-
Other liabilities	28,217	28,217	-	-	-
Total 2011 contractual obligations	$ 10,621,283	$ 3,665,965	$ 4,133,768	$ 1,645,979	$ 1,175,571
Total 2010 contractual obligations	$ 9,331,719	$ 2,676,346	$ 3,190,890	$ 2,507,201	$ 957,282

[1] *The balance for financial liabilities will not agree with those in our consolidated balance sheets 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, 2011 and 2010.

Interest Rate Risk Management

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at December 31, 2011, see Note 24 to the consolidated financial statements.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters. The Company's primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not significantly affect the Company's net interest income and its economic value of equity ("EVE"). EVE is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

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

The Company has established robust governance structures and management processes to monitor its interest rate exposures and hedges. Management uses simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on EVE and on net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages.

The table below illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and net interest income during the 12-month periods following December 31, 2011. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change.

Table 25: Interest rate shock

($ THOUSANDS)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 4,863	$ (3,074)
Impact on EVE	$ 268	$ (74)
EVE impact as a % of common shareholders' equity	0.1%	- %
200 basis point shift		
Impact on net interest income	$ 10,851	$ (3,074)
Impact on EVE	$ 953	$ (5,045)
EVE impact as a % of common shareholders' equity	0.3%	(1.3%)

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

Operational Risk

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

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

The Company has an Operational Risk Management Policy that is approved by the ERM Committee, RCC Committee and the Board of Directors. This policy is supported by other policies, procedures and programs designed to mitigate operational risk. The ERM Committee is responsible for monitoring operational risk. Business units are responsible for managing the Company's operational risk in accordance with approved policies and procedures, and reporting on operational risk to the ERM Committee.

Changes to laws and regulations, including changes in their interpretation or application, could affect the Company, limiting the products or services it may provide and increasing the ability of competitors to compete with Equitable's products or services. Failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact earnings and damage the Company's reputation. Management undertakes reasonable and prudent measures designed to achieve compliance with governing laws and regulations including Equitable's legislative compliance management framework.

Control/Management Risk

Control/management risk is the possibility that the Company could experience control or management deficiencies due to limitations typically found in smaller institutions that may have insufficient resources and capacities to establish appropriate governance systems and controls.

Equitable's operations depend on the abilities, experience and efforts of management and other key employees. Should any of these persons be unable or unwilling to continue in their employment, this could potentially have a material adverse effect on the business, financial condition and results of the operations of the Company.

Business Risk

Business risk is the possibility that an unfavourable development will lead to an operating result that varies from the expected result for the current year and beyond.

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

The Company's business model does not use retail branches to originate GICs or mortgages. Equitable Trust relies on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada (IIROC) and the Registered Deposit Brokers Association ("RDBA") to distribute its deposit products. Mortgage

originations depend on a network of independent mortgage brokers, mortgage brokerage firms and other mortgage banking organizations. Under adverse circumstances, it may be difficult to attract new deposits from agents or mortgage business from brokers to sustain current operating requirements. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company.

Strategic Risk

Strategic risk is defined as the possibility that the Company's ability to implement its strategy successfully over the next three to five years will be affected by changes in the business environment, technological limitations, adverse business decisions, unsuccessful implementation of decisions or lack of responsiveness to changes in the business environment.

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

Reputational Risk

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

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2011. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the framework established by the Committee of Sponsoring Organizations of the Treadway Commission for Smaller Businesses ('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, 2011.

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 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- Tangible common equity ("TCE"): a key measure of capital strength that is defined as shareholder's equity less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets.
- Taxable equivalent basis ("TEB"): the presentation of financial information on a TEB is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the December 31, 2011, the TEB adjustment was $3.8 million compared to $5.3 million a year earlier.
- Adjusted net income: the Company reports adjusted net income figures to remove the impact of fair value fluctuations with respect to the Company's securitization derivatives from year-over-year comparisons. Adjusted net income is also used as the basis for calculating adjusted ROE and adjusted EPS.

From time to time, the Company may also utilize other non-GAAP financial measures to reflect circumstances where management separates and discloses non-recurring items from results that have otherwise been reported, in order to more accurately represent the underlying, recurring business performance.

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include the commitments it makes to fund its pipeline of mortgage originations and letter of credits issued in the normal course of business (see Note 22 to consolidated financial statements).

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, The Equitable Trust Company ("Equitable Trust"). 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 Trust, is federally regulated under the Trust and Loan Companies Act (Canada) by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of Equitable Trust 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 28, 2012

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, 2011, December 31, 2010, and January 1, 2010, the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, 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, 2011, December 31, 2010, and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

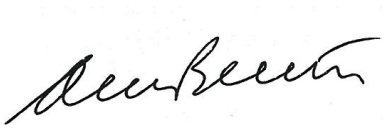
February 28, 2012

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash and cash equivalents *(Note 7)*	**$ 170,845**	$ 155,242	$ 389,170
Restricted cash *(Note 7)*	**83,156**	86,570	25,372
Investments *(Note 8)*	**400,307**	413,330	302,292
Mortgages receivable *(Note 9)*	**4,262,147**	3,468,507	2,763,020
Mortgages receivable – securitized *(Notes 9 & 10)*	**5,314,940**	4,748,794	4,137,247
Other assets *(Note 12)*	**25,618**	11,686	15,191
	$ 10,257,013	$ 8,884,129	$ 7,632,292
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits *(Note 13)*	**$ 4,627,904**	$ 3,878,853	$ 3,332,319
Securitization liabilities *(Note 10)*	**5,100,921**	4,531,680	3,885,187
Deferred tax liabilities *(Note 14)*	**7,790**	7,086	5,191
Other liabilities *(Note 15)*	**28,587**	19,884	14,959
Bank term loans *(Note 16)*	**12,500**	12,500	27,500
Subordinated debentures *(Note 17)*	**52,671**	52,671	37,671
	9,830,373	8,502,674	7,302,827
Shareholders' equity:			
Preferred shares *(Note 18)*	**48,494**	48,494	48,494
Common shares *(Note 18)*	**129,771**	128,068	127,336
Contributed surplus *(Note 19)*	**4,718**	3,935	3,267
Retained earnings	**254,006**	202,187	155,890
Accumulated other comprehensive loss	**(10,349)**	(1,229)	(5,522)
	426,640	381,455	329,465
	$ 10,257,013	$ 8,884,129	$ 7,632,292

See accompanying notes to consolidated financial statements.



Austin Beutel
Chairman

Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	2011	2010
Interest income:		
Mortgages	$ 206,987	$ 178,114
Mortgages – securitized	213,604	199,980
Investments	10,307	8,683
Other	4,403	3,235
	435,301	390,012
Interest expense:		
Deposits	115,314	96,462
Securitization liabilities *(Note 10)*	181,694	168,796
Bank term loans	812	2,059
Subordinated debentures	3,493	2,626
Other	217	120
	301,530	270,063
Net interest income	133,771	119,949
Provision for credit losses *(Note 9)*	7,183	9,748
Net interest income after provision for credit losses	126,588	110,201
Other income:		
Fees and other income	3,545	3,003
Net gain on investments	144	230
	3,689	3,233
Net interest and other income	130,277	113,434
Non-interest expenses:		
Compensation and benefits	22,856	18,632
Other *(Note 12)*	22,858	14,918
	45,714	33,550
Income before income taxes and fair value loss	84,563	79,884
Fair value loss on derivative financial instruments – securitization activities	(648)	(7,544)
Income before income taxes	83,915	72,340
Income taxes *(Note 14):*		
Current	21,026	16,004
Deferred	703	443
	21,729	16,447
Net income	$ 62,186	$ 55,893
Earnings per share *(Note 20)*:		
Basic	$ 3.91	$ 3.50
Diluted	$ 3.88	$ 3.48

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	2011	2010
Net income	**$ 62,186**	$ 55,893
Other comprehensive (loss) income:		
Available for sale investments:		
Net unrealized gains from change in fair value	**1,470**	4,854
Reclassification of net (gains) losses to income	**(385)**	1,328
	1,085	6,182
Income tax expense	**(304)**	(1,889)
	781	4,293
Cash flow hedges *(Note 11)*:		
Net unrealized losses from change in fair value	**(13,684)**	-
Reclassification of net gains to income	**(77)**	-
	(13,761)	-
Income tax recovery	**3,860**	-
	(9,901)	-
Total other comprehensive (loss) income	**(9,120)**	4,293
Total comprehensive income	**$ 53,066**	$ 60,186

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

2011	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, beginning of year	**$ 48,494**	**$ 128,068**	**$ 3,935**	**$ 202,187**	**$ (1,229)**	**$ 381,455**
Net income	**-**	**-**	**-**	**62,186**	**-**	**62,186**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(9,120)**	**(9,120)**
Contributions from reinvestment of dividends	**-**	**582**	**-**	**-**	**-**	**582**
Contributions from exercise of stock options	**-**	**943**	**-**	**-**	**-**	**943**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(3,625)**	**-**	**(3,625)**
Common shares	**-**	**-**	**-**	**(6,742)**	**-**	**(6,742)**
Stock-based compensation	**-**	**-**	**961**	**-**	**-**	**961**
Transfer relating to the exercise of stock options	**-**	**178**	**(178)**	**-**	**-**	**-**
Balance, end of year	**$ 48,494**	**$ 129,771**	**$ 4,718**	**$ 254,006**	**$ (10,349)**	**$ 426,640**

2010	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of year	$ 48,494	$ 127,336	$ 3,267	$ 155,890	$ (5,522)	$ 329,465
Net income	-	-	-	55,893	-	55,893
Other comprehensive income, net of tax	-	-	-	-	4,293	4,293
Contributions from reinvestment of dividends	-	357	-	-	-	357
Contributions from exercise of stock options	-	318	-	-	-	318
Dividends:						
Preferred shares	-	-	-	(3,625)	-	(3,625)
Common shares	-	-	-	(5,971)	-	(5,971)
Stock-based compensation	-	-	725	-	-	725
Transfer relating to the exercise of stock options	-	57	(57)	-	-	-
Balance, end of year	$ 48,494	$ 128,068	$ 3,935	$ 202,187	$ (1,229)	$ 381,455

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 62,186**	$ 55,893
Adjustments to determine cash flows relating to operating activities:		
Financial instruments at fair value through income	**2,857**	1,875
Depreciation of capital assets	**712**	609
Provision for credit losses	**7,183**	9,748
Net (gain) loss on sale or redemption of investments	**(144)**	2,504
Income taxes	**21,729**	16,447
Income taxes paid	**(18,280)**	(16,329)
Stock-based compensation	**961**	725
Amortization of premiums/discounts on investments	**3,273**	1,980
Net increase in mortgages receivable	**(1,363,900)**	(1,326,268)
Net increase in deposits	**749,051**	546,534
Net change in securitization liability	**569,241**	646,493
Net interest income, excluding non-cash items	**(176,923)**	(151,571)
Interest paid	**(264,312)**	(237,976)
Other assets	**(28,756)**	(417)
Other liabilities	**5,981**	5,701
Interest received	**431,207**	380,042
Dividends received	**10,028**	9,505
Cash flows from (used in) operating activities	**12,094**	(54,505)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank term loan	**-**	(15,000)
Issuance of subordinated debentures	**-**	20,000
Redemption of subordinated debentures	**-**	(5,000)
Dividends paid on preferred shares	**(3,625)**	(3,625)
Dividends paid on common shares	**(5,853)**	(5,610)
Proceeds from issuance of common shares	**943**	318
Cash flows used in financing activities	**(8,535)**	(8,917)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(138,934)**	(524,988)
Proceeds on sale or redemption of investments	**105,730**	371,777
Net change in Canada Housing Trust re-investment accounts	**(20,762)**	(10,381)
Purchase of investments under reverse repurchase agreements	**(191,343)**	(364,189)
Proceeds on sale or redemption of investments purchased under reverse repurchase agreements	**256,284**	419,002
Change in restricted cash	**3,414**	(61,198)
Purchase of capital assets	**(2,345)**	(529)
Cash flows from (used in) investing activities	**12,044**	(170,506)
Net increase (decrease) in cash and cash equivalents	**15,603**	(233,928)
Cash and cash equivalents, beginning of year	**155,242**	389,170
Cash and cash equivalents, end of year	**$ 170,845**	$ 155,242

See accompanying notes to consolidated financial statements.

Note 1 – Reporting Entity

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, The Equitable Trust Company ("Equitable Trust"). The Company is domiciled in Canada with its registered office located at 30 St. Clair Avenue West, Suite 700, Toronto, Ontario. Equitable Trust is federally regulated under the Trust and Loan Companies Act (Canada) by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company operates principally in one industry segment as a deposit-taking institution investing in mortgages.

Note 2 – Statement of Compliance

The consolidated financial statements of Equitable Group Inc. have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), as published by the International Accounting Standards Board (“IASB”). These are the Company’s first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”) has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in the Management’s Discussion and Analysis on pages 8 and 9 and in Note 4 to these financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2012.

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 and in preparing the opening IFRS consolidated balance sheet as at January 1, 2010 for purposes of the transition to IFRS.

(a) Basis of presentation and measurement:

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Trust, after the elimination of intercompany transactions and balances. The Company has control of Equitable Trust since it has the power, directly or indirectly, to govern its financial and operating policies so as to obtain benefit from its activities.

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 designated as at fair value through income and available for sale financial assets.

(b) Functional currency:

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

(c) 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 impairment of financial

Note 3 – Significant Accounting Policies (continued)

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

(d) 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, investments purchased under reverse repurchase agreements, investments, mortgages receivable and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, derivative financial instruments, obligations under repurchase agreements, bank term loans and subordinated debentures.

(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 if they are designated by management under the fair value option. They are carried at fair value and the related realized and unrealized gains and losses are recognized in the consolidated statements of income.

Classified as held for trading

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

Designated as at fair value through income

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

Net income from financial instruments designated as at fair value through income relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and

Note 3 – Significant Accounting Policies (continued)

financial assets and liabilities designated as at fair value through income, and includes all realized and unrealized fair value changes and is recognized in the consolidated statements of income.

Held to maturity

Financial assets 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 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 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 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, net of income taxes. When the instrument is derecognized, the cumulative gain or loss in other comprehensive income 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 amount of consideration for which the financial instruments would be exchanged in an arm's-length transaction between knowledgeable parties who are under no compulsion to act.

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 refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques. See Note 6 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(iii) Derecognition:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial 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

Note 3 – Significant Accounting Policies (continued)

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 other comprehensive income is recognized in income.

The Company securitizes insured residential mortgages through the creation of mortgage backed securities ("MBS") and sells the MBS to third party investors. The transactions do not qualify for derecognition as the Company has not transferred all its rights to receive the cash flows from the asset and the Company has not assumed an obligation to pay the cash flows from the asset under a pass-through arrangement. The transactions are accounted for as secured financing.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet 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, 2011 Management's Discussion and Analysis and Note 5 to these consolidated financial statements.

(e) Interest:

Interest income and interest expense for all financial instruments not designated as at fair value 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.

(f) 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 date of purchase is less than three months. Interest earned on cash and cash equivalents is included in interest income − other in the consolidated statements of income. These short-term investments are carried at amortized cost plus accrued interest, which approximates fair value.

(g) Investments:

Investments have been designated as available for sale, are accounted for at settlement date, and are reported on the consolidated balance sheets at fair value. Unrealized gains and losses, net of income taxes, are reported in other comprehensive income, until the investment is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to income.

Investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. If there is impairment, any write-down to net realizable value is reported in

Note 3 – Significant Accounting Policies (continued)

income. Gains and losses realized on sale or redemption and impairment write-downs are recorded in other income in the consolidated statements of income.

For debt securities, where an impairment loss subsequently reverses, the carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously. The amount of the reversal is recorded in other income in the consolidated statements of income. Impairment losses on equity securities are not subsequently reversed through net income.

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 equity securities. The fair values of investments are generally based on quoted market prices.

(h) Investments purchased under reverse repurchase agreements:

Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada guaranteed debt securities by the Company transacted with a simultaneous agreement to sell the assets back at a specified price on a specified future date, which is generally short term. These investments are held on the consolidated balance sheets at amortized cost, plus accrued interest, which approximates its fair value. The interest income related to these investments is recorded on an accrual basis and is included in interest income − investments.

(i) Mortgages receivable:

Classification

(i) Mortgages receivable designated 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) Other 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.

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. This impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. Interest continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the individual impairment allowance related to the impaired mortgage. Mortgage losses are recorded when the proceeds from realization of the security are less than the carrying amount of the mortgage. In

Note 3 – Significant Accounting Policies (continued)

subsequent periods, recoveries of amounts previously written off and any increase in the net carrying value of the mortgages is credited to the allowance for credit losses on the consolidated balance sheets.

Held-for-sale foreclosed assets in settlement of an impaired loan 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 initially estimated realizable amount of the assets is recorded in provision for credit losses 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.

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

Collective allowance

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

(k) Securitized mortgages and securitization liabilities:

In the normal course of business, the Company securitizes Government of Canada guaranteed residential mortgages facilitated by Canada Mortgage and Housing Corporation ("CMHC") through the Government of Canada's National Housing Act ("NHA") Mortgages Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs. 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 sale of MBS through the NHA MBS and CMB programs does not qualify for derecognition and the mortgages continue to be accounted for amortized cost, plus accrued interest, using the effective interest rate method, and are reported net of unamortized origination fees, commitment income and premiums or discounts, on the consolidated balance sheets. These mortgages are reclassified as securitized mortgages on the consolidated balance sheets upon securitization. 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 - securitized in the consolidated statements of income.

Note 3 – Significant Accounting Policies (continued)

In addition, these transactions are considered secured financing and result in the recognition of securitization liabilities when cash is received from the securitization entities. Securitization liabilities are recorded at amortized cost, plus accrued interest, using the effective interest rate method, 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.

(l) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are short sale and repurchase agreements, interest rate swaps and bond forward agreements. Short sale and repurchase agreements and interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposure resulting from 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 incurred.

Hedge accounting – 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, 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.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. The change in the fair value of the hedging item will be recorded on the consolidated balance sheet under accumulated other comprehensive income ("AOCI") as either deferred gains or losses during the hedge term only to the extent of the effective portion of the hedge. Any ineffectiveness in the hedging relationship is recognized in fair value gain or loss on derivative financial instruments – securitization activities in the consolidated statement of income as it arises. Additionally, all gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the consolidated statement of income under fair value gain or loss on derivative financial instruments – securitization activities.

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

For cash flow hedges that are discontinued before the end of the original hedge term, the unrealized gain or loss recorded in other comprehensive income is amortized to fair value gain or loss on derivative financial instruments – securitization activities, in the consolidated statement of income as the hedged item affects income. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in fair value gain or loss on derivative financial instruments – securitization activities, in the consolidated statement of income.

Fair value hedges

The Company has entered into interest rate swap agreements and short sale and repurchase agreements of Government of Canada guaranteed debt securities to manage interest rate exposures on certain mortgages designated as at fair value through income. The Company has also entered into interest rate swap agreements to manage interest rate exposures on

Note 3 – Significant Accounting Policies (continued)

Guaranteed Investment Certificates ("GICs") used to fund floating rate mortgages. The Company does not currently apply hedge accounting to these derivative instruments.

The fair value of interest rate swap agreements used to manage interest rate exposures for mortgages designated as at fair value through income are included in Other Liabilities (Note 15) with changes in fair value recorded in interest income – mortgages. Changes in the fair value of mortgages designated as at fair value through income are also included in interest income – mortgages.

The fair value of short sale and repurchase agreements used to manage interest exposures for mortgages designated as at fair value through income are included in Other Liabilities (Note 15) with changes in fair value recorded in interest income – mortgages. Changes in the fair value of mortgages designated as at fair value through income are also included in interest income – mortgages.

The fair value of interest rate swap agreements used to manage interest rate exposures for GICs used to fund floating rate mortgages are included in Other Assets (Note 12) with changes in fair value recorded in interest expense – deposits. Changes in the fair value of GICs designated as at fair value through income are also included in interest expense – deposits.

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

(m) Employee benefits:

(i) Deferred profit sharing plan

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

(ii) 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.

(iii) Share-based payments

The Company has a stock option plan for directors and eligible employees of Equitable Trust. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares on the date prior to the date the options were granted. As a matter of practice, commencing in 2009, the Company no longer awards grants of options to non-management directors. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and amortized separately. Expected forfeitures 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 the consolidated statements of income.

Note 3 – Significant Accounting Policies (continued)

In addition to the stock option plan, the Company has a Deferred Share Unit ("DSU") plan for directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in Other Liabilities in the consolidated balance sheets. The change in the obligation attributable to the change in stock price and dividends paid on common shares is recognized in compensation expense in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of the Company on the Toronto Stock Exchange ("TSX") for the five trading days prior to the date the individual ceases to be a director.

(n) 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 equity or in other comprehensive income.

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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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.

(o) 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 shorter of remaining term of the lease and their useful life.

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

Note 3 – Significant Accounting Policies (continued)

(p) 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.

(q) Deposits:

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

(r) Obligations under repurchase agreements:

Investments sold under repurchase agreements represent a sale 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. Interest expense relating to repurchase agreements is recorded in interest expense – other in the consolidated statements of income.

(s) Bank term loans and subordinated debentures:

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

(t) 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.

(u) 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.

(v) 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

Note 3 – Significant Accounting Policies (continued)

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.

(w) Liability provisions:

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

(x) Future accounting changes:

(i) IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") was amended by the IASB in October 2010. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. The amendments comprise additional disclosures on transfer transactions of financial assets. These amendments will not have an impact on the results of operations of the Company as they are disclosure requirements only.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iii) IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 sets out in a single IFRS framework the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied.

Note 4 – Transition to IFRS

As stated in Note 2, the Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with previous Canadian GAAP. The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010, and in the preparation of the opening IFRS consolidated balance sheet at January 1, 2010 (the date of transition to IFRS).

In preparing its opening IFRS consolidated balance sheet, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables in this section and the notes that accompany the tables.

Note 4 – Transition to IFRS (continued)

The Company applied all effective IFRS standards as of December 31, 2011 in accordance with IFRS 1 in the preparation of the annual consolidated financial statements. IFRS 1 also provides for certain optional and mandatory exceptions for first-time IFRS adopters.

Initial elections upon adoption

(i) Designation of previously recognized financial instruments

The Company elected to re-designate mortgage commitments (previously fair-valued) as well as mortgages held for securitization, which were previously designated as held for trading, as loans and receivables.

Mandatory exceptions from retrospective application

(i) Derecognition of financial assets and financial liabilities

IFRS 1 provides an election that allows entities to apply the derecognition requirements in IAS 39 prospectively for transactions occurring on or after January 1, 2010. The Company has elected to retrospectively apply the derecognition requirements for securitization transactions as directed by OSFI.

(ii) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date of January 1, 2010 to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were fair valued and recorded in the consolidated balance sheets as a non-hedging derivative financial instrument. The Company did not apply hedge accounting under Canadian GAAP.

(iii) Estimates

Hindsight is not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Note 4 – Transition to IFRS (continued)

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

The Company is required under IFRS 1 to provide the following reconciliations from previous Canadian GAAP to IFRS for its shareholders' equity, net income and comprehensive income.

RECONCILIATION OF SHAREHOLDERS' EQUITY

($ THOUSANDS)

	Note	As at December 31, 2010	As at January 1, 2010
Shareholders' equity reported under previous Canadian GAAP		$ 423,462	$ 373,861
Differences increasing (decreasing) reported shareholders' equity:			
Securitization activities	i	(56,161)	(58,425)
Interest on non-performing mortgages	ii	3,124	1,302
Provision for credit losses	ii	(3,224)	(1,302)
Leases	iii	(294)	(304)
Income taxes	iv	14,548	14,333
Shareholders' equity reported under IFRS		$ 381,455	$ 329,465

RECONCILIATION OF NET INCOME

($ THOUSANDS)

	Note	Year ended December 31, 2010
Net income reported under previous Canadian GAAP		$ 54,267
Differences increasing (decreasing) reported net income:		
Securitization activities	i	1,164
Interest on non-performing mortgages	ii	1,822
Provision for credit losses	ii	(1,922)
Leases	iii	10
Income taxes	iv	552
Net income reported under IFRS		$ 55,893

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

	Note	Year ended December 31, 2010
Comprehensive income reported under previous Canadian GAAP		$ 57,796
Differences increasing (decreasing) reported comprehensive income:		
Differences in net income		1,626
Securitization activities	i	1,100
Income taxes	iv	(336)
Comprehensive income reported under IFRS		$ 60,186

Note 4 – Transition to IFRS (continued)

Notes to the Above Reconciliations

(i) Securitization activities

The Company securitizes Government of Canada guaranteed residential mortgages through the creation of MBS. These MBS are sold through the NHA MBS and CMB programs.

Previous Canadian GAAP

The Company accounted for securitization transactions as sales when control over the mortgages had been surrendered and consideration, in addition to beneficial interests in the transferred mortgages, had been received in exchange. At the time of sale, a gain was recognized based on the Company's best estimate of the net present value of expected future cash flows, primarily the retained interests, net of an estimate for the cost of servicing obligations as the Company retained the responsibility for servicing the mortgages. Retained interests were classified as available for sale assets and were stated at their fair value at the date of transfer with unrealized changes in fair value reported in other comprehensive income, net of income tax. The servicing liabilities were included with Other Liabilities and stated originally at their fair value and amortized into income over the term of the securitized mortgages.

IFRS

The difference in accounting treatment between previous Canadian GAAP and IFRS for these securitization transactions has resulted in the following adjustments to the Company's consolidated financial statements:

- The sale of MBS through the NHA MBS and CMB programs does not qualify for derecognition under IFRS as the Company has not transferred all its rights to receive the cash flows from the assets and the Company has not assumed an obligation to pay the cash flows from the assets under a pass-through arrangement. As such, the securitized mortgages are accounted for in the same manner as non-securitized mortgages, remaining on the consolidated balance sheets at amortized cost, with interest income recognized in the consolidated statements of income.
- Gains and losses on securitizations previously recognized in net income under previous Canadian GAAP have been reversed under IFRS.
- Retained interests recognized on the consolidated balance sheets under previous Canadian GAAP have been removed from the consolidated balance sheets under IFRS.
- Amortization of retained interests recognized in net income under previous Canadian GAAP has been reversed under IFRS.
- Unrealized changes in fair value of retained interests recognized in other comprehensive income under Canadian GAAP have been reversed under IFRS.
- The servicing liability included in Other Liabilities on the consolidated balance sheets under previous Canadian GAAP has been removed from the consolidated balance sheets under IFRS.
- Amortization of the servicing liability recognized in net income under previous Canadian GAAP has been reversed under IFRS.
- MBS issued by the Company but not yet sold to third parties were reclassified to securitized residential mortgages from available for sale securities under Canadian GAAP. Unrealized changes in fair value recognized in accumulated other comprehensive income were reversed under IFRS.
- Interest income earned on the securitized mortgages not previously recognized under previous Canadian GAAP has been recognized in net income under IFRS.
- Securitization transactions are accounted for as secured financings (not recognized under previous Canadian GAAP).

Note 4 – Transition to IFRS (continued)

- An obligation to repay the funding received in the securitization transaction is recognized on the consolidated balance sheets as securitization liabilities and the related interest expense is recognized in the consolidated statements of income.
- Interest expense on the securitization liabilities not recognized under previous Canadian GAAP has been recognized in net income under IFRS.
- Transaction costs that formed part of the gain or loss on securitization under previous Canadian GAAP have been capitalized and recognized in interest income and expense under IFRS using the effective interest rate method.
- Accumulated interest cash flows from MBS sold through the CMB Program, not yet paid to the CMB investor, are recognized on the Company's consolidated balance sheets as part of restricted cash. Interest earned on these accumulated interest cash flows are recorded in interest income – other.
- Accumulated principal cash flows from MBS sold through the CMB Program, invested in non-Company issued securities are recognized on the Company's consolidated balance sheets as part of investments ("Canada Housing Trust – re-investment accounts"). Interest earned on Canada Housing Trust – re-investment accounts is recorded in interest income – investments in the Company's statements of income.

Adjustments related to securitization transactions occurring before the date of transition have been adjusted through retained earnings or accumulated other comprehensive income in the consolidated balance sheet of the Company as at January 1, 2010. Adjustments related to securitization transactions occurring on or after the date of transition and up to December 31, 2010 have been reflected in the consolidated statements of comprehensive income.

The overall impact of the difference in accounting treatment between previous Canadian GAAP and IFRS for these securitization transactions results in differences as to the timing of the recognition of income. Ultimately, on maturity of each securitization pool, the same cumulative total amount of income will have been recognized in shareholders' equity under both previous Canadian GAAP and IFRS.

(ii) Accrued interest on non-performing mortgages

Previous Canadian GAAP

The Company suspended the accrual of interest when a mortgage became non-performing. Interest that was subsequently recovered was recognized at the time of recovery, but only after prior write-offs and provision for losses had been recovered, provided there was no further doubt as to the collectability of principal.

IFRS

Interest on non-performing mortgages continues to be accrued. Consequently, the Company may set up individual allowances against the accrued interest receivable on these non-performing mortgages.

An adjustment from Canadian GAAP to IFRS has been made to retained earnings as at January 1, 2010 to reflect accrued interest on non-performing mortgages up to the date of transition. Interest on non-performing mortgages subsequent to the date of transition has been recognized in net income.

Note 4 – Transition to IFRS (continued)

(iii) Leases

Previous Canadian GAAP

Lease payments were expensed as incurred with lease inducements amortized on a straight-line basis over the lease term.

IFRS

Lease payments and lease inducements expected at the inception of the lease are amortized on a straight-line basis over the lease term.

An adjustment from previous Canadian GAAP to IFRS has been made to retained earnings as at January 1, 2010 to reflect the lease expense up to the date of transition. Additional lease expense subsequent to the date of transition has been recognized in net income in the relevant period.

(iv) Income tax effects related to share issuance costs

Previous Canadian GAAP

Income taxes were recognized in a manner consistent with the underlying transaction when the transaction occurs within the same period as the income tax effects are being recognized. However, when the income taxes were being recognized in a subsequent period, they were charged to the income statement. Future tax benefits related to share issuance costs were recorded as part of shareholders' equity. Subsequent change in future tax benefits due to change in tax rate was recognized in net income.

IFRS

Deferred taxes that are related to items that have been charged to equity in the same or different periods are charged directly to equity in a manner consistent with the underlying transaction. Deferred tax benefits related to share issuance costs are recorded as part of shareholders' equity. Subsequent changes in deferred tax benefits due to change in tax rate is also recognized as part of shareholders' equity.

An adjustment from previous Canadian GAAP to IFRS has been made to retained earnings and common and preferred shares as at January 1, 2010 to reflect the change in deferred tax benefit up to the date of transition.

Note 4 – Transition to IFRS (continued)

The following reconciliations outline the impact of IFRS transition adjustments on the consolidated balance sheets as at January 1, 2010 and December 31, 2010.

RECONCILIATION OF CONSOLIDATED BALANCE SHEET

($ THOUSANDS)

As at January 1, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Assets			
Cash and cash equivalents	$ 395,835	$ (6,665)	**$ 389,170**
Restricted cash	5,000	20,372	**25,372**
Investments	517,758	(215,466)	**302,292**
Mortgages receivable	2,763,020	–	**2,763,020**
Mortgages receivable – securitized	–	4,137,247	**4,137,247**
Securitization retained interests	147,195	(147,195)	**–**
Other assets	17,266	(2,075)	**15,191**
	$ 3,846,074	$ 3,786,218	**$ 7,632,292**
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 3,332,319	$ –	**$ 3,332,319**
Securitization liabilities	–	3,885,187	**3,885,187**
Deferred tax liabilities	19,999	(14,808)	**5,191**
Other liabilities	54,724	(39,765)	**14,959**
Bank term loans	27,500	–	**27,500**
Subordinated debentures	37,671	–	**37,671**
	3,472,213	3,830,614	**7,302,827**
Shareholders' equity:			
Preferred shares	48,523	(29)	**48,494**
Common shares	127,424	(88)	**127,336**
Contributed surplus	3,267	–	**3,267**
Retained earnings	193,635	(37,745)	**155,890**
Accumulated other comprehensive income (loss)	1,012	(6,534)	**(5,522)**
	373,861	(44,396)	**329,465**
	$ 3,846,074	$ 3,786,218	**$ 7,632,292**

Note 4 – Transition to IFRS (continued)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET

($ THOUSANDS)

As at December 31, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Assets			
Cash and cash equivalents	$ 163,797	$ (8,555)	**$ 155,242**
Restricted cash	8,965	77,605	**86,570**
Investments	644,498	(231,168)	**413,330**
Mortgages receivable	3,468,607	(100)	**3,468,507**
Mortgages receivable – securitized	–	4,748,794	**4,748,794**
Securitization retained interests	153,567	(153,567)	**–**
Other assets	14,032	(2,346)	**11,686**
	$ 4,453,466	$ 4,430,663	**$ 8,884,129**
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 3,878,853	$ –	**$ 3,878,853**
Securitization liabilities	–	4,531,680	**4,531,680**
Deferred tax liabilities	22,163	(15,077)	**7,086**
Other liabilities	63,817	(43,933)	**19,884**
Bank term loans	12,500	–	**12,500**
Subordinated debentures	52,671	–	**52,671**
	4,030,004	4,472,670	**8,502,674**
Shareholders' equity:			
Preferred shares	48,523	(29)	**48,494**
Common shares	128,156	(88)	**128,068**
Contributed surplus	3,935	–	**3,935**
Retained earnings	238,307	(36,120)	**202,187**
Accumulated other comprehensive income (loss)	4,541	(5,770)	**(1,229)**
	423,462	(42,007)	**381,455**
	$ 4,453,466	$ 4,430,663	**$ 8,884,129**

Note 4 – Transition to IFRS (continued)

The following is a reconciliation of the impact of IFRS transition adjustments on comprehensive income for the year ended December 31, 2010.

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

Year ended December 31, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Interest income:			
Mortgages	$ 176,540	$ 1,574	**$ 178,114**
Mortgages – securitized	–	199,980	**199,980**
Investments	16,029	(7,346)	**8,683**
Other	2,744	491	**3,235**
	195,313	194,699	**390,012**
Interest expense:			
Deposits	96,462	–	**96,462**
Securitization liabilities	–	168,796	**168,796**
Bank term loans	2,059	–	**2,059**
Subordinated debentures	2,626	–	**2,626**
Other	120	–	**120**
	101,267	168,796	**270,063**
Net interest income	94,046	25,903	**119,949**
Provision for credit losses	7,826	1,922	**9,748**
Net interest income after provision for credit losses	86,220	23,981	**110,201**
Other income:			
Fees and other income	2,882	121	**3,003**
Net gain on investments	230	–	**230**
Gains on securitization activities and income from retained interests	12,691	(12,691)	**–**
	15,803	(12,570)	**3,233**
Net interest income and other income	102,023	11,411	**113,434**
Non-interest expenses:			
Compensation and benefits	18,599	33	**18,632**
Other	11,979	2,939	**14,918**
	30,578	2,972	**33,550**
Income before income taxes and fair value loss	71,445	8,439	**79,884**
Fair value loss on derivative financial instruments – securitization activities	–	(7,544)	**(7,544)**
Income before income taxes	71,445	895	**72,340**
Income taxes:			
Current	16,466	(462)	**16,004**
Deferred	712	(269)	**443**
	17,178	(731)	**16,447**
Net income	$ 54,267	$ 1,626	**$ 55,893**
Net income	$ 54,267	$ 1,626	**$ 55,893**
Other comprehensive income, net of tax:			
Available for sale investments:			
Net unrealized gains from change in fair value	8,635	(5,264)	**3,371**
Reclassification of net (gains) losses to income	(5,106)	6,028	**922**
Other comprehensive income	3,529	764	**4,293**
Total comprehensive income	$ 57,796	$ 2,390	**$ 60,186**

Note 4 – Transition to IFRS (continued)

Material adjustments to the statement of cash flows for 2010

The transition from previous Canadian GAAP to IFRS resulted in certain cash flows included in financing and investing activities under previous Canadian GAAP to be reclassified to cash flows from operating activities under IFRS. In addition, the consolidated statements of cash flows have been affected by recognition of mortgages that qualified for derecognition on transfer under previous Canadian GAAP.

There are no other material differences between the consolidated statements of cash flows presented under IFRS and the consolidated statements of cash flows presented under previous Canadian GAAP.

Note 5 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 34 to 40.

Note 6 – Financial Instruments

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

(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:

Cost or amortized cost of certain financial assets and financial liabilities corresponds to a reasonable approximation of fair value. Cash and cash equivalents, restricted cash, investments purchased under reverse repurchase agreements as well as certain other 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 presented 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 where an active market is not available, fair value estimates are determined using valuation methods which refer to 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.

(v) Securitization liabilities:

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

(vi) Bank term loans and subordinated debentures:

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

(vii) Derivatives:

Fair value estimates of derivative financial instruments are determined based on commonly used pricing methodologies that incorporate observable market data.

Note 6 – Financial Instruments (continued)

The following table presents the carrying values for each category of financial assets and liabilities and their estimated fair values as at December 31, 2011 and 2010. The table does not include assets and liabilities that are not considered financial instruments.

2011	Financial instruments required to be classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 170,845	$ -	$ -	$ -	$ -	$ 170,845	$ 170,845
Restricted cash	83,156	-	-	-	-	83,156	83,156
Investments	-	-	34,551	355,789	9,967	400,307	400,307
Mortgages receivable	-	54,163	-	-	4,207,984	4,262,147	4,306,748
Mortgages receivable - securitized	-	-	-	-	5,314,940	5,314,940	5,611,687
Other assets:							
Derivative financial instruments – hedges	36	-	-	-	-	36	36
Other	-	-	-	-	5,801	5,801	5,801
Total financial assets	$ 254,037	$ 54,163	$ 34,551	$ 355,789	$ 9,538,692	$ 10,237,232	$ 10,578,580
Financial liabilities:							
Deposits	$ -	$ -	$ -	$ -	$ 4,627,904	$ 4,627,904	$ 4,674,554
Securitization liabilities	-	-	-	-	5,100,921	5,100,921	5,392,192
Other liabilities:							
Derivative financial instruments – interest rate swaps	2,808	-	-	-	-	2,808	2,808
Derivative financial instruments – securitization activities	2	-	-	-	-	2	2
Other	-	-	-	-	25,606	25,606	25,606
Bank term loans	-	-	-	-	12,500	12,500	12,577
Subordinated debentures	-	-	-	-	52,671	52,671	54,953
Total financial liabilities	$ 2,810	$ -	$ -	$ -	$ 9,819,602	$ 9,822,412	$ 10,162,692

Note 6 – Financial Instruments (continued)

2010	Financial instruments required to be classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 155,242	$ -	$ -	$ -	$ -	$ 155,242	$ 155,242
Restricted cash	86,570	-	-	-	-	86,570	86,570
Investments	-	-	13,789	324,633	74,908	413,330	413,330
Mortgages receivable		51,948			3,416,559	3,468,507	3,489,234
Mortgages receivable - securitized	-	-	-	-	4,748,794	4,748,794	4,875,896
Other assets:							
Derivative financial instruments – securitization activities	537	-	-	-	-	537	537
Other	-	-	-	-	1,579	1,579	1,579
Total financial assets	$ 242,349	$ 51,948	$ 13,789	$ 324,633	$ 8,241,840	$ 8,874,559	$ 9,022,388
Financial liabilities:							
Deposits	$ -	$ -	$ -	$ -	$ 3,878,853	$ 3,878,853	$ 3,907,152
Securitization liabilities	-	-	-	-	4,531,680	4,531,680	4,670,628
Other liabilities:							
Derivative financial instruments – interest rate swaps	331	-	-	-	-	331	331
Derivative financial instruments – hedges	63	-	-	-	-	63	63
Other	-	-	-	-	19,139	19,139	19,139
Bank term loans	-	-	-	-	12,500	12,500	12,886
Subordinated debentures	-	-	-	-	52,671	52,671	54,857
Total financial liabilities	$ 394	$ -	$ -	$ -	$ 8,494,843	$ 8,495,237	$ 8,665,056

(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 observable for the asset or liability, either directly or indirectly.

Level 3 – valuation techniques with significant unobservable market inputs.

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

Note 6 – Financial Instruments (continued)

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

2011	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 170,845	$ -	$ -	$ 170,845
Restricted cash	83,156	-	-	83,156
Investments	355,789	-	-	355,789
Mortgages receivable	-	54,163	-	54,163
Other assets:				
Derivative financial instruments – hedges	-	36	-	36
Total financial assets	$ 609,790	$ 54,199	$ -	$ 663,989
Financial liabilities:				
Other liabilities:				
Derivative financial instruments – interest rate swaps	$ -	$ 2,808	$ -	$ 2,808
Derivative financial instruments – securitization activities	-	2	-	2
Total financial liabilities	$ -	$ 2,810	$ -	$ 2,810

Note 6 – Financial Instruments (continued)

2010	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 155,242	$ -	$ -	$ 155,242
Restricted cash	86,570	-	-	86,570
Investments	324,633	-	-	324,633
Mortgages receivable	-	51,948	-	51,948
Other assets:				
Derivative financial instruments – securitization activities	-	537	-	537
Total financial assets	$ 566,445	$ 52,485	$ -	$ 618,930
Financial liabilities:				
Other liabilities:				
Derivative financial instruments – interest rate swaps	$ -	$ 331	$ -	$ 331
Derivative financial instruments – hedges	-	63	-	63
Total financial liabilities	$ -	$ 394	$ -	$ 394

Note 7 – Cash and Cash Equivalents and Restricted Cash

	2011	2010
Deposits with regulated financial institutions	**$ 170,845**	$ 155,242
Cash and cash equivalents	**$ 170,845**	$ 155,242
Restricted cash – securitization	**$ 66,991**	$ 77,605
Restricted cash – interest rate swaps	**16,165**	8,965
Restricted cash	**$ 83,156**	$ 86,570

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

Note 8 – Investments

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

	Maturities				2011	2010
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	Total carrying value	Total carrying value
Debt securities issued by regulated financial institutions	$ 45,002	$ 49,997	$ -	$ -	$ 94,999	$ 67,060
Debt securities issued by Government of Canada	-	34,145	-	-	34,145	26,213
Debt securities guaranteed by Government of Canada	-	-	14,273	14,127	28,400	44,158
Equity securities – preferred shares	12,061	9,970	2,294	173,920	198,245	187,202
Canada Housing Trust re-investment accounts	-	24,536	7,406	2,609	34,551	13,789
Investments purchased under reverse repurchase agreements	9,967	-	-	-	9,967	74,908
	$ 67,030	$ 118,648	$ 23,973	$ 190,656	$ 400,307	$ 413,330

Net unrealized gains (losses) included in the carrying value of investments held on the consolidated balance sheets are as follows:

	2011	2010
Debt securities issued by regulated financial institutions	$ (29)	$ (16)
Debt securities issued by Government of Canada	547	15
Debt securities guaranteed by Government of Canada	1,575	425
Equity securities – preferred shares	(3,412)	(2,825)
	$ (1,319)	$ (2,401)

Note 9 – Mortgages Receivable

(a) Mortgages receivable:

			Allowance for credit losses							
2011		**Gross amount**		**Individual**		**Collective**		**Total**		**Net amount**
Residential mortgages	**$**	**3,119,463**	**$**	**2,053**	**$**	**11,660**	**$**	**13,713**	**$**	**3,105,750**
Residential mortgages – securitized		**5,271,574**		**-**		**-**		**-**		**5,271,574**
Other mortgages		**1,110,153**		**1,812**		**4,005**		**5,817**		**1,104,336**
Mortgages held for securitization or for sale		**60,424**		**-**		**120**		**120**		**60,304**
Accrued interest		**35,123**		**-**		**-**		**-**		**35,123**
	$	**9,596,737**	**$**	**3,865**	**$**	**15,785**	**$**	**19,650**	**$**	**9,577,087**

			Allowance for credit losses							
2010		Gross amount		Individual		Collective		Total		Net amount
Residential mortgages	$	2,482,217	$	2,080	$	8,004	$	10,084	$	2,472,133
Residential mortgages – securitized		4,733,452		-		-		-		4,733,452
Other mortgages		873,718		7,383		3,243		10,626		863,092
Mortgages held for securitization or for sale		117,929		-		393		393		117,536
Accrued interest		31,088		-		-		-		31,088
	$	8,238,404	$	9,463	$	11,640	$	21,103	$	8,217,301

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $28,887 (2010 − $72,855). Also included in this balance are mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date at their investment cost. These mortgages are carried at amortized cost.

Included in other mortgages 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. As at December 31, 2011, mortgage principal outstanding for these mortgages was $50,036 (2010 – $50,890) and the fair value adjustment was $4,127 (2010 – $1,058).

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

		2011		2010
Changes in fair value recognized in income	**$**	**3,069**	$	540

(b) Impaired and past due mortgages:

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

As at December 31, 2011, accrued interest on impaired mortgages amounted to $1,676 (2010 - $2,199).

Note 9 – Mortgages Receivable (continued)

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

				2011	2010
	Gross	Individual allowance	Net		Net
Residential mortgages	$ 17,730	$ 2,053	$ 15,677		$ 23,037
Residential mortgages – securitized	842	-	842		1,486
Other mortgages	8,119	1,812	6,307		9,693
Mortgages held for securitization or for sale	-	-	-		-
	$ 26,691	$ 3,865	$ 22,826		$ 34,216

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

				2011
	30 – 59 days	60 – 89 days	90 days or more	Total
Residential mortgages	$ 10,576	$ 4,710	$ 927	$ 16,213
Residential mortgages – securitized	2,342	3,224	1,810	7,376
Other mortgages	-	144	-	144
Mortgages held for securitization or for sale	-	-	-	-
	$ 12,918	$ 8,078	$ 2,737	$ 23,733

				2010
	30 – 59 days	60 – 89 days	90 days or more	Total
Residential mortgages	$ 10,352	$ 4,643	$ 522	$ 15,517
Residential mortgages – securitized	12,474	-	2,472	14,946
Other mortgages	-	-	-	-
Mortgages held for securitization or for sale	-	-	-	-
	$ 22,826	$ 4,643	$ 2,994	$ 30,463

(c) Allowance for credit losses:

			2011
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 9,463	$ 11,640	$ 21,103
Provision for credit losses	2,419	4,764	7,183
Allowance for credit losses on acquired portfolio	619	(619)	-
Realized losses	(8,715)	-	(8,715)
Recoveries	79	-	79
Balance, end of year	$ 3,865	$ 15,785	$ 19,650

			2010
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 5,671	$ 10,266	$ 15,937
Provision for credit losses	6,831	2,917	9,748
Allowance for credit losses on acquired portfolio	269	(1,543)	(1,274)
Realized losses	(3,539)	-	(3,539)
Recoveries	231	-	231
Balance, end of year	$ 9,463	$ 11,640	$ 21,103

Note 10 – Securitization

In the normal course of business, the Company participates in the NHA MBS program by securitizing Government of Canada guaranteed or other insured residential mortgages through the creation of MBS. The Company either sells the issued MBS to third party investors, or predominantly to a CMHC sponsored trust (Canada Housing Trust – "CHT") under the CMB program. The Company also retains 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 trust to purchase MBS from eligible MBS issuers who participate in the issuance of a particular CMB series.

Under the NHA MBS program, the Company is responsible for making all payments due on its issued MBS, regardless of whether or not the Company collected the funds from the mortgagor or the insurer. The sale of MBS through the NHA MBS and CMB programs do not qualify for derecognition under IFRS and the mortgages are continued to be accounted for at amortized cost on the consolidated balance sheets. The transfers are accounted for as secured financing transactions with the mortgages transferred pledged as collateral for these liabilities.

The secured financing arising from securitization activities are recorded on the Company's consolidated balance sheets as securitization liabilities and represent proceeds received from the legal sale of MBS to third party investors and the CHT. Also included in securitization liabilities are accrued interest, deferred transaction costs and premiums and discounts, representing the difference between cash proceeds and the notional amount of the liability issued.

(a) MBS securitizations:

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

(b) CMB securitizations:

As part of a CMB transaction, the Company must enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to the CHT. Any excess or shortfall in these cash flows is absorbed by the Company. These swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. The notional amount of these swaps is $3,667,871 (2010 - $2,968,318).

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

Note 10 – Securitization (continued)

The following table presents the principal amount of mortgages outstanding that did not qualify for derecognition and their associated securitization liabilities:

	2011		2010	
	Mortgage principal[1]	**Principal amount of associated securitization liabilities[2]**	Mortgage principal[1]	Principal amount of associated securitization liabilities[2]
Canada mortgage bonds	**$ 3,535,411**	**$ 3,667,871**	$ 2,900,740	$ 2,968,318
Mortgage backed securities	**1,428,104**	**1,426,110**	1,561,642	1,567,774
	$ 4,963,515	**$ 5,093,981**	$ 4,462,382	$ 4,536,092

[1] *Mortgage principal presented above does not include accrued interest, unamortized origination costs or mortgage principal associated with securitized mortgages for which a securitization liability has not been issued.*

[2] *Principal amount of the associated securitization liabilities presented above does not include accrued interest, unamortized discounts and premiums or transaction costs.*

The following table presents the Company's outstanding securitization liabilities as at December 31, 2011 and 2010:

	2011	2010
Securitization principal	**$ 5,093,981**	$ 4,536,092
Deferred net discounts and issuance costs	**(14,346)**	(27,968)
Accrued interest	**21,286**	23,556
	$ 5,100,921	$ 4,531,680

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

	MBS liability	CMB liability	Total liability
2012	**$ 348,165**	**$ –**	**$ 348,165**
2013	**565,755**	**724,662**	**1,290,417**
2014	**113,770**	**1,219,506**	**1,333,276**
2015	**93,593**	**461,731**	**555,324**
2016	**96,962**	**411,305**	**508,267**
Thereafter	**207,865**	**850,667**	**1,058,532**
	$ 1,426,110	**$ 3,667,871**	**$ 5,093,981**

Note 11 – 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 forward agreements 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. Prior to January 1, 2011, the Company used short sale and repurchase agreements to hedge this exposure and did not apply hedge accounting to these transactions. Therefore, any changes in fair value were recorded in the Company's consolidated statement of income.

Fair value hedges:

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income and GICs used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps and short sale and repurchase agreements of Government of Canada guaranteed debt securities. Interest rate swaps are secured by investments in preferred shares and cash equivalents. The Company does not apply hedge accounting to these hedging relationships.

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at December 31, 2011 and 2010 are as follows:

				2011				2010
Derivative instrument and term (years)[1]	**Notional amount**	**Assets**	**Liabilities**	**Total Fair Value[2]**	Notional amount	Assets	Liabilities	Total Fair Value[2]
Cash flow hedges:								
Bond forward agreements								
1 to 5	**$ 10,200**	**$ -**	**$ (2)**	**$ (2)**	$ -	$ -	$ -	$ -
Fair value hedges:								
Interest rate swaps								
6 to 10	**37,322**	**-**	**(2,808)**	**(2,808)**	37,995	-	(331)	(331)
Short sale and repurchase agreements								
1 to 5	**13,445**	**36**	**-**	**36**	35,450	261	-	261
6 to 10	**-**	**-**	**-**	**-**	86,045	276	(63)	213
	$ 60,967	**$ 36**	**$ (2,810)**	**$ (2,774)**	$ 159,490	$ 537	$ (394)	$ 143

[1] *The terms of the bond forward agreements and short sale and repurchase agreements are based on the terms of the underlying bonds and debt securities.*
[2] *Derivative financial assets are included in Other Assets (Note 12) and derivative financial liabilities are included in Other Liabilities (Note 15).*

Note 11 – Derivative Financial Instruments (continued)

Cash flow hedges:

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

	2011	2010
Fair value changes recorded in other comprehensive income	$ (13,761)	$ -
Hedge ineffectiveness recognized in income	(648)	-
Amounts reclassified from other comprehensive income	(77)	-

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

		Payments due by period			
2011	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Cash outflow	$ (13,756)	$ (2,331)	$ (4,663)	$ (4,409)	$ (2,353)
Cash inflow	13,684	2,344	4,687	4,321	2,332
	$ (72)	$ 13	$ 24	$ (88)	$ (21)

Fair value hedges:

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

	2011	2010
Changes in fair value – interest rate swaps	$ (3,147)	$ (648)
Changes in fair value – short sale and repurchase agreements	(999)	(8,322)
Changes in fair value recognized in income	$ (4,146)	$ (8,970)

(c) Embedded derivatives:

The Company's equity securities contain embedded derivatives which are required to be bifurcated from the underlying investment and valued separately. These bifurcated derivatives do not currently have significant value and, therefore, are not reported separately.

Note 12 – Other Assets

	2011	2010
Prepaid expenses and other	$ 14,981	$ 4,087
Capital assets	3,764	2,131
Income taxes recoverable	3,024	2,247
Receivable relating to securitization activities	2,630	825
Accrued interest and dividends on non-mortgage assets	986	754
Real estate owned	197	1,105
Derivative financial instruments – hedges	36	-
Derivative financial instruments – securitization activities	-	537
	$ 25,618	$ 11,686

In August 2011, the Company reported an alleged fraud relating to four condominium corporation loans with a total outstanding balance of $14.0 million. This amount was reduced to $13.9 million as a result of a partial recovery. Management has engaged external counsel to assist in this matter. The Company has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing and has commenced an action against several parties involved in the remaining two loan transactions. In addition to any potential recoveries under its claims, the Company will also claim under its Financial Institution Bond, which is intended to protect against fraud losses, however, there is no assurance that proceeds or recoveries, if any, will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the loans. Accordingly, the Company recorded a pre-tax operational provision of $5.0 million in the third quarter and reclassified the mortgages in question from Mortgages Receivable to Other Assets. The net outstanding balance reported in Other Assets is $8.9 million and is included in Prepaid expenses and other. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management has established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

Note 13 – Deposits

	2011	2010
GICs - cashable, payable on demand	$ 700,301	$ 560,729
GICs - fixed maturity dates	3,834,837	3,245,208
Accrued interest	104,917	85,138
Deferred deposit agent commissions	(12,151)	(12,222)
	$ 4,627,904	$ 3,878,853

Note 14 – Income Taxes

(a) Income tax provision

	2011	2010
Current tax expense:		
Current year	$ 20,986	$ 15,800
Adjustments for prior years	40	204
	21,026	16,004
Deferred tax expense:		
Reversal of temporary differences	585	2,613
Reduction in tax rate	118	(2,170)
	703	443
Total income tax expense	$ 21,729	$ 16,447

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

	2011	2010
Canadian statutory income tax rate	28.1%	30.6%
Increase (decrease) resulting from:		
Tax-exempt income	(3.3%)	(5.0%)
Future tax rate changes	0.1%	(3.1%)
Non-deductible expenses and other	1.0%	0.2%
Effective income tax rate	25.9%	22.7%

The statutory tax rate has decreased due to scheduled Federal and Provincial tax rate reductions that were previously enacted.

(b) Deferred taxes

The net deferred income tax liability is comprised of:

	2011	2010
Deferred income tax assets:		
Allowance for credit losses	$ 3,928	$ 3,187
Share issue expenses	396	746
Other	-	80
	4,324	4,013
Deferred income tax liabilities:		
Net mortgage fees	6,426	7,577
GIC commissions	3,141	3,310
Securitization activities	2,397	212
Other	150	-
	12,114	11,099
Deferred tax liabilities	$ 7,790	$ 7,086

Note 15 – Other Liabilities

	2011	2010
Mortgagor realty taxes	**$ 18,975**	$ 14,646
Accounts payable and accrued liabilities	**6,802**	4,844
Derivative financial instruments - interest rate swaps	**2,808**	331
Derivative financial instruments - securitization activities	**2**	-
Derivative financial instruments - hedges	**-**	63
	$ 28,587	$ 19,884

Note 16 – Bank Facilities

(a) Operating credit facility:

The Company has a $35,000 credit facility in place with a major Canadian chartered 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, 2011 (2010 – nil).

(b) Term loans:

The Company has a non-revolving term loan of $12,500. The loan is for a fixed term of five years with the balance of the loan, together with all accrued and unpaid interest, due on the fifth anniversary of the loan. The proceeds of the loan were used to purchase $12,500 of Series 7 subordinated debentures of the Company's subsidiary, Equitable Trust. The loan is repayable in full at the option of the Company at any time during its term. As collateral for the loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Equitable Trust and an assignment of the subordinated debentures purchased from Equitable Trust using the proceeds of the loan. Interest is paid monthly. Under the terms of this loan, the Company is required to maintain a minimum tangible net worth ratio, an interest coverage ratio and a maximum assets-to-capital multiple. The Company is in compliance with the financial covenants required by the term loan.

2011

Interest rate	Date loan received	Maturity date	**Outstanding December 31, 2010**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2011**
6.41%	March 2007	March 2012	**$ 12,500**	**$ -**	**$ -**	**$ 12,500**

2010

Interest rate	Date loan received	Maturity date	Outstanding December 31, 2009	Issued during the year	Repaid during the year	Outstanding December 31, 2010
6.82%	April 2006	April 2011	$ 15,000	$ -	$ 15,000	$ -
6.41%	March 2007	March 2012	12,500	-	-	12,500
			$ 27,500	$ -	$ 15,000	$ 12,500

Note 17 – Subordinated Debentures

The Company has issued debentures which are unsecured obligations and are subordinated in right of payment to the claims of depositors and other liabilities of the Company. Series 7 and 8 are redeemable any time at the Company's option and Series 9 is redeemable at any time on or after December 15, 2015. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest on Series 7 subordinated debentures is paid quarterly at a fixed rate of 7.10%, per annum. Interest on Series 8 subordinated debentures is paid at a fixed rate of 6.50% per annum, payable semi-annually for the first five years of its 10-year term. Thereafter, the Series 8 will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 480 basis points, payable quarterly. Interest on Series 9 subordinated debentures is paid at a fixed rate of 6.09% per annum, payable monthly for the first five years of its 10-year term. Thereafter, Series 9 will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 338 basis points, payable quarterly.

2011

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

2010

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2009	Issued during the year	Repaid during the year	Outstanding December 31, 2010
Series 6	7.27%	2006	January 2016	$ 5,000	$ -	$ 5,000	$ -
Series 7	7.10%	2007	January 2017	9,450	-	-	9,450
Series 8	6.50%	2009	December 2019	23,221	-	-	23,221
Series 9	6.09%	2010	December 2020	-	20,000	-	20,000
				$ 37,671	$ 20,000	$ 5,000	$ 52,671

Note 18 – Shareholders' Equity

(a) Capital stock:

Authorized:
Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1
Unlimited number of non-cumulative floating rate preferred shares, Series 2
Unlimited number of common shares, no par value

Issued and outstanding shares:

	2011				2010		
	Number of shares	**Amount**	**Dividends per share[1]**		Number of shares	Amount	Dividends per share[1]
Preferred shares, Series 1	**2,000,000**	**$ 48,494**	**$ 1.81**		2,000,000	$ 48,494	$ 1.81

	2011			2010		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of year	**14,943,437**	**$ 128,068**		14,903,846	$ 127,336	
Contributions from reinvestment of dividends	**22,264**	**582**		16,491	357	
Contributions from exercise of stock options	**52,700**	**943**		23,100	318	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**178**		-	57	
Balance, end of year	**15,018,401**	**$ 129,771**	**$ 0.45**	14,943,437	$ 128,068	$ 0.40

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

(b) Preferred shares:

Series 1 - 5-Year Rate Reset Preferred Shares

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

Series 2 - Floating Rate Preferred Shares

Holders of the Series 2 Preferred Shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.53%, as and when declared by the Board of Directors. Redeemable in cash at the Company's option, subject to prior regulatory approval, (i) on September 30, 2019 and

Note 18 – Shareholders' equity (continued)

September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2014. Convertible at the holder's option, subject to certain conditions, to non-cumulative 5-year rate reset preferred shares, Series 1 (the "Series 1 Preferred Shares") on September 30, 2019 and on September 30 every five years thereafter.

(c) Common shares:

Issuances of common shares

During the year ended December 31, 2011, 52,700 (2010 – 23,100) shares were issued as a result of the exercise of stock options for cash consideration of $943 (2010 – $318) and $178 (2010 – $57) was transferred from contributed surplus to common shares as a result of these exercises. In addition, 22,264 (2010 – 16,491) common shares were issued under the Company's Dividend Reinvestment Plan.

(d) Dividend reinvestment plan:

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

(e) Dividend restrictions:

The Company's subsidiary, Equitable Trust, is subject to minimum capital requirements, as prescribed by OSFI under the Trust and Loan Companies Act (Canada). The Company must notify OSFI prior to the declaration of any dividend and must ensure that any such dividend declaration is done in accordance with the provisions of the Trust and Loan Companies 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 five to seven years and vest over a four or five-year period. The maximum number of common shares available for issuance under the plan is 10% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to December 2018. A summary of the Company's stock option activity and related information for the years ended December 31, 2011 and 2010 is as follows:

	2011			2010		
	Number of stock options	**Weighted average exercise price**		Number of stock options	Weighted average exercise price	
Outstanding, beginning of year	**966,150**	**$**	**24.20**	814,750	$	23.71
Granted	**7,500**		**26.01**	222,000		24.67
Exercised	**(52,700)**		**17.90**	(23,100)		13.77
Forfeited/cancelled	**(187,000)**		**25.63**	(47,500)		23.04
Outstanding, end of year	**733,950**	**$**	**24.36**	966,150	$	24.20
Exercisable, end of year	**355,150**	**$**	**26.15**	350,000	$	26.65

Note 19 – Stock-based Compensation (continued)

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2011:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 34.49	150,000	0.2	120,000
$ 31.75	30,000	0.6	24,000
$ 28.79	25,000	0.9	20,000
$ 28.63	30,000	0.9	24,000
$ 24.10	10,000	1.2	4,000
$ 21.63	25,000	1.4	15,000
$ 11.55	117,650	1.9	56,750
$ 20.60	136,800	3.9	51,000
$ 24.75	132,000	4.9	26,400
$ 24.50	70,000	4.9	14,000
$ 26.01	7,500	7.0	-

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $961 (2010 − $725) related to grants of options under the stock option plan. This amount has been credited to contributed surplus. The fair value of options granted during 2011 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 1.5% (2010 − 2.6%); (ii) expected option life of 4.8 years (2010 − 4.5 years); (iii) expected volatility of 30.5% (2010 – 30.0%); and (iv) expected dividends of 2.1% (2010 – 1.6%). The weighted average fair value of each option granted during 2011 was $5.85 (2010 − $5.14).

(b) Deferred share unit plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. When an individual ceases to be a Director (the "Separation Date"), the DSUs shall be redeemed for cash no later than the end of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days prior to the Separation Date. In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU Plan, any proportionate adjustment as it considers appropriate to reflect that change. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The DSU plan is administered by the Board or a committee thereof. During the year ended December 31, 2011, 6,773 DSUs (2010 – 8,224) had been granted by the Company. DSUs outstanding as at December 31, 2011 amounted to 23,409 (2010 – 16,308) and the recorded liability was $591 (2010 - $409). Compensation expense recorded in 2011, relating to DSUs outstanding during the year amounted to $182 (2010 − $238).

Note 20 – Earnings Per Share

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

	2011	2010
Earnings per common share – basic:		
Net income	**$ 62,186**	$ 55,893
Dividends on preferred shares	**3,625**	3,625
Net income available to common shareholders	**$ 58,561**	$ 52,268
Weighted average basic number of common shares outstanding	**14,977,289**	14,922,263
Earnings per common share – basic	**$ 3.91**	$ 3.50
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 58,561**	$ 52,268
Weighted average basic number of common shares outstanding	**14,977,289**	14,922,263
Adjustment to weighted average number of common shares outstanding:		
Stock options	**124,005**	76,575
Weighted average diluted number of common shares outstanding	**15,101,294**	14,998,838
Earnings per common share – diluted	**$ 3.88**	$ 3.48

For the year ended December 31, 2011, the calculation of the diluted earnings per share excluded 454,464 (2010 – 383,060) average options outstanding with a weighted average exercise price of $30.19 (2010 – $27.65) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 21 – Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision (Basel II). This guideline requires deposit-taking financial institutions to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be Tier 1 capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that deposit-taking institutions need to maintain a minimum total capital ratio of 10%, with a Tier 1 ratio of not less than 7%. Equitable Trust's Tier 1 capital is comprised of common and preferred shareholder's equity while Tier 2 capital is comprised of subordinated debentures. In addition to Tier 1 and total capital ratios, Canadian deposit-taking institutions are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed the maximum level prescribed by OSFI.

Equitable Trust maintains capital management policies to govern the quality and quantity of capital utilized in its operations. The objective of these policies is to ensure that adequate capital requirements are met, while providing sufficient return to investors. During the year, Equitable Trust complied with all internal and external capital requirements.

As a result of an advisory issued by OSFI in March 2010, Equitable Trust is permitted to phase in the January 1, 2010 IFRS transition adjustment to retained earnings over an eight quarter period, to be completed by the quarter ending December 31, 2012. The amount amortized to retained earnings for the year ended December 31, 2011 was $18,931. In the absence of this election, Equitable Trust's Tier 1 and Total Capital would have been $433,779 and $498,950, respectively, as at December 31, 2011.

Note 21 – Capital Management (continued)

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

	December 31, 2011	January 1, 2011
Tier 1 capital:		
Common shares	**$ 132,819**	$ 129,823
Non-cumulative preferred shares	**50,000**	50,000
Contributed surplus	**4,303**	3,520
Retained earnings	**248,752**	197,539
Accumulated other comprehensive loss[1]	**(2,095)**	(1,676)
IFRS transition adjustment[2]	**18,931**	37,862
Total	**452,710**	417,068
Tier 2 capital:		
Subordinated debentures (Tier 2B)[3]	**65,171**	65,171
Total	**65,171**	65,171
Total regulatory capital	**$ 517,881**	$ 482,239

[1] *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.*

[2] *As permitted by OSFI, the transition adjustment for IFRS will be amortized over an eight quarter period ending on December 31, 2012.*

[3] *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.*

Note 22 – Commitments and Contingencies

(a) Lease commitments:

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

	2011	2010
Less than 1 year	**$ 826**	$ 652
1-5 years	**2,649**	2,471
Greater than 5 years	**33**	-
	$ 3,508	$ 3,123

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 2011 amounted to $1,586 (2010 - $1,327).

(b) Credit commitments:

As at December 31, 2011, the company had outstanding commitments to fund a total of $388,101 (2010 – $436,369) of mortgages in the ordinary course of business.

The Company has issued letter of credits in the normal course of business. Letter of credits in the amount of $788 (2010 - $649) were outstanding at December 31, 2011, none of which have been drawn upon at that date.

Note 22 – Commitments and Contingencies (continued)

(c) Contingencies:

The Company became aware of an alleged fraud relating to four condominium corporation loans, details of which are outlined in Note 12 – Other Assets. The Company has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing and has commenced an action against several parties involved in the remaining two loan transactions. Management will continue to defend/pursue these claims and will continue to review all legal options available to it in pursuing its recourse. The Company recorded a pre-tax operational provision of $5.0 million in the third quarter of 2011 and reclassified the mortgages in question from Mortgages Receivable to Other Assets. The net outstanding balance reported in Other Assets is $8.9 million. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management has established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

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

Note 23 – Related Party Transactions

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

The Trust and Loan Companies Act prohibits federally regulated financial institutions to transact with related parties except for transactions as specifically permitted by the legislation.

(a) Key management personnel compensation table:

	2011	2010
Short-term employee benefits	**$ 2,223**	$ 2,053
Post-employment benefits	**22**	20
Termination benefits	**436**	-
Share-based payments	**712**	602
	$ 3,393	$ 2,675

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

As at December 31, 2011, key management personnel held 2,396,075 (2010 – 2,371,034) common shares and 5,300 (2010 – 5,300) preferred shares. These shareholdings include common shares of 2,318,339 (2010 – 2,311,339) that were held by related party entities whose controlling shareholders are directors of the Company and shares beneficially owned by the directors. In addition, key management held 410,500 (2010 – 487,000) options to purchase common shares of the Company at prices ranging from $11.55 to $34.49.

Note 23 – Related Party Transactions (continued)

(c) Other transactions:

Certain of the Company's key management personnel have invested in GIC deposits and/or subordinated debentures of the Company. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties. There were no GIC deposits or subordinated debentures issued to key management personnel during 2011 (2010 – nil). As at December 31, 2011, key management personnel held $2,650 (2010 – $2,650) of subordinated debentures. These debentures were held by related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the directors. There were no GIC deposits outstanding for key management personnel as at December 31, 2011 (2010 – nil).

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, 2011.

	Floating rate or within 1 month	1 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total[1]
Assets:								
Cash and cash equivalents and restricted cash	$ 254,001	$ -	$ -	$ 254,001	$ -	$ -	$ -	$ 254,001
Effective interest rate	1.14%	-	-	1.14%	-	-	-	1.14%
Investments purchased under reverse repurchase agreements	9,967	-	-	9,967	-	-	-	9,967
Effective interest rate	0.96%	-	-	0.96%	-	-	-	0.96%
Investments	114,447	12,410	6,872	133,729	236,043	14,029	6,539	390,340
Effective interest rate	1.98%	6.79%	6.30%	2.65%	5.64%	3.53%	-	4.44%
Mortgages receivable	1,047,468	276,710	1,225,787	2,549,965	1,594,434	98,137	19,611	4,262,147
Effective interest rate	4.94%	5.15%	4.95%	4.97%	5.31%	5.71%	-	5.09%
Mortgages receivable – securitized	47,289	136,037	388,923	572,249	3,709,004	990,309	43,378	5,314,940
Effective interest rate	2.67%	4.98%	4.72%	4.61%	3.88%	4.48%		4.04%
Other assets	-	-	-	-	-	-	25,618	25,618
Total Assets	$ 1,473,172	$ 425,157	$ 1,621,582	$ 3,519,911	$ 5,539,481	$ 1,102,475	$ 95,146	$ 10,257,013
Liabilities:								
Deposits [2]	$ 700,301	$ 458,510	$ 1,857,561	$ 3,016,372	$ 1,518,766	$ -	$ 92,766	$ 4,627,904
Effective interest rate	1.31%	2.04%	2.37%	2.07%	3.00%	-	-	2.34%
Securitization liabilities	13,344	76,977	257,842	348,163	3,687,285	1,058,533	6,940	5,100,921
Effective interest rate	1.45%	4.29%	4.29%	4.18%	3.16%	3.88%	-	3.35%
Other liabilities and deferred taxes	-	-	-	-	-	-	36,377	36,377
Bank term loans	-	12,500	-	12,500	-	-	-	12,500
Effective interest rate	-	6.41%	-	6.41%	-	-	-	6.41%
Subordinated debentures[3]	-	-	-	-	43,221	9,450	-	52,671
Effective interest rate	-	-	-	-	6.31%	7.10%	-	6.45%
Shareholders' equity	-	-	-	-	48,494	-	378,146	426,640
Total liabilities and shareholders' equity	$ 713,645	$ 547,987	$ 2,115,403	$ 3,377,035	$ 5,297,766	$ 1,067,983	$ 514,229	$ 10,257,013
Off-balance sheet items[4]	$ -	$ (106,821)	$ 15,622	$ (91,199)	$ 119,763	$ (28,564)	$ -	$ -
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 759,527	$ (229,651)	$ (478,199)	$ 51,677	$ 361,478	$ 5,928	$ (419,083)	$ -

(1) Accrued interest is excluded in calculating interest sensitive assets and liabilities.
(2) Cashable GICs are included with floating rate or within 1 month liabilities as these are cashable by the depositor upon demand.
(3) Any prepayments of subordinated debentures, contractual or otherwise, have not been estimated as these would require regulatory pre-approval.
(4) Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

DIRECTORS

Austin Beutel

Chairman, Oakwest Corporation Limited, an investment holding company

Eric Beutel

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

Joseph Dickstein

Vice-Chairman, PPI Financial Group, a financial services company

Eric Kirzner

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

David LeGresley

Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company
and Equitable Trust

Katherine Rethy

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

Lionel Robins

President, PFDL Investments Limited, an investment holding company

Morris Shohet

Principal, The Dorchester Corporation, a real estate investment company

Michael Shulman

President, The Birchwood Group Inc., an investment holding company

OFFICERS

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Trust

Tim Wilson

Vice-President and Chief Financial Officer of the Company and Equitable Trust

William Edmunds

Senior Vice-President, Credit and Chief Risk Officer of Equitable Trust

Kimberley Graham

Vice-President, General Counsel, Chief Compliance Officer and Secretary of the Company and Equitable Trust

Kimberly Kukulowicz

Vice-President, Residential Sales and Partner Relationships of Equitable Trust

Brian Leland

Vice-President, Residential Credit of Equitable Trust

Tamara Malozewski

Vice-President, Finance of the Company and Equitable Trust

David Soni

Vice-President, Risk Policy of Equitable Trust

Jody Sperling

Vice-President, Human Resources of Equitable Trust

Ron Tratch

Vice-President, Commercial Credit of Equitable Trust

John Simoes

Controller of Equitable Trust

Nicholas Strube

Treasurer of Equitable Trust

SHAREHOLDER AND CORPORATE INFORMATION

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Stock Listings
TSX: ETC and ETC.PR.A

Annual Meeting of Shareholders
Tuesday, May 15, 2012, 10 a.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada

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