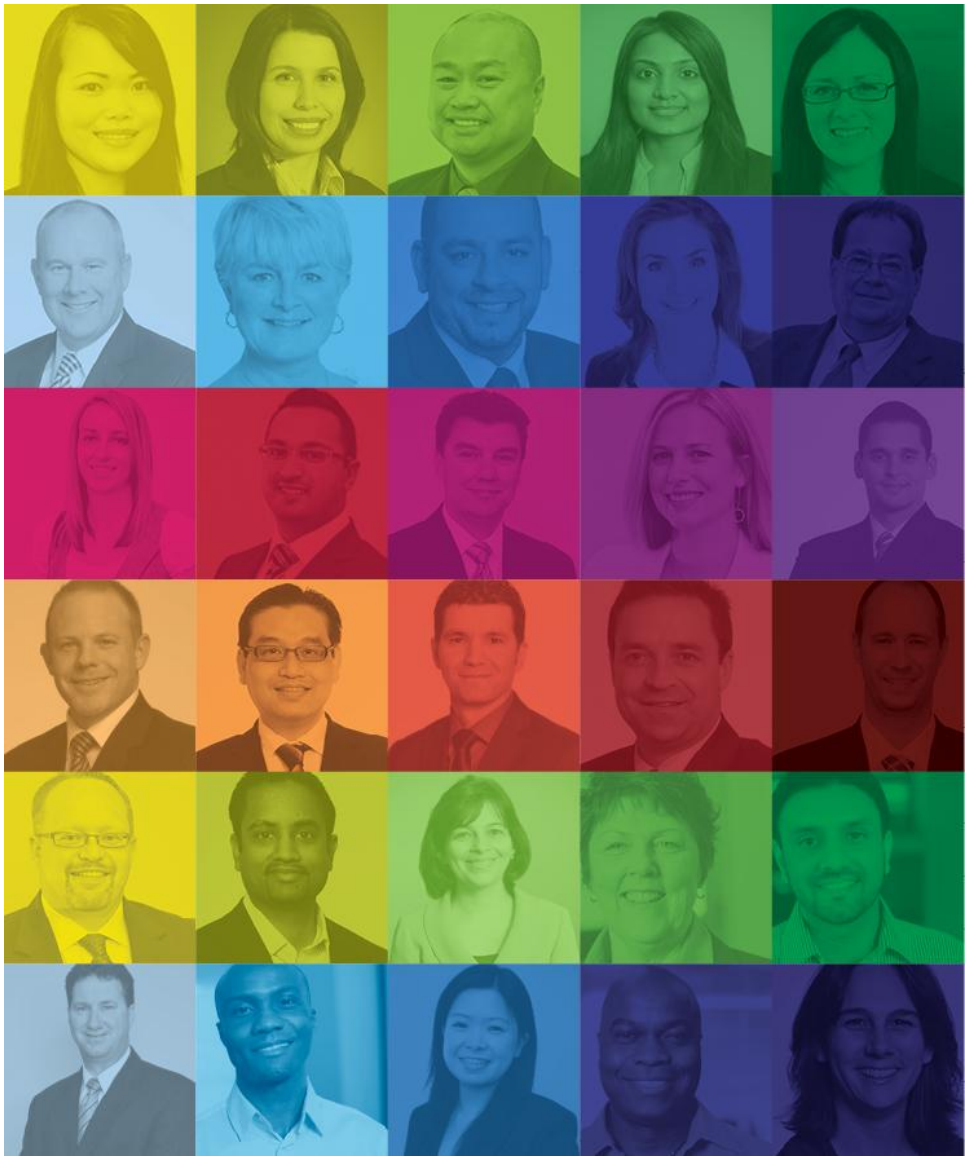


EQUITABLE GROUP INC.

FOURTH QUARTER 2012
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2012

EQUITABLE GROUP INC.

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONIDITION AND RESULTS OF OPERATIONS
For the three and year ended December 31, 2012

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, 2012. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 24, 25 and 26 on pages 29, 30 and 31 of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been prepared in accordance with IFRS except for non-GAAP amounts and where otherwise indicated and all amounts are presented in Canadian dollars. This report, and the information provided herein, is dated as at February 26, 2013. 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "2013 Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Deposit Liabilities", "Capital Management", "Basel III", "Fourth Quarter Overview", and "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives (including the proposal to convert Equitable Trust into a Schedule I Bank), 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.

BUSINESS PROFILE AND OBJECTIVES

Equitable is a niche mortgage lender that provides loans secured by first mortgages or 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.

The primary sources of the Company's revenues are interest income as well as commitment, renewal and other ancillary fees derived from its mortgage lending business. In addition, the Company earns gains from the sale of securitized mortgages and interest, dividend and capital gains income from investments. Equitable Trust funds its mortgage business by offering insured deposits and by securitizing insured mortgages through participation in the Canada Mortgage and Housing Corporation ("CMHC") administered National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") Programs. 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's securitization activities allow it 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's business model and its strong competitive position have contributed to its exceptional long-term financial results. Equitable Trust is a leader in its mortgage lending niches, which are served through its three lending businesses:

- **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 mortgage broker network, its service-oriented culture, and its disciplined approach to credit evaluation and collections. At December 31, 2012, Single Family represented $3.0 billion (or 29%) of mortgage principal outstanding.
- **Commercial Lending Services ("Commercial")**: This business funds mortgages on a variety of property types, including mixed-use (storefront), multi-unit residential, industrial, retail, office, condominium, and construction. Its mortgages are sourced from mortgage brokers and other business partners. The success of Commercial reflects its extensive relationships with mortgage brokers and bankers, its underwriting capabilities, and the customer service it delivers as a result of its agility and market knowledge. At year end, Commercial represented $2.1 billion (or 20%) of mortgage principal outstanding.
- **Securitization Financing:** This business focuses on originating and subsequently securitizing insured residential mortgages. The vast majority of securitized mortgages – approximately 92% at December 31, 2012 – are secured by multi-unit residential properties and are underwritten by the Company's Commercial credit team. The remaining 8% of securitized mortgages is represented by insured, single family residential mortgages. Reported assets for this

segment also include mortgages that are being held specifically for the purposes of securitization, but have not yet been securitized.

The Single Family and Commercial segments above are collectively referred to as Equitable's "Core Lending" business. At year end, 49% (2011 – 45%) of the Company's portfolio consisted of mortgages in the Core Lending business and 51% (2011 – 55%) consisted of mortgages in the Securitization Financing segment.

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2012	2011[1]	2010	Change from 2011	
OPERATIONS					
Net income	**81,207**	62,186	55,893	19,021	31%
Net income available to common shareholders	**77,582**	58,561	52,268	19,021	32%
EPS - basic	**$ 5.15**	$ 3.91	$ 3.50	$ 1.24	32%
EPS - diluted	**$ 5.11**	$ 3.88	$ 3.48	$ 1.23	32%
Return on equity[2]	**18.7%**	16.5%	17.0%		2.2%
Return on average assets[2]	**0.7%**	0.6%	0.6%		0.1%
Net interest margin - TEB - total assets[3], [4]	**1.47%**	1.43%	1.52%		0.04%
Productivity ratio – TEB[2][4][5]	**30.2%**	32.4%	26.1%		2.2%
BALANCE SHEET					
Total assets	**11,601,440**	10,257,013	8,884,129	1,344,427	13%
Mortgages receivable	**10,609,472**	9,577,087	8,217,301	1,032,385	11%
Shareholders' equity	**501,571**	426,640	381,455	74,931	18%
CREDIT QUALITY					
Realized loan losses – net of recoveries	**1,022**	8,636	3,308	(7,614)	(88%)
Net impaired mortgages as a % of total mortgage assets[6]	**0.30%**	0.25%	0.45%		0.05%
Allowance for credit losses as a % of total mortgage assets	**0.25%**	0.21%	0.26%		0.04%
SHARE CAPITAL					
Dividends declared per common share	**$ 0.52**	$ 0.45	$ 0.40	$ 0.07	16%
Dividends declared per preferred share	**$ 1.81**	$ 1.81	$ 1.81	$ -	-%
Book value per common share	**$ 29.83**	$ 25.18	$ 22.28	$ 4.65	18%
Common share price – close	**$ 32.65**	$ 25.00	$ 24.99	$ 7.65	31%
Market capitalization	**495,953**	375,460	373,436	120,493	32%
EQUITABLE TRUST CAPITAL RATIOS					
Tangible common equity ratio[2][7]	**12.2%**	11.9%	12.6%		0.3%
Tier 1 capital ratio[2][7]	**13.5%**	13.4%	14.3%		0.1%
Total capital ratio (including collective allowance)[2][7]	**17.4%**	15.8%	16.9%		1.6%

(1) *The Company took an operational provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in Q3 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%.*

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

(3) *Average net interest margins are calculated based on the average of the month-end balances outstanding during the period.*

(4) *For purposes of improving comparability across periods, 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio investments recorded in the second quarter of 2012.*

(5) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*

(6) *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.*

(7) *Equitable Trust capital ratios for December 31, 2010 have been calculated in accordance with previous Canadian GAAP.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

2012 HIGHLIGHTS

In 2012, Equitable produced record earnings on strong ongoing growth in its mortgage assets, stable margins, low level of loan losses, and highly efficient operations. Consistent with its strategy, and on the basis of stable market conditions, management continued to expand 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 productivity. In particular, activity in Single Family contributed to strong growth in the Company's mortgage book. Management believes the performance of Single Family is a reflection of the Company's continued focus on customer service and of recent changes in the competitive and regulatory landscape. As a result:

- Core Lending mortgage principal outstanding amounted to $5.2 billion at year-end, up 21% from 2011 (see Table 8);
- Single family mortgage principal balances grew by 46% year-over-year to $3.0 billion, and now represents 59% of total Core Lending mortgage principal balance, up from 49% a year ago; and
- Total mortgage production increased 22% to $3.5 billion from $2.8 billion in 2011, with Core Lending mortgage production at $2.4 billion, up by 21% from 2011 (see Table 11).

Growth in Equitable's mortgage portfolio helped to deliver strong performance across key operating metrics:

- Diluted earnings per share ("EPS") of $5.11 were up 32% from $3.88 in 2011;
- Net income increased 31% over 2011 to $81.2 million from $62.2 million in 2011; and
- Return on equity ("ROE") increased to 18.7% in 2012 from 16.5% in 2011.

Adjusted for an investment gain in Q2 2012 and an operational provision in Q3 2011, diluted EPS increased 18% year-over-year to $4.85 in 2012 from $4.12 in 2011. Similarly, adjusted ROE was 17.9% in 2012 up from 17.4% in 2011.

2013 BUSINESS OUTLOOK

In 2012, Equitable strengthened the foundations of its business. The Company achieved record levels of earnings and mortgage assets, improved its capital position, and expanded its geographic coverage. Management believes that the business is positioned to further improve its performance and generate value for its shareholders in 2013.

The Company remains focused on its niche mortgage lending businesses, selectively seeking opportunities to better serve segments of the Canadian financial services marketplace that are generally not the focus of Canada's large banking institutions. The operating environment for its Core Lending business appears to be favourable and presents good growth opportunities for the Company in 2013 for several reasons:

- The trends driving demand in Equitable's niches and through the mortgage broker channel – including growth in business-for-self Canadians and in immigration – will likely remain entrenched for the long term.
- Reactions by Equitable's competitors to recent regulatory changes may result in more consumers seeking residential mortgages from alternative lenders, such as Equitable, and in less customer churn across the residential mortgage market. These changes may translate into increased single family market share for the Company, though there is some uncertainty around the ultimate impact of these changes.
- The Company has introduced a new approach to originating insured mortgages and selling them into securitization structures sponsored by CMHC. As a result of this new approach, the Company increased its level of securitizations during the latter half of 2012 and may maintain higher volumes going forward.

Recently, there have been reports of a slowdown in Canadian housing market activity, though the actual rate of slowing varies substantially by market. Over the past several years Equitable has placed less emphasis on those markets and housing types that appear to be experiencing more significant decreases in activity. Conversely, Equitable has placed emphasis on more stable urban centres in Alberta, Saskatchewan, Manitoba, and Nova Scotia, and is more positive on the prospects for these markets than for other markets in Canada. Management expects that the Company would be less affected than the overall market by a real estate slowdown due to its geographic mix and the demographic and competitive changes discussed above.

As a matter of strategy, 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. Equally important, Equitable has avoided single-industry towns and areas with declining populations. Equitable actively tightens its lending criteria, scales-back lending activities, or entirely avoids areas in which it appears risks are elevated, such as the downtown Toronto condominium market and areas of British Columbia. Management will continue to apply this approach, along with its traditional discipline in setting loan-to-value ratios, its assessment of customers' ability to service their debt, and other prudent lending criteria going forward.

Due to this prudent lending approach, Equitable experienced loan losses of $1 million in 2012 (2bps of unsecuritized mortgage balances). The rate of loan loss in 2012 was exceptionally low by any standard, and while losses may return to more normalized levels, they are expected to remain low in 2013. Management is confident that Equitable has more than adequate reserves set aside to absorb any credit losses that it incurs.

The Company believes that it will maintain relatively stable net interest margins ("NIM") on its mortgage portfolio over the next year. Overall NIMs will continue to benefit from the continued shift in volume towards the Company's higher margin Core Lending book. The Company also continues to optimize its pricing structure, the impact of which will be gradually reflected in net interest margins ("NIM") over time. Product mix changes within the Core Lending book, most notably the continued shift towards lower yielding but higher return on capital single family mortgages, as well as the run-off of older commercial mortgages originated at higher spreads will offset recent pricing changes to an extent.

The GIC market remains an ample and inexpensive source of funding for Equitable's business. The NHA MBS and CMB securitization programs also continue to be sources of economical and liquid funding for the Company's insured residential mortgages. The Company expects the cost of GIC and securitization funding to remain at approximately current levels in 2013.

Although the Company's regulatory capital ratios were already in excess of the current and proposed regulatory minimums, the Company successfully raised $65 million of debentures on October 22, 2012 at a rate of 5.4%. Equitable obtained this capital in anticipation of upcoming debt maturities and redemptions, and in advance of new rules for capital instruments coming into effect for most Canadian financial institutions in 2013. This additional capital caused Equitable's interest expenses to increase during Q4 2012.

On January 3, 2013, Equitable repaid a $12.5 million term loan and $9.5 million of subordinated debentures, bearing interest rates of 6.41% and 7.1% interest respectively. The Company expects that it will have further opportunities to redeem debentures in Q1 2013, which would result in an interest charge in the current period but an expense reduction over time. The net effect of these redemptions would be a charge of approximately 1 to 3 cents per share in the first quarter of 2013, followed by an increase of 3 cents per share in future quarters due to reduced interest expenses.

Equitable increased its dividend twice during 2012. The Company intends to consistently increase its dividend going forward, subject to market conditions and regulatory requirements. In making decisions about paying dividends, the Board of Directors balances the level of payout with the opportunity to reinvest capital in the business at high rates of return, the need to maintain prudent levels of capital and judgements about the future prospects for the business.

Equitable expects that the new Basel III rules that came into effect at the beginning of 2013 will not materially affect the Company's reported capital position, however, Equitable will reduce the size of its investment portfolio by approximately $68 million due to more demanding capital rules for certain investments held in this portfolio. Equitable divested of $28 million of its holdings in Q4 and intends to complete the remaining $40 million of sales by the end of Q1 2013, and should realize a small amount of gains through the trades.

To support its strategy, in 2013 Equitable Trust also intends to apply to OSFI and to the Minister of Finance for consent to convert from a trust company operating under the Trust and Loans Companies Act to a Schedule I bank operating under the Bank Act. If approved, Equitable Trust intends to operate as Equitable Bank. The Company believes that, in the longer term, operating as a bank will support the development of the business, promote efficiencies, appeal to a new generation of borrowers and depositors, and may provide advantages in raising capital. Such a conversion would have no impact on Equitable's strong capital position or its current business model. The conversion application requires approvals from OSFI and the Minister of Finance and there is no assurance that these will be received or any certainty around the timing of such approvals.

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.**

FINANCIAL REVIEW - EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2012	2011	Change from 2011	
Net income	**81,207**	62,186	19,021	31%
Net income available to common shareholders	**77,582**	58,561	19,021	33%
EPS - diluted	**$ 5.11**	$ 3.88	$ 1.23	32%
Total revenue	**483,136**	438,990	44,146	10%
Net interest income	**156,170**	133,772	22,398	17%
Other income	**6,609**	3,689	2,920	79%
Non-interest expenses	**50,176**	45,714	4,462	10%
Income taxes	**23,467**	21,729	1,738	8%

Net Income

Net income increased 31% year-over-year to $81.2 million in 2012 from $62.2 million in 2011. Net income available to common shareholders increased 33% to $77.6 million from $58.6 million in 2011.

The increase in net income primarily resulted from a $22.4 million or 17% increase in net interest income and a $2.0 million increase in gains on securitization activities, offset by a $4.5 million increase in non-interest expenses and $1.7 million increase in income taxes. The $1.7 million net increase in income taxes included a $3.6 million tax benefit related to an investment gain realized in Q2 of 2012.

Net Interest Income

Net interest income is the main driver of profitability for the Company and is measured on a TEB. Net interest income TEB is a function of net interest margins ("NIM") and average assets. Average assets increased $1.3 billion or 13% year over year. Total NIM as a percentage of average assets in 2012 increased four basis points to 1.47% from 1.43% in 2011. The increase was largely due to a shift in portfolio mix, as growth in the higher NIM non-securitized mortgage portfolio outpaced growth in securitized assets. NIM on securitized assets is lower than NIM on non-securitized assets because securitized assets are insured under government programs and experience a different competitive environment.

NIM on non-securitized assets was down six basis points to 2.43% in 2012 from 2.49% in 2011. The reduction reflected the Company's continued emphasis on Single Family residential mortgages, which generally earn lower mortgage interest rates relative to Commercial mortgages but are more profitable on a capital adjusted basis. Similarly, margins were impacted by the increased level of liquid assets which are narrower spread products and the increase in debenture interest expense in Q4 2012.

On securitized mortgages, NIM decreased one basis point to 0.48% compared to the prior year. The drop in NIM was the result of more recent originations being at lower spreads, the impact of which was offset by higher levels of mortgage prepayment income in 2012.

Table 3 outlines the components of the Company's net interest income, as well as NIM for the year ended December 31, 2012 and the prior year on a TEB.

Table 3: Net interest income

($ THOUSANDS)	2012 Average balance	2012 Revenue/ expense	2012 Average rate [1]	2011 Average balance	2011 Revenue/ expense	2011 Average rate[1]
Revenues derived from:						
Liquidity investments	$ 659,628	$ 10,088	1.53%	$ 470,024	$ 7,562	1.61%
Equity securities – TEB[2]	170,281	10,126	5.95%	193,706	10,993	5.68%
Mortgages - non-securitized	4,783,756	245,122	5.12%	3,903,676	206,987	5.30%
Mortgages - securitized	5,203,081	214,613	4.12%	4,989,251	213,604	4.28%
Total interest earning assets – TEB	$ 10,816,746	$ 479,949	4.44%	$ 9,556,657	$ 439,146	4.60%
Total assets – TEB	$ 10,877,694	$ 479,949	4.41%	$ 9,608,918	$ 439,146	4.57%
Expenses related to:						
Deposits	$ 5,101,434	$ 131,042	2.57%	$ 4,206,107	$ 115,314	2.74%
Securitization liability	5,057,431	184,260	3.64%	4,764,110	181,694	3.81%
Bank term loans	12,500	813	6.51%	12,500	812	6.50%
Debentures	67,671	4,212	6.22%	52,671	3,493	6.63%
Other interest bearing liabilities	3,592	30	0.80%	10,733	217	2.02%
Total interest bearing liabilities	$ 10,242,628	$ 320,357	3.13%	$ 9,046,121	$ 301,530	3.33%
Total liabilities and shareholders' equity	$ 10,877,694	$ 320,357	2.95%	$ 9,608,918	$ 301,530	3.14%
Net interest income – TEB		$ 159,592			$ 137,616	
Less: taxable equivalent adjustment		(3,422)			(3,845)	
Net interest income		$ 156,170			$ 133,771	
Net interest margin – TEB						
Non-securitized assets[3]	$ 5,511,484	$ 133,837	2.43%	$ 4,522,264	$ 112,582	2.49%
Securitized assets[3]	5,366,210	25,755	0.48%	5,086,654	25,034	0.49%
Total assets – TEB[3]	$ 10,877,694	$ 159,592	1.47%	$ 9,608,918	$ 137,616	1.43%

(1) *Average rates are calculated based on the average of the month-end balances outstanding during the year.*

(2) *For purposes of improving comparability across periods, the 2012 TEB adjustment in this report has been calculated excluding the dividend associated with the investment gain discussed above.*

(3) *Net interest margin – TEB on non-securitized assets and total assets was 2.52% and 1.52%, respectively, if the TEB adjustment is calculated including the investment gain associated with one of the Company's security portfolio holdings.*

Provision for Credit Losses

The provision for credit losses is established by management, at a level that maintains a target amount of collective allowance on the Company's balance sheet. The provision can be affected by the level of originations (allowances must be set up against net new assets), the amount of specifically identified or realized losses (consume the allowance which then must be replenished), and other factors. As such, allowances are effectively recorded for potential losses that may occur over the life of a mortgage at the time that mortgages are originated and allowances are drawn down as losses are specifically identified or realized.

The Company's provision for credit losses increased 11% or $0.8 million to $8.0 million in 2012. The increase year-over-year reflects additional collective allowance established against the high level of originations in 2012, the effect of which was partly offset by low levels of specifically identified and realized loan losses.

Other Income

Other income increased by $2.9 million to $6.6 million in 2012, compared to $3.7 million in 2011. Other income includes ancillary fees related to the origination and administration of the mortgage portfolio, sundry income and other non-mortgage related fees, gains or losses on investments and gains on securitization activities.

In 2012, the Company executed securitization transactions that qualify for derecognition and gain on sale accounting treatment because they transfer substantially all of the risks associated with the mortgages being sold to third parties. Approximately $2.0 million or 69% of the increase in other income was due to the sale of $335 million in insured residential mortgages using this new securitization transaction structure. In addition, $0.4 million of the increase resulted from fee income earned on the mortgage portfolio.

Table 4: Other income

($ THOUSANDS)	2012	2011	Change from 2011	
Fees and other income	**$ 3,970**	$ 3,545	$ 425	12%
Net gain on investments	**629**	144	485	337%
Gains on securitization activities and income from retained interest	**2,010**	-	2,010	N/A
Total	**$ 6,609**	$ 3,689	$ 2,920	79%

Non-interest Expenses

Non-interest expenses increased by $4.5 million to $50.2 million from $45.7 million in 2011. Excluding the $5.0 million operational provision in 2011, non-interest expense increased by $9.5 million or 23%. As expected by management, the rate of year-over-year increase in cumulative expenses declined in 2012.

This increase in adjusted expenses reflected the healthy growth of the Company's underlying business and the investment in Equitable's employee base required to maintain one of the Company's significant competitive advantages, the high level of service provided to mortgage brokers and borrowers. It also resulted from higher expenditures related to legal activity and the regulatory environment.

The Company continues to operate efficiently on both an absolute and relative basis compared to other financial institutions, particularly taking into account the relative scale of its operations. Equitable's productivity ratio – TEB of 30.2% in 2012 was up from the 28.8% experienced in 2011 (excluding the operational provision). While a lower productivity ratio is generally associated with a more efficient cost structure, the Company's productivity ratio can also be affected by higher relative growth in the single family business, changes in funding volumes and the Company's need to maintain human resource staffing levels commensurate with volume expectations. The Company will continue to invest to support the growth of its franchise and its service levels going forward and as such doesn't expect material changes in its productivity ratio in the next fiscal year as compared with 2012.

Table 5: Non-interest expenses and productivity ratio

($ THOUSANDS)	2012	2011	Change from 2011	
Compensation and benefits	**$ 28,246**	$ 22,856	$ 5,390	24%
Premises and equipment	**5,029**	3,818	1,211	32%
Other	**5,006**	8,596	(3,590)	(42%)
Mortgage servicing	**4,237**	4,024	213	5%
Licenses, regulatory fees and insurance	**3,735**	3,303	432	13%
Marketing, travel and communications	**2,081**	1,790	291	16%
Legal, audit and related services	**1,842**	1,327	515	39%
Total	**$ 50,176**	$ 45,714	$ 4,462	10%
Productivity ratio – TEB	**30.2%**	32.4%		
Productivity ratio – TEB – Adjusted for the operational provision	**30.2%**	28.8%		

Income Taxes

The Company's effective income tax rate in 2012 was 22.4% compared to 25.9% in 2011. The 3.5% difference was largely due to the impact of an investment gain realized in the second quarter of 2012. Excluding the effects of this investment gain, the Company's effective tax rate remained consistent with the prior year at 25.9%.

The Company's statutory tax rate was 26.3% for 2012, compared to 28.1% in prior year. With the effect of the investment gain excluded, the Company's effective tax rate 25.9% was lower than the statutory tax rate as a result of tax-exempt dividend income earned from its securities portfolio, offset by non-deductible expenses, movements of the Company's temporary differences and other adjustments.

Return on Equity and Assets

The Company delivered an ROE of 18.7% in 2012, compared to 16.5% in 2011. Annualized return on average assets was 0.7%, compared to 0.6% in the prior year.

Dividends

On February 26, 2013, the Company's Board of Directors declared a quarterly dividend in the amount of $0.14 per common share, payable on April 4, 2013, to common shareholders of record at the close of business on March 15, 2013. In total, the Company increased its dividends declared to $0.52 per common share in 2012 from $0.45 in 2011, a 16% increase year-over-year. Consistent increases in dividends on common shares reflect, among other things, the Board's confidence in the growth and earnings potential of the Company, the strength of its capital position, and its ability to fund future asset expansion.

Also, on February 26, 2013, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on March 31, 2013, to preferred shareholders of record at the close of business on March 15, 2013.

FINANCIAL REVIEW – BALANCE SHEET

Table 6: Balance sheet highlights

($ THOUSANDS)	2012	2011	Change from 2011	
Total assets	**11,601,440**	10,257,013	1,344,427	13%
Mortgage receivable - non-securitized	**5,266,591**	4,262,147	1,004,444	24%
Mortgage receivable - securitized	**5,342,881**	5,314,940	27,941	1%
Total liquid assets	**965,969**	784,386	181,583	23%
Total liquid assets as a % of total assets	**8.3%**	7.6%	0.7%	9%
Deposits	**5,651,717**	4,627,904	1,023,813	22%
Securitization liabilities	**5,261,670**	5,100,921	160,749	3%
Shareholders' equity	**501,571**	426,640	74,931	18%

Mortgage Portfolio

Total Mortgage Assets

Equitable's mortgage portfolio is diversified across both residential and commercial real estate asset categories and consists of first charge and insured mortgages. Total mortgages receivable increased by $1.0 billion or 10.8% from December 31, 2011 to $10.6 billion at year-end 2012.

The Company's non-securitized mortgage receivable increased by $1.0 billion or 24% during 2012 to $5.3 billion. This increase reflected the successful ongoing emphasis management has placed on growing Equitable's core lending portfolio – particularly single family residential mortgages. The Company's securitized mortgages receivable increased by $27.9 million or 1% compared to 2011 to $5.3 billion as at December 31, 2012.

Table 7 is intended to provide the reader with a view of the components of mortgages receivable on the Company's balance sheet and does not reconcile specifically with the segmented presentation of mortgage balances elsewhere in this MD&A. The disclosures by lending business and property type that follow Table 7 relate only to principal balances and exclude the other components of mortgages receivable detailed within the Table.

Table 7: Mortgage Receivable

($ THOUSANDS)	Non-securitized	Securitized	December 31, 2012 Total
Mortgage principal	$ 5,271,630	$ 5,304,928	$ 10,576,558
Net deferred fees and sundry	(46)	21,385	21,339
Accrued interest	21,627	16,568	38,195
Total mortgage assets	$ 5,293,211	$ 5,342,881	$ 10,636,092
Allowance for credit losses	(26,620)	-	(26,620)
Total mortgage receivable	$ 5,266,591	$ 5,342,881	$ 10,609,472
	49.6%	50.4%	100.0%

($ THOUSANDS)	Non-securitized	Securitized	December 31, 2011 Total
Mortgage principal	$ 4,266,592	$ 5,271,561	$ 9,538,153
Net deferred fees and sundry	(2,726)	26,187	23,461
Accrued interest	17,931	17,192	35,123
Total mortgage assets	$ 4,281,797	$ 5,314,940	$ 9,596,737
Allowance for credit losses	(19,650)	-	(19,650)
Total mortgage receivable	$ 4,262,147	$ 5,314,940	$ 9,577,087
	44.5%	55.5%	100.0%

Mortgage Assets by Lending Business

The Company's Core Lending balances grew at double digit rates on a year-over-year basis. Single Family showed particular strength, with mortgage principal up 46% over 2011. Growth was attributable to strong origination volumes and the Company's success in mortgage renewals. The commercial book contracted slightly in 2012 as a result of Equitable's decision to maintain its pricing and capital allocation discipline in the face of more competitive pricing in the marketplace.

The Securitization Financing portfolio increased by $143 million or 3% compared to a year earlier. The slower growth in this portfolio reflects, in part, management's strategic decision in the latter half of 2011 to reduce the level of securitization activities as a result of lower relative returns on capital. Further, the Company originated and securitized $335 million of mortgages during the year using a new transaction structure that qualifies the assets for derecognition. These derecognized mortgages are included in Equitable's production numbers and generated income for the Company but are not reported as assets on the Company's Consolidated Balance Sheet.

Table 8: Mortgage principal outstanding – by lending business

($ THOUSANDS)	**December 31, 2012**	**% of total**	December 31, 2011	% of total	Change from 2011	
Single Family Lending Services	**$ 3,026,523**	**28.6%**	$ 2,076,659	21.8%	$ 949,864	46%
Commercial Lending Services	**2,134,262**	**20.2%**	2,188,593	22.9%	(54,331)	(2)%
Mortgage - Core Lending	**$ 5,160,785**	**48.8%**	$ 4,265,252	44.7%	$ 895,533	21%
Insured mortgages held for securitization	**110,845**	**1.0%**	1,340	0.0%	109,505	8,172%
Securitized Mortgages[1]	**5,304,928**	**50.2%**	5,271,561	55.3%	33,367	1%
Mortgages - Securitization Financing	**$ 5,415,773**	**51.2%**	$ 5,272,901	55.3%	$ 142,872	3%
Total Mortgage Principal Outstanding	**$ 10,576,558**	**100.0%**	$ 9,538,153	100.0%	$ 1,038,405	11%
Non-securitized mortgage principal[2]	**5,271,630**	**49.8%**	4,266,592	44.7%	1,005,038	24%

(1) *Includes $249.0 million (December 31, 2011 - $256.7 million) of single family dwelling mortgage principal originated through Single Family Lending Services.*
(2) *Non-securitized mortgage principal is comprised of "Mortgages – Core Lending" and "Insured mortgages held for securitization."*

Mortgage Asset Diversification

Management believes that its mortgage portfolio is adequately diversified and that the risk inherent in it is low. In terms of the risk profile of the Company's mortgage portfolio:

- Insured mortgages represented 52% of the mortgage principal outstanding at December 31, 2012 compared to 56% a year earlier, which reflects greater emphasis on the Company's uninsured Core Lending portfolio (see Tables 8 and 9);
- Fixed rate mortgages remained at 89% of total portfolio at December 31, 2012, consistent with December 31, 2011;
- Floating rate mortgages with interest rate floors amounted to 6% of the portfolio as at December 31, 2012; and
- Floating rate mortgages that had no interest rate floors represented the remaining 5% of the portfolio at December 31, 2012.

Management believes that the Company's mortgage portfolio is diversified across geographies and will become more so over time as Equitable expands its national presence. At December 31, 2012, 59% of the Company's mortgages were secured by properties located in Ontario. Of the remaining portfolio, 15% were located in Alberta, 12% were located in Quebec, 7% in British Columbia, 2% in Manitoba, with the remaining 5% in the rest of Canada.

Similarly, the Company's mortgage assets are diversified across property types, and as a result, its exposure to single family residential, other residential, and commercial real estate borrowers is well balanced. At December 31, 2012, single family dwelling mortgages comprised 34% of the total portfolio, up from 28% a year earlier.

Table 9: Mortgage principal outstanding – by property type

				December 31, 2012
($ THOUSANDS)	Uninsured	Insured	Total	% of total
Single family dwelling	$ 3,067,025	$ 48,974	$ 3,115,999	29.5%
Mixed-use property	345,986	-	345,986	3.3%
Multi-unit residential	488,117	836	488,953	4.6%
Commercial	914,344	-	914,344	8.6%
Mortgages held for sale	-	4,807	4,807	0.0%
Construction	290,696	-	290,696	2.7%
Mortgage principal – Core Lending	$ 5,106,168	$ 54,617	$ 5,160,785	48.8%
Single family dwelling	-	443,462	443,462	4.2%
Multi-unit residential	-	4,972,311	4,972,311	47.0%
Mortgage principal – Securitization Financing	$ -	$ 5,415,773	$ 5,415,773	51.2%
Total Mortgage Principal Outstanding	$ 5,106,168	$ 5,470,390	$ 10,576,558	100.0%
	48.3%	51.7%	100.0%	

							December 31, 2011
($ THOUSANDS)		Uninsured		Insured		Total	% of total
Single family dwelling	$	2,132,410	$	61,975	$	2,194,385	23.0%
Mixed-use property		345,154		-		345,154	3.6%
Multi-unit residential		397,954		1,102		399,056	4.2%
Commercial		962,457		-		962,457	10.1%
Mortgages held for sale		15,863		15,672		31,535	0.3%
Construction		332,860		-		332,860	3.5%
Mortgage principal – Core Lending	$	4,186,698	$	78,749	$	4,265,447	44.7%
Single family dwelling		-		477,467		477,467	5.0%
Multi-unit residential		-		4,795,239		4,795,239	50.3%
Mortgage principal – Securitization Financing	$	-	$	5,272,706	$	5,272,706	55.3%
Total mortgage principal outstanding	$	4,186,698	$	5,351,455	$	9,538,153	100.0%
		43.9%		56.1%		100.0%	

Mortgage Asset Securitization

The Company originates CMHC and other insured mortgages for the purpose of securitization. The Company also insures previously originated uninsured mortgages to securitize them when it has an opportunity to reduce its funding costs and increase its rate of return on a risk adjusted basis. Securitization results in the creation of an MBS which the Company can then sell directly to a third party investor or to the Canada Housing Trust ("CHT") through the CMB program, or retain on the Company's Consolidated Balance Sheet. All securitized mortgages are reported on the Company's Consolidated Balance Sheet as mortgages receivable – securitized.

When the Company chooses to sell the MBS to a third party or the CHT, it applies the IFRS derecognition rules to determine whether it has effectively transferred substantially all the risk and rewards associated with the mortgages to a third party. Since the transition to IFRS and until Q3 2012, the Company has retained a material portion of the risk and rewards of all securitized mortgages and therefore recognized these mortgages and an associated securitization liability on its balance sheet. Interest income and expenses are recognized over the life of these mortgages.

In Q3 2012, the Company was able to develop transaction structures that transfer substantially all the risk and rewards associated with the mortgages, which resulted in the full or partial derecognition of the securitized mortgage and an up-front gain on sale. In some cases, the Company may retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's balance sheet.

As a result of these new transaction structures, the Company increased its level of origination and securitization activity in the second half year of 2012. The Company securitized $335 million under this new structure and recognized $2.0 million of related up-front gains. Equitable expects to continue originating or renewing, and subsequently securitizing insured residential mortgages at levels that are higher than those in the first half of 2012.

Table 10: Mortgage principal securitized

($ THOUSANDS)	Single family	Multi-unit residential	Total	December 31, 2012 Liability Principal
Mortgages on-balance sheet:				
Securitized and sold	$ 10,045	$ 576,679	$ 586,724	$ 586,622
Securitized and retained	191,242	6,000	197,242	N/A
Mortgages derecognized	149,595	185,754	335,349	N/A
Total	$ 350,882	$ 768,433	$ 1,119,315	$ 586,622

($ THOUSANDS)	Single family	Multi-unit residential	Total	December 31, 2011 Liability Principal
Mortgages on-balance sheet:				
Securitized and sold	$ 151,677	$ 715,453	$ 867,130	$ 861,980
Securitized and retained	91,510	59,470	150,980	N/A
Mortgages derecognized	-	-	-	N/A
Total	$ 243,187	$ 774,923	$ 1,018,110	$ 861,980

Mortgage Asset Production

Overall mortgage production was $3.5 billion for the year, up $624 million or 22% from 2011. Commensurate with Equitable's strategic focus, $2.4 billion or 70% of the mortgages funded during the year were Core Lending mortgages. Within Core Lending, Single Family production was up by 40% and Commercial mortgage production was down by 11% compared with 2011. Commercial production decreased by 11% in 2012, due to a more intense competitive environment. The Company increased its securitization activities in the second half of 2012 and experienced high demand for its multi-unit residential product, which led to a 25% increase in Securitization Financing production compared to 2011.

Table 11: Mortgage production – by lending business

($ THOUSANDS)	2012 Mortgage principal funded	2012 % of total	2011 Mortgage principal funded	2011 % of total	Change from 2011	
Single Family Lending Services	$ 1,762,786	50.8%	$ 1,260,928	44.3%	$ 501,858	40%
Commercial Lending Services	680,518	19.6%	761,348	26.7%	(80,830)	(11%)
Mortgage production – Core Lending	$ 2,443,304	70.4%	$ 2,022,276	71.0%	$ 421,028	21%
Securitization Financing	1,029,708	29.6%	826,463	29.0%	203,245	25%
Total mortgage production	$ 3,473,012	100.0%	$ 2,848,739	100.0%	$ 624,273	22%

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 insured residential and Core Lending mortgages, and that relationship drives a significant portion of the business of the Company's Securitization financing segment.

Credit Quality and Allowance for Credit Losses

Table 12: Mortgage credit quality

($ THOUSANDS)	2012	2011	Change from 2011	
Net realized loan losses for the year	**1,022**	8,636	(7,614)	(88%)
Gross impaired mortgage assets [1]	**36,408**	28,196	8,212	29%
Net impaired mortgage assets [1][2]	**31,748**	24,331	7,417	31%
Allowance for credit losses	**26,620**	19,650	6,970	36%
Allowance for credit losses as a % of total mortgage assets	**0.25%**	0.21%		0.04%
Mortgage principal in arrears 90 days or more [3]	**33,606**	20,770	12,836	62%
Mortgage principal in arrears 90 days or more as a % of total mortgage principal [3]	**0.32%**	0.22%		0.10%

(1) Conventional mortgages are deems to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.
(2) Net impaired mortgages reflect gross impaired mortgage assets less individual allowances.
(3) Mortgage principal in arrears 90 days or more does not include 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 those markets where it lends. When management judges that the 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. The Company experienced a low level of actual losses in 2012 with net realized loan losses totaling only $1.0 million. This compares favourably with 2011 when the Company realized $8.6 million of actual losses. Given these loss experiences and the quality of the portfolio, management is comfortable that its allowances for credit losses adequately provide for the risk of loss. At December 31, 2012, total allowances for credit losses as a percentage of total mortgage assets outstanding was 0.25% compared to 0.21% a year earlier. As a measure of the adequacy of total allowances at the end of 2012, 73% of the portfolio's gross impaired mortgage assets were covered by the Company's total allowances for credit losses, up from 70% as at December 31, 2011.

Net impaired mortgages were 0.30% of total mortgage assets outstanding at December 31, 2012, compared to 0.35% at September 30, 2012 and 0.25% at the end 2011. Mortgages in arrears 90 days or more were 0.32% of total mortgage principal outstanding at December 31, 2012 compared to 0.31% at September 30, 2012 and 0.22% a year earlier. Arrears were unusually low in the latter half of 2011 and the first half of 2012, and the recent increase brings the Company's arrears rates more in-line with historic norms. Mortgages in early stage delinquency, between 30 to 89 days past due, amounted to 0.31% of total outstanding principal at December 31, 2012, compared to 0.22% at December 31, 2011 and 0.34% at December 31, 2010. Early stage delinquency is a leading indicator of credit quality in future periods and management believes that, despite the recent rise, these relatively low levels of delinquency reflect the health of the Company's mortgage portfolio and its ongoing success in managing defaults.

Liquidity Investments and Equity Securities

The Company holds sufficient levels of liquidity on its balance sheet to ensure that it is well-positioned to manage unexpected events that may reduce its access to funding. Over the past several years, due to the ongoing global macroeconomic and capital markets uncertainty, management chose to maintain high levels of liquidity, notwithstanding the impact on NIM. 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 to ensure the collection of its other receivables, discharge its liabilities, and meet its other obligations. Actual liquidity may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality.

At December 31, 2012, assets held for the purpose of providing liquidity protection amounted to $825 million and represented 7.1% of Equitable Trust's total assets, compared to 5.7% at December 31, 2011. Liquidity was higher at December 31, 2012, partly because of the $445 million in mortgage commitments issued by the Company that were outstanding at that date, compared to $388 million at December 31, 2011.

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 its investments in publically traded common and preferred shares. Total liquid assets were $966 million at December 31, 2012, as compared to $784 million at the prior year end, and represented 8.3% of the Company's total assets.

The majority of the Company's equity securities are preferred shares that are held mainly to yield tax-preferred dividend income, and are recorded at fair value. Unrealized changes in the fair value of certain designated shares are included in income while unrealized changes in the fair value of all other shares are included in other comprehensive income, net of tax. At December 31, 2012, equity securities were $57.4 million or 29% lower than at December 31, 2011. The decrease resulted from $42.7 million of sales and redemptions net of purchases, $2.8 million of premium amortization, $0.3 million in realized and unrealized gains, and a $12.2 million reduction in the carrying value of certain investments. The reductions in the investment carrying values were offset by the receipt of $14.2 million in associated dividends, so did not result in a net economic loss. The majority of security sales during 2012 related to a planned reduction in the portfolio size, related to more demanding capital rules for certain investments that became effective in 2013.

Table 13: Liquid assets

($ THOUSANDS)	**2012**	2011	Change from 2011	
Eligible deposits with regulated financial institutions [1]	**$ 379,184**	$ 170,558	$ 208,626	122%
Debt securities issued by regulated financial institutions	**217,709**	94,999	122,710	129%
Government guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**10,173**	9,967	206	2%
Debt securities issued by Government of Canada	**-**	34,145	(34,145)	(100%)
Debt securities guaranteed by Government of Canada	**26,519**	28,400	(1,881)	(7%)
Mortgages held in the form of debt securities guaranteed by Government of Canada [2]	**201,202**	247,785	(46,583)	(19%)
Obligations under repurchase agreements	**(9,882)**	-	(9,882)	-
Assets held for regulatory purposes	**$ 824,905**	$ 585,854	$ 239,051	41%
Other deposits with regulated financial institutions	**263**	287	(24)	(8%)
Equity securities	**140,801**	198,245	(57,444)	(29%)
Total liquid assets	**$ 965,969**	$ 784,386	$ 181,583	23%
Total assets held for regulatory purposes as a % of total Equitable Trust asset	**7.1%**	5.7%		
Total liquid assets as a % of total assets	**8.3%**	7.6%		

(1) Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $16.9 million (December 31, 2011 – $16.2 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $46.7 million (December 31, 2011 – $66.9 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

(2) Mortgages held in the form of debt securities represent mortgages securitized and retained by the Company and are reported in mortgages receivable – securitized. The value reported above represents the fair market value of the associated MBS securities

Other Assets

Other assets decreased $2.0 million or 8% to $23.6 million from $25.6 million a year earlier. Other assets include sundry receivables and prepaid expenses, capital assets consisting of leasehold improvements, office furniture and computer equipment, the fair value of derivative financial instruments, real estate held for sale, and income taxes recoverable.

Other receivables and prepaids increased $1.0 million to $19.5 million. $13.8 million of the year-end 2012 balance related to an alleged fraud that occurred during 2011.

Table 14: Other assets, deferred income taxes and other liabilities

($ THOUSANDS)	2012	2011	Change from 2011	
Prepaid expenses and other	**$ 15,343**	$ 14,981	$ 362	2%
Capital assets	**3,547**	3,764	(217)	(6%)
Receivable relating to securitization activities	**2,773**	2,630	143	5%
Accrued interest and dividends on non-mortgage assets	**1,393**	986	407	41%
Derivative financial instruments – securitization activities	**323**	-	323	N/A
Real estate owned	**227**	197	30	15%
Derivative financial instruments – hedges	**20**	36	(16)	(44%)
Income taxes recoverable	**-**	3,024	(3,024)	(100%)
Total	**$ 23,626**	$ 25,618	$ (1,992)	(8%)

Deposits

As a financial institution offering insured deposits, Equitable Trust's ability to fund its mortgage businesses by attracting depositors and providing superior customer service to them is critical to its success. Equitable Trust is licensed to accept deposits in all Canadian jurisdictions and deposits are sourced primarily through a national distribution network of third party deposit agents. These deposits, which are primarily in the form of GICs, provide a reliable and stable source of funding that can be matched against mortgage maturities and are used to fund most of the Company's liquidity needs.

Total deposit principal outstanding increased $1.0 billion or 23% to $5.6 billion at year end from $4.5 billion at year-end 2011. Cashable GICs represented 13% of total deposits outstanding compared to 15% in 2011. 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 15: Deposits

($ THOUSANDS)	2012	2011	Change from 2011	
Deposits - cashable GICs	**$ 743,572**	$ 700,301	$ 43,271	6%
Deposits - fixed-term GICs	**4,823,465**	3,834,837	988,628	26%
	$ 5,567,037	$ 4,535,138	$ 1,031,899	23%
Deferred deposit agent commissions	**(14,850)**	(12,151)	(2,699)	22%
Accrued interest	**99,530**	104,917	(5,387)	(5%)
Total	**$ 5,651,717**	$ 4,627,904	$ 1,023,813	22%

Securitization Liabilities

Securitization liabilities arise when at the time of securitization and sale, the Company does not transfer substantially all the risks and rewards of ownership associated with the securitized mortgages. As a result, the securitized mortgages legally sold remain on the consolidated balance sheet and a securitization liability representing the proceeds from the transaction is recorded. The majority of the Company's historic securitization transactions do not qualify the securitized mortgages for balance sheet derecognition under IFRS and the obligations associated with those securitizations are recognized on the Consolidated Balance Sheet and accounted for as secured financing.

Table 16: Securitization liabilities

($THOUSANDS)	2012	2011	Change from 2011	
Securitization principal	**$ 5,252,180**	$ 5,093,981	$ 158,199	3%
Deferred net discounts and issuance costs	**(12,016)**	(14,346)	2,330	(16%)
Accrued interest	**21,506**	21,286	220	1%
Total	**$ 5,261,670**	$ 5,100,921	$ 160,749	3%

Debentures and Bank Term Loans

Equitable's debentures are subordinated to the rights of Equitable Trust's depositors and other creditors. Such debentures form an integral part of regulatory capital. The Company's debentures mature between 2017 and 2020, but it 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.

In October 2012, the Company issued $65 million of Series 10 debentures ("Series 10"). The gross proceeds of the offering of the Series 10 were used by the Company to purchase subordinated debentures of Equitable Trust, which qualifies as Tier 2B regulatory capital. Series 10 pays fixed interest semi-annually at an annual rate of 5.399% and matures October 23, 2017.

The Company also has a $12.5 million bank term loan which matures on January 15, 2013. The Company was in compliance with all of the covenants required by its bank loan facility as at December 31, 2012.

Details related to the Company's bank term loan and debentures can be found in Notes 15 and 16 to the consolidated financial statements.

On January 3, 2013 and subsequent to the Company's year-end, Equitable Trust redeemed $9.5 million of its Series 7 debentures and repaid its $12.5 million bank term loan.

Table 17: Debentures and bank term loan

($ THOUSANDS)		2012	2011	Change from 2011	
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	-	- %
Series 10	5.40%	**65,000**	-	65,000	N/A
Total debentures		**$ 117,671**	$ 52,671	$ 65,000	123%
Total bank term loan	6.41%	**12,500**	12,500	-	- %
Total debentures and bank term loan		**$ 130,171**	$ 65,171	$ 65,000	100%

Other Liabilities and Deferred Income Taxes

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, income taxes payable, the fair value of derivative financial instruments, and the future servicing liability of securitized mortgages that achieved derecognition. Other liabilities and deferred tax liabilities totaled $46.4 million as at December 31, 2012, up from $36.4 million in 2011. The increase was mainly due to a changes in the Company's current tax position, mortgagor realty tax balances, and accounts payable and accrued liabilities, which were offset in part by reduced deferred tax liabilities.

Table 18: Other liabilities and deferred income taxes

($ THOUSANDS)	**2012**	2011	Change from 2011	
Mortgagor realty taxes	**$ 22,340**	$ 18,975	$ 3,365	18%
Accounts payable and accrued liabilities	**10,102**	6,802	3,300	49%
Income taxes payable	**4,670**	-	4,670	N/A
Derivative financial instruments – interest rate swaps	**2,301**	2,808	(507)	(18%)
Securitized mortgage servicing liability	**1,518**	-	1,518	N/A
Derivative financial instruments – securitization activities	**-**	2	(2)	(100%)
	$ 40,931	$ 28,587	$ 12,344	43%
Deferred tax liabilities	**5,498**	7,790	(2,292)	(29%)
Total other liabilities and deferred tax liabilities	**$ 46,429**	$ 36,377	$ 10,052	28%

Contractual obligations by year of maturity are outlined in Table 30 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2012.

Shareholders' Equity

Total shareholders' equity increased $74.9 million or 18% to $502 million at December 31, 2012 from $427 million at December 31, 2011, mainly due to the high level of earnings retained by the Company, partly offset by fair value adjustments recorded through other comprehensive income and by dividends paid.

The Company has a Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional and under the terms of the plan cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the 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, 2012, the Company issued 29,222 common shares under the DRIP.

At December 31, 2012, the Company had 15,189,983 common shares issued and outstanding compared to 15,018,401 common shares issued and outstanding at December 31, 2011. As at December 31, 2012 and 2011, the Company had 2,000,000 non-cumulative five-year rate reset preferred shares issued and outstanding.

During 2012, 137,927 options were granted and 210,700 options were forfeited or expired. In addition, 142,360 stock options were exercised that contributed $3.1 million to common share capital. At December 31, 2012, there were 518,817 unexercised stock options, which are or may be exercisable, to purchase common shares for maximum proceeds of $11.9 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 18 (a) of the consolidated financial statements.

Table 19: Shareholders' equity

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2012	2011	Change from 2011	
Shareholders' equity:				
Preferred shares	**$ 48,494**	$ 48,494	$ -	-%
Common shares	**134,224**	129,771	4,453	3%
Contributed surplus	**5,003**	4,718	285	6%
Retained earnings	**323,737**	254,006	69,731	28%
Accumulated other comprehensive loss	**(9,887)**	(10,349)	462	4%
Total shareholders' equity	**$ 501,571**	$ 426,640	$ 74,931	18%
Dividends on common shares	**$ 7,851**	$ 6,742	$ 1,109	16%
Dividends per common share	**$ 0.52**	$ 0.45	$ 0.07	16%
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"). In order to 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").

Equitable Trust's total capital ratio was 17.4% at December 31, 2012 compared to 15.3% at December 31, 2011 (see Table 20). Equitable Trust's Tier 1 capital ratio was 13.5% compared to 13.4% at December 31, 2011. Capital ratios were up year-over-year due to an increase in the absolute levels of the Company's regulatory capital and the benefits of shifting towards lower risk-weighted single family residential mortgage assets (see Table 21). While total assets grew by 13%, risk weighted assets grew by only 11% largely due to the mix shift within the mortgage book. Regulatory capital increased by 27% during the year mainly due to earnings retained by the Company and $65 million of Tier 2 capital raised in October.

During October 2012, the Company raised $65 million of debentures that were in turn invested in the Equitable Trust as Tier 2 capital. Equitable raised this funding in anticipation of upcoming debt maturities and redemptions, and in advance of new rules for capital instruments coming into effect for most Canadian financial institutions in 2013.

Management believes that the Company's current capital base and its earnings in future periods will provide sufficient capital to support its strategic objectives and ongoing growth, even accounting for the planned redemption of some of its existing debt over the next few years.

Also as at December 31, 2012, tangible common equity ratio (see explanation in the Non-GAAP Financial Measures section of this MD&A) was 12.2% compared to 11.9% one year earlier.

Basel III

In December 2012, OSFI issued the final version of the revised Capital Adequacy Requirements ('CAR') Guideline, which was updated to reflect the changes that were approved by the BCBS reforms, commonly referred to as 'Basel III'. This Guideline requires Canadian-regulated financial institutions to meet a minimum 7.0% Common Equity Tier 1 ("CET1") ratio on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments) – starting in Q1 2013. The Company does not believe that its capital ratios will be materially impacted by the revised CAR guideline. Equitable Trust's pro-forma CET1 ratio on an "all-in" basis as at December 31st, 2012 was 12.2%, consistent with its TCE ratio as calculated under Basel II.

Notwithstanding its current capital position, the Company will continue to look for opportunities to optimize its regulatory capital ratios. For example, in 2013 it intends to amend the terms of intercompany preferred shares issued to Equitable Group Inc. by Equitable Trust so that those shares become compliant with certain aspects of OSFI's new CAR guideline and are not subject to phase out. Likewise, as mentioned earlier, the Company will reduce the size of its equity securities portfolio due to more demanding capital requirements for investments held therein.

Table 20: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)		**2012**		2011
Total risk-weighted assets	**$**	**3,767,442**	$	3,383,805
Tier 1 capital:				
Common shares	**$**	**137,303**	$	132,819
Non-cumulative preferred shares		**50,000**		50,000
Contributed surplus		**4,589**		4,303
Retained earnings		**317,754**		248,752
Accumulated other comprehensive loss[1]		**(1,767)**		(2,095)
IFRS transition adjustment[2]		**-**		18,931
Total	**$**	**507,879**	$	452,710
Tier 2 capital:				
Collective allowance[3]	**$**	**21,960**	$	-
Subordinated debentures (Tier 2B)[4]		**125,781**		65,171
Total	**$**	**147,740**	$	65,171
Total regulatory capital	**$**	**655,620**	$	517,881
Regulatory capital to risk-weighted assets:				
Tier 1 capital		**13.5%**		13.4%
Tier 2 capital		**3.9%**		1.9%
Total regulatory capital as a % of total risk-weighted assets		**17.4%**		15.3%
Tangible common equity ratio[5]		**12.2%**		11.9%
Assets-to-capital multiple (ACM)		**12.8**		12.8

(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) *Effective Q2 2012, Equitable Trust's collective allowance is included in the calculation of regulatory capital.*

(4) *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital. The capital value of the Company's subordinated debentures reflects a 20% reduction resulting from the maturity date of the debt falling within 5 years of the regulatory reporting date.*

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

Table 21: Risk-weighted assets of Equitable Trust

($ THOUSANDS)		Amounts	Risk Weighting		December 31, 2012 Risk-weighted Amounts
On-balance sheet:					
Cash and cash equivalents	$	442,785	20%	$	88,558
Securities purchased under reverse repurchase agreements		78,551	0%		-
Investments		439,480	39%		172,885
Mortgage receivables:					
Single Family Lending Services		3,038,724	35%		1,062,608
Commercial Lending Services		2,138,374	96%		2,061,207
Securitization Financing		5,454,334	0%		333
Securitization retained interests		7,263	100%		7,270
Other assets		22,288	92%		20,555
Total Equitable Trust assets subject to risk rating	$	11,621,799		$	3,413,416
Less: Collective allowance		(21,960)			-
Total Equitable Trust assets	$	11,599,839		$	3,413,416
Off-balance sheet:					
Loan commitments					92,380
Derivative contracts					5,958
Total credit risk				$	3,511,754
Operational risk [1]					255,668
Total				$	3,767,442

($ THOUSANDS)		Asset Amounts	Risk Weighting		December 31, 2011 Risk-weighted Amounts
On-balance sheet:					
Cash and cash equivalents	$	253,714	20%	$	50,743
Securities purchased under reverse repurchase agreements		9,967	0%		-
Investments		390,340	39%		181,042
Mortgage receivables:					
Single Family Lending Services		2,086,112	34%		712,811
Commercial Lending Services		2,190,687	95%		2,089,297
Securitization Financing		5,316,072	0%		418
Securitization retained interests		-	100%		-
Other assets		24,829	92%		23,808
Total Equitable Trust assets subject to risk rating	$	10,271,721		$	3,058,119
Less: Collective allowance		(15,785)			-
Total Equitable Trust assets	$	10,255,936		$	3,058,119
Off-balance sheet:					
Loan commitments					103,272
Derivative contracts					5,326
Total credit risk				$	3,166,717
Operational risk [1]					217,088
Total				$	3,383,805

[1] *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.*

Summary of Quarterly Results

Table 22 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but income from prepayment charges and equity investments, as well as 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 22: Summary of quarterly results

	2012				2011			
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
OPERATIONS								
Net income	**20,140**	21,054	22,073	17,940	17,025	13,363	15,735	16,063
Net income available to common shareholders	**19,234**	20,147	21,167	17,034	16,119	12,456	14,829	15,157
EPS – basic	**$ 1.27**	$ 1.34	$ 1.41	$ 1.13	$ 1.07	$ 0.83	$ 0.99	$ 1.01
EPS – diluted	**$ 1.26**	$ 1.33	$ 1.40	$ 1.13	$ 1.07	$ 0.82	$ 0.98	$ 1.00
Net interest income	**40,555**	40,640	38,451	36,524	35,346	34,759	32,461	31,205
NIM – TEB – total assets[(3)(4)]	**1.44%**	1.49%	1.49%	1.45%	1.41%	1.44%	1.43%	1.44%
NIM – TEB – non-securitization assets[(3)(4)]	**2.30%**	2.39%	2.49%	2.57%	2.47%	2.44%	2.53%	2.51%
NIM – TEB – securitization assets[(3)(4)]	**0.47%**	0.54%	0.49%	0.43%	0.45%	0.53%	0.46%	0.52%
Total revenues	**125,727**	123,211	117,824	116,374	114,336	112,744	107,453	104,457
Return on equity – annualized	**17.3%**	18.9%	21.1%	17.7%	17.3%	13.7%	16.8%	18.0%
Return on average assets – annualized	**0.7%**	0.8%	0.8%	0.7%	0.6%	0.5%	0.6%	0.7%
Productivity ratio – TEB[(4)]	**30.5%**	29.1%	30.6%	30.8%	29.7%	42.8%	28.7%	27.4%
MORTGAGE PRODUCTION								
Single Family Lending Services	**458,423**	494,123	482,902	327,338	361,045	389,833	293,441	216,611
Commercial Lending Services	**190,113**	214,148	156,510	119,747	192,530	268,060	118,184	182,574
Core Lending	**648,536**	708,271	639,412	447,085	553,575	657,893	411,625	399,185
Securitization financing	**510,737**	288,442	115,698	114,831	90,102	287,638	194,673	254,050
BALANCE SHEET								
Total assets	**11,601,440**	11,228,030	10,867,531	10,470,238	10,257,013	10,254,391	9,567,355	9,172,981
Mortgages receivable	**10,609,472**	10,221,518	9,978,718	9,687,878	9,577,087	9,422,939	8,864,357	8,560,408
Total liquid assets	**965,969**	971,477	975,994	836,770	784,386	956,922	806,575	753,956
Shareholders' equity	**501,571**	481,673	462,473	443,457	426,640	408,434	408,715	397,321
Book value per common share	**$ 29.83**	$ 28.69	$ 27.46	$ 26.26	$ 25.18	$ 24.02	$ 24.05	$ 23.32

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

(2) *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%.*

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

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

FOURTH QUARTER OVERVIEW

Equitable's results in the fourth quarter demonstrated the fundamental operating strength of the business, particularly in the single family residential mortgage segment. The Company produced solid year-over-year growth despite the incremental interest costs associated with carrying more debentures. The fourth quarter was a fitting finish to a record year and provides Equitable with momentum to carry into 2013.

During the three months ended December 31, 2012:

- Diluted earnings per share were $1.26 compared to $1.33 in the immediately preceding quarter and $1.07 in the fourth quarter of 2011;
- Net income was $20.1 million, compared to $21.1 million in the third quarter of 2012 and $17.0 million in the fourth quarter of 2011;
- ROE was 17.3% compared to 18.9% in the prior quarter and 17.3% in the fourth quarter of 2011; and
- Book value per share was $29.83 compared to $25.18 at the close of the prior year, reflecting the Company's strong net income performance in 2012.

During the fourth quarter, activity in the Securitization Financing and Single Family businesses contributed to strong growth in the Company's mortgage book. Management believes the performance of the Single Family business is a reflection of the Company's continued focus on customer service and of recent changes in the competitive landscape. The highlights of the quarter by lending business are:

- **Single Family Lending Services**: Single Family mortgage principal balances increased by $185 million over the prior quarter. Single Family now represents 59% of total Core Lending mortgage principal, up from 57% in Q3 2012 (see Table 8). Single Family mortgage production was $458 million in the quarter, up 27% from $361 million in Q4 2011, and represented 40% of production in the fourth quarter.
- **Commercial Lending Services**: Commercial Lending principal balances were down by $35.5 million over the third quarter of 2012. Quarterly Commercial Lending Services production was $190 million, compared to $214 million in Q3 2012, and $193 million same quarter last year. Balances declined year-over-year due to Equitable's decision to maintain its pricing and capital allocation discipline in the face of heightened price competition in the commercial mortgage marketplace.
- **Securitization Financing**: Securitization Financing mortgage principal balances increased $238 million to $5.4 billion from $5.2 billion at September 30, 2012. Mortgage production was $511 million in the quarter, up $421 million from the same quarter in 2011 reflecting the Company's renewed emphasis on the business. $171 million of mortgages were also derecognized in Q4 2012.

Table 23: Mortgage production – by lending business

	Three months ended					
	December 31, 2012		December 31, 2011			
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Change from 2011	
Single Family Lending Services	**$ 458,423**	**39.5%**	$ 361,045	56.1%	$ 97,378	27%
Commercial Lending Services	**190,113**	**16.4%**	192,530	29.9%	(2,417)	(1%)
Mortgage production – Core Lending	**$ 648,536**	**55.9%**	$ 553,575	86.0%	$ 94,961	17%
Securitization Financing	**510,737**	**44.1%**	90,102	14.0%	420,635	467%
Total mortgage production	**$ 1,159,273**	**100.0%**	$ 643,677	100.0%	$ 515,596	80%

Net Interest Income

Net interest income of $40.6 million was up by $5.2 million or 15% from the same quarter a year ago. The growth resulted from increases in both the asset book and NIMs.

Average assets increased $1.3 billion or 12% on a year-over-year basis. Total NIM as a percentage of average assets increased three basis points to 1.44% from 1.41% in Q4 2011. The increase was largely due a shift in portfolio mix, as growth in the higher NIM non-securitized mortgage portfolio outpaced growth in securitized assets.

NIM on non-securitized assets was down to 2.30% in the fourth quarter of 2012 compared to 2.39% in the prior quarter and 2.47% in the same quarter of 2011. The reduction from 2011 reflected the Company's continued emphasis on Single Family residential mortgages, which generally earn lower rates of mortgage interest relative to Commercial mortgages but are more profitable on a capital adjusted basis. Year-over-year, NIM was also affected by the cost of carrying additional debentures and an increase in lower-yielding liquid assets.

As compared with the prior quarter, NIM on non-securitized assets was down 9 basis points. This sequential decrease was driven mainly by lower prepayment penalty income and higher debenture interest expenses. Excluding those items, the NIM on the mortgage portfolio was relatively consistent quarter over quarter.

NIM on securitized mortgages increased two basis points to 0.47% in the fourth quarter of 2012 from 0.45% in the prior year quarter as one-time adjustments offset lower margins on the mortgage assets. Margins were lower mainly due to the fact that more recent originations have been at lower spreads.

Relative to Q3 2012, NIM on securitized assets decreased by 7 basis points, primarily as a result of lower prepayment penalty income. The NIM on the securitized mortgage portfolio was flat quarter-over-quarter.

Provision for Credit Losses

The Company's provision for credit losses was $2.2 million in the quarter, up from $1.9 million in the prior quarter and $1.0 million in the same period last year. The $1.2 million increase year-over-year relates largely to a $0.9 million provision reversal in Q4 2011. In that quarter, an allowance for accrued interest on an impaired mortgage was released following the collection of cash payments for the interest.

Other Income

Other income was $2.1 million or 19% in the fourth quarter, an increase of $1.1 million from Q4 2011. The year-over-year growth reflected gains of $1.2 million on the securitizations of $171 million of insured residential mortgages executed under a new transaction structure to which balance sheet derecognition applies.

Non-interest Expenses

Non-interest expenses increased $2.1 million in the fourth quarter compared to the same quarter of 2011. As a component of non-interest expenses, compensation costs for the quarter increased $1.4 million. This increase reflected the growth of the Company's underlying business and the investment in Equitable's employee base required to maintain its high level of service; one of the Company's significant competitive advantages. The year-over-year growth rate in quarterly expenses trended down over the course of the year.

Income Taxes

The Company's effective income tax rate in the quarter was 26.2%, compared to 25.6% in the prior quarter and 27.8% in the same quarter last year. The 1.6% difference year-over-year is largely due the reduction in the Company's statutory rate from 28.1% to 26.3%.

Table 24: Unaudited interim consolidated statements of income - fourth quarters 2012 and 2011

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	For the three months ended December 31, 2012	December 31, 2011
Interest income:		
Mortgages	**$ 65,893**	$ 55,037
Mortgages – securitized	**52,362**	54,372
Investments	**2,872**	2,756
Other	**2,509**	1,159
	123,636	113,324
Interest expense:		
Deposits	**35,648**	30,330
Securitization liabilities	**45,609**	46,558
Bank term loans	**205**	204
Subordinated debentures	**1,597**	881
Other	**22**	5
	83,081	77,978
Net interest income	**40,555**	35,347
Provision for credit losses	**2,200**	1,037
Net interest income after provision for credit losses	**38,355**	34,309
Other income:		
Fees and other income	**1,001**	976
Net (loss) on investments	**(63)**	36
Gains on securitization activities and income from retained interests	**1,153**	-
	2,091	1,012
Net interest and other income	**40,446**	35,321
Non-interest expenses:		
Compensation and benefits	**7,413**	5,994
Other	**5,836**	5,112
	13,249	11,106
Income before income taxes and fair value (loss)/gain	**27,197**	24,215
Fair value (loss)/gain on derivative financial instruments – securitization activities	**97**	(647)
Income before income taxes	**27,294**	23,568
Income taxes		
Current	**8,058**	6,684
Deferred	**(904)**	(141)
	7,154	6,543
Net income	**$ 20,140**	$ 17,025
Earnings per share		
Basic	**$ 1.27**	$ 1.07
Diluted	**$ 1.26**	$ 1.07

Table 25: Unaudited interim consolidated statements of comprehensive income - fourth quarters 2012 and 2011

($ THOUSANDS)	For the three months ended December 31, 2012	December 31, 2011
Net income	**$ 20,140**	$ 17,025
Other comprehensive income (loss), net of tax:		
Available for sale investments:		
Net unrealized gains (losses) from change in fair value	**54**	1,546
Reclassification of net gains to income	**(123)**	(139)
	(69)	1,407
Income tax recovery (expense)	**18**	(394)
	(51)	1,013
Cash flow hedges:		
Net unrealized losses from change in fair value	**(210)**	2,773
Reclassification of net gains to income	**624**	170
	414	2,943
Income tax recovery (expense)	**(108)**	(825)
	306	2,118
Total other comprehensive income (loss)	**255**	3,131
Total comprehensive income	**$ 20,395**	$ 20,157

Table 26: Unaudited interim consolidated statements of cash flows - fourth quarter 2012 and 2011

($ THOUSANDS)	For the three months ended December 31, 2012	December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 20,140**	$ 17,025
Adjustments to determine cash flows relating to operating activities:		
Financial instruments at fair value through income	**(2,417)**	(1,778)
Securitization gains	**(1,159)**	-
Depreciation of capital assets	**297**	221
Provision for credit losses	**2,200**	1,037
Net gain on sale or redemption of investments	**963**	(52)
Income taxes	**7,083**	6,543
Income taxes paid	**(4,653)**	(3,878)
Stock-based compensation	**261**	247
Amortization of premiums/discounts on investments	**1,187**	767
Net increase in mortgages receivable	**(563,040)**	(155,077)
Net increase in deposits	**105,357**	(43,234)
Change in obligations related to securities under repurchase agreements	**7,919**	-
Net change in securities purchased under reverse repurchase agreements	**(18,724)**	141,301
Net change in securitization liability	**160,697**	23,869
Net interest income, excluding non-cash items	**(38,157)**	(36,627)
Interest received	**121,768**	108,468
Interest paid	**(86,366)**	(74,375)
Other assets	**(1,962)**	(1,292)
Other liabilities	**11,669**	8,372
Dividends received	**2,755**	2,534
Cash flows used in operating activities	**(273,852)**	(5,929)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of subordinated debentures	**65,000**	-
Dividends paid on preferred shares	**(906)**	(906)
Dividends paid on common shares	**(1,889)**	(1,482)
Proceeds from issuance of common shares	**2,034**	344
Cash flows from (used in) financing activities	**64,239**	(2,044)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(50,174)**	(12,952)
Proceeds on sale or redemption of investments	**72,634**	21,843
Net change in Canada Housing Trust re-investment accounts	**4,010**	199
Changes in restricted cash	**36,272**	(3,106)
Proceeds from loan securitizations	**170,474**	-
Securitization retained interest	**174**	-
Changes in interest reinvestment account	**-**	-
Purchase of capital assets	**(412)**	(288)
Cash flows from investing activities	**232,978**	5,696
Net decrease in cash and cash equivalents	**23,365**	(2,277)
Cash and cash equivalents, beginning of period	**356,082**	173,122
Cash and cash equivalents, end of period	**$ 379,447**	$ 170,845

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.

(i) IAS 1 Presentation of Financial Statements

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011, which is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. IAS 1 requires an entity to present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt IAS 1 prospectively in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect IAS 1 to have a material impact on the financial statements.

(ii) IFRS 7 Financial Instrument: Disclosures

Amendment to IFRS 7 Financial Instruments: Disclosures ("IFRS 7") was issued by the IASB in December 2011, which is effective for annual and interim periods beginning on or after January 1, 2013. IFRS 7 contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements of similar arrangements. The amendments are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a Company`s financial position. The Company intends to adopt IFRS 7 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of the adoption of the amendments has not yet been determined.

(iii) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets and was replaced by an updated version in 2010 that added guidance on classification and measurement of financial liabilities. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: a) financial assets measured at amortized cost; or b) financial assets measured at fair value. 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. For financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of change recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iv) IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements ("IFRS 10") 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 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. The IASB issued amendments in June 2012 simplifying the process of adopting IFRS 10 and providing additional relief from certain disclosures. In October 2012, the IASB issued further amendments specifying an industry-specific solution, requiring qualifying investment entities to account for investments in controlled entities at fair value through profit or loss. The consolidation exception is mandatory – not optional. The Company does not expect IFRS 10 to have a material impact on its consolidated financial statements.

(v) 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. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on fair value measurement in the financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for 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.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges interest rate risk associated with CMHC-insured multi-unit residential mortgages and mortgage commitments intended for securitization, as well as certain other mortgages designated as held for trading and certain GICs.

In order to protect against increases 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. MBS are generally sold through the NHA MBS and CMB programs and in most cases reported on the Company's consolidated balance sheet because 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 by either 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 or, by retaining third parties which take over the Company's responsibility to manage the replacement asset risk. In cases where the Company retains the responsibility for replacement assets, the sale of such 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 also 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 issued to fund its mortgages, the Company may use 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 10 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, on market terms and conditions. Related party transactions, including shareholdings and options, are described in Note 22 to the consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include securitization, the commitments it makes to fund its pipeline of mortgage originations (see Note 8 and Note 9 to the consolidated financial statements for the period ended December 31, 2012) and letters of credit issued in the normal course of business.

The Company securitizes insured residential mortgages through the creation of MBS. At December 31, 2012, the outstanding securitized mortgage principal that qualified for derecognition totaled $335 million. The securitization retained interest recorded with respect to selected securitization transactions was $7.3 million and the associated servicing liability was $1.5 million at December 31, 2012.

Letters of credit in the amount of $0.8 million were outstanding at December 31, 2012 (December 31, 2011 – $0.8 million), none of which have been drawn upon.

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, liquidity and funding risk, and interest rate risk.

The Risk Management Framework, Credit Risk Management, Liquidity and Funding Risk Management, and Interest Rate Risk Management sections below form an integral part of the 2012 annual consolidated financial statements as they present required IFRS disclosures as set out in *IFRS 7 Financial Instruments: Disclosures*, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework. The 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 RCC has primary oversight responsibility for operational risk.

The Company's ERM Committee, which is chaired by the Chief Risk Officer ("CRO") and consists of members of senior management, reports to the RCC and assists the Board in fulfilling its oversight and governance responsibilities vis-à-vis the Company's risk management practices and capital adequacy assessment process. To ensure that all significant risks 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, liquidity and funding, and interest rate risks. The Investment Committee has established the Asset and Liability Committee ("ALCO") to identify and analyze the liquidity/funding and interest rate risks faced by the Company, to set appropriate risk limits and controls, and to monitor those risks and adherence to Board approved limits.

The 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 control/management risk, business and 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 three 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 preferred share 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 63.2% of the preferred share equity securities portfolio at December 31, 2012, compared to 74.8% 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 27 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 27: 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, 2012 and 2011, on the basis of the 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 ratings scale.

Table 28: Asset credit quality

($ THOUSANDS)	Neither past due nor impaired						2012
	Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	Total
Cash and cash equivalents	$ 379,447	$ -	$ -	$ -	$ -	$ -	$ 379,447
Restricted cash	63,601	-	-	-	-	-	63,601
Securities purchased under reverse repurchase agreements	78,551	-	-	-	-	-	78,551
Investments:							
Debt securities[1]	244,228	-	-	-	-	-	244,228
Equity securities – preferred shares	83,958	48,938	-	-	-	-	132,896
Canada Housing Trust re-investment accounts	54,452	-	-	-	-	-	54,452
Mortgage receivable	816,295	4,261,629	147,573	31,604	36,110	26,620	5,266,591
Mortgage receivable – securitized	5,325,225	1,355	-	16,003	298	-	5,342,881
Securitization retained interests	7,263	-	-	-	-	-	7,263
Other assets:							
Receivables related to securitization activities	2,772	-	-	-	-	-	2,772
Accrued interest and dividends on non-mortgage assets	1,138	255	-	-	-	-	1,393
Derivative financial instruments – hedges	20	-	-	-	-	-	20
Derivative financial instruments – securitization activities	323	-	-	-	-	-	323
Other	1,312	-	-	-	-	-	1,312
	$ 7,058,585	$ 4,312,177	$ 147,573	$ 47,607	$ 36,408	$ 26,620	$ 11,575,730

($ THOUSANDS)	Neither past due nor impaired						2011
	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
Securities purchased under reverse repurchase agreements	9,967	-	-	-	-	-	9,967
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
Mortgage receivable	702,356	3,359,532	176,085	16,527	27,297	19,650	4,262,147
Mortgage 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.*

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, 2012, the average loan to value ratio of the total portfolio, which includes both insured and uninsured mortgages was 69% (2011 – 69%) and the appraised values of collateral held for mortgages past due but not impaired, as determined when the mortgages were originated, was $61.1 million (2011 – $30.1 million). For impaired mortgages, the most recent appraised value of collateral at December 31, 2012 was $51.9 million (2011 – $43.0 million). It is the Company's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2012 amounted to $0.2 million (2011 – $0.2 million) and were included in Other assets (Note 11). 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, 2012, the fair value of securities received under reverse repurchase agreements that have been sold to facilitate hedging transactions was $14.7 million (2011 – $15.1 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. As at December 31, 2012, no single borrower or group of connected borrowers represented more than $58.3 million (2011 – $57.2 million) or 1.1% (2011 – 1.4%) of uninsured mortgage portfolio. See Table 9 earlier in the MD&A for a breakdown of mortgage principal outstanding by property type.

The Company's mortgage portfolio includes $6.2 billion (2011 – $5.6 billion) of mortgages secured by properties located in the Province of Ontario, $1.6 billion (2011 – $1.4 billion) of mortgages secured by properties located in the Province of Alberta, and $1.3 billion (2011 – $1.3 billion) of mortgages secured by properties located in the Province of Québec. As at December 31, 2012, mortgages secured by properties located in Ontario represented 58.6% (2011 – 58.3%), Alberta 14.7% (2011 – 14.9%), and Québec 12.4% (2011 – 13.1%), of the Company's total mortgage principal outstanding.

Liquidity and Funding Risk Management

Liquidity and Funding risk is defined as the possibility that the Company will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet its financial obligations as they come due. These financial obligations 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 as they come due.

The Board of Directors defines the Company's liquidity and funding risk tolerance, based on recommendations made by the Investment Committee of the Board, the Risk and Capital Committee of the Board and the Enterprise Risk Management Committee of the Company. The Board of Directors reviews and approves the limits to measure and control liquidity and funding 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 liquidity and funding risk management. The Company also maintains a Treasury Committee ("TC") that reviews liquidity reports on a daily basis and reports to the ALCO. The ALCO reviews positions regularly and recommends changes to limits when necessary to the ERM Committee and the 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 to ALCO, which include the Company's overall liquidity and funding position (including limit reporting) and industry liquidity stress indicators.

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

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, 2012 and at the date of this Report.

Table 29: Assets held for liquidity protection

($THOUSANDS)

	Policy minimum	**2012**	2011
Liquidity assets held		**$ 824,905**	$ 585,854
Liquidity assets as a % of estimated 100-day obligations[1]	**21.0%**	**56.2%**	48.2%
Liquidity assets as a % of adjusted total assets[1][2]	**7.5%**	**14.4%**	12.4%

(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 models consider scenarios that incorporate institution-specific, market-specific and combination events. These scenarios model cash flow over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an immediate redemption of notice deposits. In each scenario, the Company must hold sufficient liquid assets 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. As at December 31, 2012, the Company held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all scenarios.

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

Table 30: 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]	$ 5,833,329	$ 3,415,086	$ 2,078,155	$ 340,088	$ -
Securitization liabilities principal and interest[1]	5,813,186	1,381,472	2,106,532	1,181,841	1,143,341
Debentures principal and interest[1]	155,747	15,693	12,468	77,348	50,238
Bank term loans principal and interest[1]	12,507	12,507	-	-	-
Other liabilities	40,378	39,078	640	294	366
Total 2012 contractual obligations	$ 11,855,147	$ 4,863,836	$ 4,197,795	$ 1,599,571	$ 1,193,945
Total 2011 contractual obligations	$ 10,621,283	$ 3,665,965	$ 4,133,768	$ 1,645,979	$ 1,175,571

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

See Note 21 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2012 and 2011.

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, 2012, see Note 23 to the consolidated financial statements.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters. The Company's primary method of managing interest rate risk involves managing, within well-defined boundaries, the potential negative impact of interest rate changes on the Company's earnings and capital. It monitors this risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity ("EVE") and on net interest income. The Company acts upon any mismatches 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 is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

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

The 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, 2012. 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 31: Net interest income shock

($ THOUSANDS)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 5,741	$ (4,506)
Impact on EVE	$ 6,093	$ (4,672)
EVE impact as a % of common shareholders' equity	1.35%	(1.04%)
200 basis point shift		
Impact on net interest income	$ 12,650	$ (4,512)
Impact on EVE	$ 12,730	$ (3,827)
EVE impact as a % of common shareholders' equity	2.83%	(0.85%)

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

Operational Risk

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

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

The 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, which in turn reports on Operational Risk to the Risk and Capital Committee of the Board of Directors.

Legal and Regulatory Risk

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. Also, 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 Company's operations.

Business and Strategic Risk

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

The residential and commercial first mortgage business is highly competitive and Equitable 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), the Mutual Fund Dealers Association ("MFDA"), 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.

The Company also manages this risk through a comprehensive annual strategic planning process, which includes establishing Board-approved business growth strategies and quantifiable performance targets for each business unit over the forthcoming three-to-five 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, 2012. 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 at December 31, 2012 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 at December 31, 2012.

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 2012 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.

UPDATED SHARE INFORMATION

At February 26, 2013, the Company had 15,197,691 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were also 518,817 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $11.9 million.

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

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

- Taxable equivalent basis: 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 2012 reporting periods, the TEB adjustment has been calculated excluding the investment gain associated with one of the Company's security portfolio holdings. For the year ended December 31, 2012, the TEB adjustment was $3.4 million as compared to $3.8 million during 2011.
- Return on equity ("ROE"): this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- Return on average assets: this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.
- Productivity ratio: this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. A lower productivity ratio reflects a more efficient cost structure.
- Net interest margin: this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets – TEB for the period. The assets used in the calculation represent assets employed to generate the income.

- Tangible common equity ("TCE"): this key measure of capital strength is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets.
- Common Equity Tier 1 ("CET1"): this key measure of capital strength, which includes common shareholders' equity, accumulated other comprehensive income excluding cash flow hedge reserve, and regulatory adjustments such as deductions for investments in other financial institutions and intangibles. While there are transitional rules to phase-in these regulatory adjustments , OSFI expects all federally regulated financial institutions to meet the target CET-1 ratio of 7% by the first quarter of 2013.
- Tier 1 and total capital ratios: these adequacy ratios are calculated for the Company's subsidiary, Equitable Trust, in accordance with the guidelines issued by OSFI.
- Adjusted results: in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

REPORTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

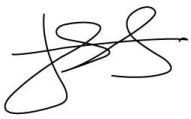
Management maintains and monitors a system of internal control to meet its responsibility for the integrity of the consolidated financial statements. These controls are designed to provide reasonable assurance that the Company's consolidated assets are safeguarded, that transactions are executed in accordance 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 26, 2013

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, 2012 and December 31, 2011, the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equitable Group Inc. as at December 31, 2012 and December 31, 2011 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 26, 2013

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31		**2012**		2011
Assets				
Cash and cash equivalents *(Note 6)*	**$**	**379,447**	$	170,845
Restricted cash *(Note 6)*		**63,601**		83,156
Securities purchased under reverse repurchase agreements		**78,551**		9,967
Investments *(Note 7)*		**439,480**		390,340
Mortgages receivable *(Note 8)*		**5,266,591**		4,262,147
Mortgages receivable – securitized *(Notes 8 & 9)*		**5,342,881**		5,314,940
Securitization retained interests *(Note 9)*		**7,263**		-
Other assets *(Note 11)*		**23,626**		25,618
	$	**11,601,440**	$	10,257,013
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits *(Note 12)*	**$**	**5,651,717**	$	4,627,904
Securitization liabilities *(Note 9)*		**5,261,670**		5,100,921
Obligations under repurchase agreements		**9,882**		-
Deferred tax liabilities *(Note 13)*		**5,498**		7,790
Other liabilities *(Note 14)*		**40,931**		28,587
Bank term loan *(Note 15)*		**12,500**		12,500
Debentures *(Note 16)*		**117,671**		52,671
		11,099,869		9,830,373
Shareholders' equity:				
Preferred shares *(Note 17)*		**48,494**		48,494
Common shares *(Note 17)*		**134,224**		129,771
Contributed surplus *(Note 18)*		**5,003**		4,718
Retained earnings		**323,737**		254,006
Accumulated other comprehensive loss		**(9,887)**		(10,349)
		501,571		426,640
	$	**11,601,440**	$	10,257,013

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	2012	2011
Interest income:		
Mortgages	$ 245,122	$ 206,987
Mortgages – securitized	214,613	213,604
Investments	10,272	10,307
Other	6,520	4,403
	476,527	435,301
Interest expense:		
Deposits	131,042	115,314
Securitization liabilities	184,260	181,694
Bank term loans	813	812
Debentures	4,212	3,493
Other	30	217
	320,357	301,530
Net interest income	156,170	133,771
Provision for credit losses *(Note 8)*	7,992	7,183
Net interest income after provision for credit losses	148,178	126,588
Other income:		
Fees and other income	3,970	3,545
Net gain on investments	629	144
Gains on securitization activities and income from securitization retained interests *(Note 9)*	2,010	-
	6,609	3,689
Net interest and other income	154,787	130,277
Non-interest expenses:		
Compensation and benefits	28,246	22,856
Other *(Note 11)*	21,930	22,858
	50,176	45,714
Income before income taxes and the undernoted fair value gain (loss)	104,611	84,563
Fair value gain (loss) on derivative financial instruments – securitization activities	63	(648)
Income before income taxes	104,674	83,915
Income taxes *(Note 13)*		
Current	25,759	21,026
Deferred	(2,292)	703
	23,467	21,729
Net income	$ 81,207	$ 62,186
Earnings per share *(Note 19)*		
Basic	$ 5.15	$ 3.91
Diluted	$ 5.11	$ 3.88

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31		**2012**		2011
Net income	**$**	**81,207**	$	62,186
Other comprehensive (loss) income:				
Available for sale investments:				
Net unrealized gains from change in fair value		**1,492**		1,470
Reclassification of net gains to income		**(1,709)**		(385)
		(217)		1,085
Income tax recovery (expense)		**57**		(304)
		(160)		781
Cash flow hedges: *(Note 10)*				
Net unrealized losses from change in fair value		**(1,521)**		(13,684)
Reclassification of net losses (gains) to income		**2,365**		(77)
		844		(13,761)
Income tax (expense) recovery		**(222)**		3,860
		622		(9,901)
Total other comprehensive income (loss)		**462**		(9,120)
Total comprehensive income	**$**	**81,669**	$	53,066

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

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

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)
Reinvestment of dividends	-	582	-	-	-	582
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

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 81,207**	$ 62,186
Adjustments to determine cash flows relating to operating activities:		
Financial instruments at fair value through income	**11,930**	2,857
Securitization gains	**(2,005)**	-
Depreciation of capital assets	**1,015**	712
Provision for credit losses	**7,992**	7,183
Net gain (loss) on sale or redemption of investments	**823**	(144)
Income taxes	**23,467**	21,729
Income taxes paid	**(18,791)**	(18,280)
Stock-based compensation	**853**	961
Amortization of premiums/discounts on investments	**2,808**	3,273
Net increase in mortgages receivable	**(1,380,351)**	(1,363,900)
Net increase in deposits	**1,023,813**	749,051
Change in obligations related to investment sold under repurchase agreements	**9,882**	-
Net change in securities purchased and sold under reverse repurchase agreements	**(68,584)**	64,941
Net change in securitization liability	**160,749**	569,241
Net interest income, excluding non-cash items	**(192,678)**	(176,923)
Interest received	**474,547**	431,207
Interest paid	**(305,303)**	(264,312)
Other assets	**(942)**	(28,756)
Other liabilities	**6,854**	5,981
Dividends received	**23,434**	10,028
Cash flows (used in) from operating activities	**(139,280)**	77,035
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of debentures	**65,000**	-
Dividends paid on preferred shares	**(3,625)**	(3,625)
Dividends paid on common shares	**(6,709)**	(5,853)
Proceeds from issuance of common shares	**3,068**	943
Cash flows from (used in) financing activities	**57,734**	(8,535)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(230,037)**	(138,934)
Proceeds on sale or redemption of investments	**185,456**	105,730
Net change in Canada Housing Trust re-investment accounts	**(19,901)**	(20,762)
Change in restricted cash	**19,555**	3,414
Proceeds from loan securitization	**335,661**	-
Securitization retained interests	**212**	-
Purchase of capital assets	**(798)**	(2,345)
Cash flows from (used in) investing activities	**290,148**	(52,897)
Net increase in cash and cash equivalents	**208,602**	15,603
Cash and cash equivalents, beginning of year	**170,845**	155,242
Cash and cash equivalents, end of year	**$ 379,447**	$ 170,845

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 – Basis of Preparation

(a) Statement of Compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2013.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

The critical estimates and judgments made in the preparation of the Company’s consolidated financial statements include probability of default and loss given default for 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.

Note 2 – Basis of Preparation (continued)

(e) Consolidation:

The consolidated financial statements as at and for the twelve months ended December 31, 2012 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 as it has the power to directly or indirectly govern its financial and operating policies and benefit from its activities.

Note 3 – Significant Accounting Policies

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

(a) Financial instruments:

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

Financial instrument assets include cash and cash equivalents, restricted cash, securities purchased under reverse repurchase agreements, investments, mortgages receivable, mortgages receivable – securitized, securitization retained interests and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, derivative financial instruments, obligations under repurchase agreements, bank term loan and 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 designated by management under the fair value option. They are carried at fair value and any related realized and unrealized gains and losses are recognized in the consolidated statements of income.

Classified as held for trading

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.

Note 3 – Significant Accounting Policies (continued)

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.

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.

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.

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 5 for the valuation methods and assumptions used to estimate fair values of financial instruments.

Note 3 – Significant Accounting Policies (continued)

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

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

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

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

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

Financial liabilities

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

(iv) Offsetting

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

(v) Risks associated with financial instruments

The use of financial instruments exposes the Company to credit risk, interest rate risk, and liquidity risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of Company's December 31, 2012 Management's Discussion and Analysis and Note 4 to these consolidated financial statements.

Note 3 – Significant Accounting Policies (continued)

(b) Interest:

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

(c) Cash and cash equivalents:

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

(d) Investments:

Investments that are 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 Other income in the consolidated statements of income.

Available for sale investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. If there is an impairment recognized, any write-down to net realizable value is reported in Other 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 available for sale - common shares are not subsequently reversed through net income.

Investments designated as at fair value through income are reported at fair value on the consolidated balance sheets, with unrealized gains and losses, net of income tax, reported in the consolidated statements of income. Held to maturity investments are recorded at amortized cost on the consolidated balance sheets. Impairment write-downs on investments held to maturity, and any reversals thereof, are recognized in Other income in the consolidated statements of income as incurred.

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

Note 3 – Significant Accounting Policies (continued)

(e) Securities purchased under reverse repurchase agreements:

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

(f) 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) 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. The impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. When a mortgage is classified as impaired, interest income continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the allowance for credit losses.

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

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

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.

Note 3 – Significant Accounting Policies (continued)

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

(g) Allowance for credit losses:

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

Individual allowance

At each reporting date, the Company assesses whether objective evidence of impairment exists 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.

(h) Securitizations:

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

Securitized mortgages and securitization liabilities

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

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

Note 3 – Significant Accounting Policies (continued)

Securitization retained interest and servicing liability

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

Gain on securitization

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

(i) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are 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 being hedged.

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.

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 liabilities in the consolidated statements of income, amortized over the term of the securitization liability.

Note 3 – Significant Accounting Policies (continued)

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.

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 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 assets and/or Other liabilities with changes in fair value recorded in Interest income – mortgages. Changes in the fair value of mortgages designated as at fair value through income are also included in Interest income – mortgages.

The 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 assets and/or Other liabilities with changes in fair value recorded in Interest income – mortgages. Changes in the fair value of mortgages designated as at fair value through income are also included in Interest income – mortgages.

The 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 and/or Other liabilities with changes in fair value recorded in Interest expense – deposits. Changes in the fair value of GICs designated as at fair value through income are also included in Interest expense – deposits.

The fair value of bond forwards used to manage interest rate exposures for mortgage commitments are included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from retained interest. Changes in fair value of mortgages and mortgage commitments are also included in Other income – gains on securitization activities and income from retained interests.

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

(j) Employee benefits:

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

(i) 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.

Note 3 – Significant Accounting Policies (continued)

(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 is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Compensation expense related to the stock-based compensation plan is included in the consolidated statements of income.

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

In addition, the Company also 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.

During the year, the Company initiated an Employee Stock Purchase Plan ("ESPP") for its employees. Under this plan, employees have the option of directing a portion of their gross salary towards the purchase of the Company's common shares. The Company matches a fixed portion of employee share purchases up to specified maximum. Employer contributions are recognized as an expense in the period incurred.

Note 3 – Significant Accounting Policies (continued)

(k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in 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.

(l) Capital assets:

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

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

Leasehold improvements are depreciated on a straight-line basis over the 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.

(m) Leases:

Operating leases

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

Note 3 – Significant Accounting Policies (continued)

(n) 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.

(o) Obligations under repurchase agreements:

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

(p) Bank term loans and debentures:

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

(q) Share capital:

Issuance costs

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

(r) Fees:

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

(s) Earnings per share:

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

Note 3 – Significant Accounting Policies (continued)

(t) Provisions:

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

(u) Future accounting changes:

(i) IAS 1 Presentation of Financial Statements

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011, which is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. IAS 1 requires an entity to present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt IAS 1 prospectively in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect IAS 1 to have a material impact on the financial statements.

(ii) IFRS 7 Financial Instrument: Disclosures

Amendment to IFRS 7 Financial Instruments: Disclosures ("IFRS 7") was issued by the IASB in December 2011, which is effective for annual and interim periods beginning on or after January 1, 2013. IFRS 7 contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements of similar arrangements. The amendments are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a Company`s financial position. The Company intends to adopt IFRS 7 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of the adoption of the amendments has not yet been determined.

(iii) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 to provide guidance on classification and measurement of financial assets and was replaced by an updated version in 2010 that added guidance on classification and measurement of financial liabilities. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: a) financial assets measured at amortized cost; or b) financial assets measured at fair value. 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. For financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of change recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

Note 3 – Significant Accounting Policies (continued)

(iv) IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements ("IFRS 10") 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 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. The IASB issued amendments in June 2012 simplifying the process of adopting IFRS 10 and providing additional relief from certain disclosures. In October 2012, the IASB issued further amendments specifying an industry-specific solution, requiring qualifying investment entities to account for investments in controlled entities at fair value through profit or loss. The consolidation exception is mandatory – not optional. The Company does not expect IFRS 10 to have a material impact on its consolidated financial statements.

(v) 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. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on fair value measurement in the financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 34 to 42.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

Note 5 – Financial Instruments (continued)

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

These financial assets and financial liabilities are measured on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value 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.

Cash and cash equivalents and restricted cash are measured at fair value, which approximates cost due to their short maturities.

(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 loan and debentures

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

(vii) Derivatives

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

Note 5 – Financial Instruments (continued)

The following table presents the carrying values for each category of financial assets and liabilities and their estimated fair values as at December 31, 2012 and 2011. The table does not include assets and liabilities that are not considered financial instruments.

2012	Financial instruments required to be classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 379,447	$ -	$ -	$ -	$ -	$ 379,447	$ 379,447
Restricted cash	63,601	-	-	-	-	63,601	63,601
Securities purchased under reverse repurchase agreements	-	-	-	-	78,551	78,551	78,551
Investments	5,912	-	54,252	379,316	-	439,480	439,480
Mortgages receivable	-	52,379	-	-	5,214,212	5,266,591	5,284,361
Mortgages receivable – securitized	-	-	-	-	5,342,881	5,342,881	5,520,893
Securitization retained interests	-	-	-	7,263	-	7,263	7,263
Other assets:							
Derivative financial instruments – hedges	20	-	-	-	-	20	20
Derivative financial instruments – securitization activities	323	-	-	-	-	323	323
Other	-	-	-	-	5,478	5,478	5,478
Total financial assets	$ 449,303	$ 52,379	$ 54,252	$ 386,579	$ 10,641,122	$ 11,583,635	$ 11,779,417
Financial liabilities:							
Deposits	$ -	$ 517,079	$ -	$ -	$ 5,134,638	$ 5,651,717	$ 5,669,486
Securitization liabilities	-	-	-	-	5,261,670	5,261,670	5,467,345
Obligations under repurchase agreements	-	-	-	-	9,882	9,882	9,882
Other liabilities:							
Derivative financial instruments – interest rate swaps	2,301	-	-	-	-	2,301	2,301
Other	-	-	-	-	38,298	38,298	38,298
Bank term loan	-	-	-	-	12,500	12,500	12,516
Debenture liabilities	-	-	-	-	117,671	117,671	118,983
Total financial liabilities	$ 2,301	$ 517,079	$ -	$ -	$ 10,574,659	$ 11,094,039	$ 11,318,811

Note 5 – Financial Instruments (continued)

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
Securities purchased under reverse repurchase agreements	-	-	-	-	9,967	9,967	9,967
Investments	-	-	34,551	355,789	-	390,340	390,340
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 loan	-	-	-	-	12,500	12,500	12,577
Debenture liabilities	-	-	-	-	52,671	52,671	54,953
Total financial liabilities	$ 2,810	$ -	$ -	$ -	$ 9,819,602	$ 9,822,412	$ 10,162,692

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3 – valuation techniques with significant unobservable market inputs.

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

Note 5 – Financial Instruments (continued)

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

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

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	260,790	94,999	-	355,789
Mortgages receivable	-	54,163	-	54,163
Other assets:				
Derivative financial instruments – hedges	-	36	-	36
Total financial assets	$ 514,791	$ 149,198	$ -	$ 663,989
Financial liabilities:				
Deposits	$ -	$ -	$ -	$ -
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 – Cash and Cash Equivalents and Restricted Cash

	2012	2011
Deposits with regulated financial institutions	$ 379,447	$ 170,845
Cash and cash equivalents	379,447	170,845
Restricted cash – securitization	$ 46,698	$ 66,991
Restricted cash – interest rate swaps	16,903	16,165
Restricted cash	$ 63,601	$ 83,156

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 7 – Investments

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

	Maturities					2012	2011
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	With no specific maturity	Total	Total
Debt securities issued by regulated financial institutions	$ 177,596	$ 40,113	$ -	$ -	$ -	$ 217,709	$ 94,999
Debt securities issued by Government of Canada	-	-	-	-	-	-	34,145
Debt securities guaranteed by Government of Canada	-	8,736	-	17,783	-	26,519	28,400
Equity securities – preferred shares	-	1,389	-	-	131,507	132,896	198,245
Equity securities – common shares [1]	-	-	-	-	7,904	7,904	-
Canada Housing Trust re-investment accounts[2]	19,452	32,934	-	2,066	-	54,452	34,551
	$ 197,048	$ 83,172	$ -	$ 19,849	$ 139,411	$ 439,480	$ 390,340

[1] *Includes a security with a carrying value of $5.9 million which is classified as at fair value through income. This carrying value includes an unrealized loss of $11.6 million which has been offset by a dividend received of $13.7 million.*

[2] *Excludes reverse repurchase agreements of 68.0 million (2011 - nil) which are reclassified under Securities purchased under reverse repurchase agreements.*

Note 7 – Investments (continued)

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

	2012	2011
Debt securities issued by regulated financial institutions	**$ 182**	$ (29)
Debt securities issued by Government of Canada	**-**	547
Debt securities guaranteed by Government of Canada	**1,257**	1,575
Equity securities – preferred shares	**(2,968)**	(3,412)
	$ (1,529)	$ (1,319)

During the year ended December 31, 2012, the Company also recognized an impairment loss of $0.4 million related to a common share which is classified as available for sale. This loss has been offset by a dividend received of $0.5 million in the consolidated statements of income.

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2012		**Allowance for credit losses**			
	Gross amount	**Individual**	**Collective**	**Total**	**Net amount**
Mortgages – non securitized	**$ 5,155,308**	**$ 4,660**	**$ 21,960**	**$ 26,620**	**$ 5,128,688**
Residential mortgages – securitized	**5,326,313**	**-**	**-**	**-**	**5,326,313**
Mortgages held for securitization or for sale	**116,276**	**-**	**-**	**-**	**116,276**
Accrued interest	**38,195**	**-**	**-**	**-**	**38,195**
	$ 10,636,092	**$ 4,660**	**$ 21,960**	**$ 26,620**	**$ 10,609,472**

2011		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Mortgages – non securitized	$ 4,231,183	$ 3,865	$ 15,665	$ 19,530	$ 4,211,653
Residential mortgages – securitized	5,297,748	-	-	-	5,297,748
Mortgages held for securitization or for sale	32,683	-	120	120	32,563
Accrued interest	35,123	-	-	-	35,123
	$ 9,596,737	$ 3,865	$ 15,785	$ 19,650	$ 9,577,087

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $114,393 (2011 – $14,831) and other insured mortgages of $1,883 (2011 – $1,987). Also included in this balance are mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date. These mortgages are carried at amortized cost.

Note 8 – Mortgages Receivable (continued)

Included in Mortgages – non securitized 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, 2012, mortgage principal outstanding for these mortgages was $49,135 (2011 – $50,036) and the fair value adjustment was $3,244 (2011 – $4,127).

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

	2012	2011
Changes in fair value recognized in income	**$ (883)**	$ 3,069

(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, 2012, accrued interest on impaired mortgages amounted to $2,858 (2011 - $1,676).

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

			2012	2011
	Gross	**Individual allowance**	**Net**	Net
Mortgages – non securitized	**$ 36,110**	**$ 4,660**	**$ 31,450**	$ 23,432
Residential mortgages – securitized	**298**	**-**	**298**	899
Mortgages held for securitization or for sale	**-**	**-**	**-**	-
	$ 36,408	**$ 4,660**	**$ 31,748**	$ 24,331

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

				2012
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Mortgages – non securitized	**$ 19,586**	**$ 11,186**	**$ 557**	**$ 31,329**
Residential mortgages – securitized	**1,366**	**906**	**13,230**	**15,502**
Mortgages held for securitization or for sale	**-**	**-**	**-**	**-**
	$ 20,952	**$ 12,092**	**$ 13,787**	**$ 46,831**

				2011
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – non securitized	$ 10,576	$ 4,854	$ 927	$ 16,357
Residential mortgages – securitized	2,342	3,224	1,810	7,376
Mortgages held for securitization or for sale	-	-	-	-
	$ 12,918	$ 8,078	$ 2,737	$ 23,733

Note 8 – Mortgages Receivable (continued)

(c) Allowance for credit losses:

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

						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

Note 9 – Derecognition of Financial Assets

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

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

Sale and repurchase agreements

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

Note 9 – Derecognition of Financial Assets (continued)

Securitizations

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

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

(i) MBS securitizations

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

(ii) CMB securitizations

As part of a CMB transaction, the Company may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to the CHT. Any excess or shortfall in these cash flows is absorbed by the Company. These swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. As at December, 31, 2012, the notional amount of these swaps was $3,744,217 (2011 – $3,667,871).

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

Note 9 – Derecognition of Financial Assets (continued)

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

	2012		2011	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**$ 5,342,881**	**$ 9,882**	$ 5,314,940	$ -
Carrying amount of associated liability	**5,261,670**	**9,882**	5,100,921	-
Fair value of assets	**5,520,893**	**9,882**	5,611,687	-
Fair value of associated liability	**5,467,345**	**9,882**	5,392,192	-
Fair value, net position	**$ 53,548**	**$ -**	$ 219,495	$ -

The carrying amount of assets include securitized assets that were not transferred to third parties of $205,704 (2011 – $250,884). The fair value of these assets are $210,422 (2011 – $261,546).

(b) Transfers that are derecognized in their entirety:

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

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

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

	2012	2011
Carrying value and fair value of Securitization retained interests	**$ 7,263**	$ -
Carrying value of Securitized mortgage servicing liability	**1,518**	-
Fair value of Securitized mortgage servicing liability	**1,525**	-
Gains (losses) on mortgages securitized and sold	**2,005**	-
Income from securitization activities and retained interests	**5**	-

Note 9 – Derecognition of Financial Assets (continued)

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

	MBS liabilities
2013	$ 14,683
2014	14,773
2015	14,866
2016	14,962
2017	202,990
Thereafter	110,691
	$ 372,965

Note 10 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond 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.

Fair value hedges

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

Note 10 – Derivative Financial Instruments (continued)

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at December 31, 2012 and 2011 are as follows:

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

							2011
					Fair value		
Derivative instrument and term (years)[1]	Notional amount	Positive current replacement cost[2]	Credit equivalent amount[3]	Risk-weighted balance[4]	Assets	Liabilities	Net[5]
Cash flow hedges:							
Hedging bond forwards							
1 or less	$ 10,200	$ -	$ -	$ -	$ -	$ (2)	$ (2)
Fair value hedges:							
Interest rate swaps							
Over 5	37,322	-	560	112	-	(2,808)	(2,808)
Short sale and repurchase agreement							
1 or less	13,445	36	36	7	36	-	36
	$ 60,967	$ 36	$ 596	$ 119	$ 36	$ (2,810)	$ (2,774)

(1) *In 2012 and 2011 comparative, the terms of the bond forwards and short sale and repurchase agreement are based on the term to maturity of the underlying derivatives. In previous years, the terms of the derivatives were based on the underlying bonds and debt securities.*
(2) *Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments.*
(3) *Credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Guideline.*
(4) *Risk-weighted balance is determined by applying standard measures of counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.*
(5) *Derivative financial assets are included in Other assets (Note 11) and derivative financial liabilities are included in Other liabilities (Note 14).*

Note 10 – Derivative Financial Instruments (continued)

Cash flow hedges:

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

		2012		2011
Fair value changes recorded in Other comprehensive income	**$**	**844**	$	(13,761)
Fair value changes recorded in income		**63**		(648)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities		**2,365**		(77)

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

Time period[1]		**2012**		2011
Less than 1 year	**$**	**39,519**	$	20,471
1 – 3 years		**78,227**		40,942
4 – 5 years		**55,394**		29,541
Greater than 5 years		**53,228**		39,767
	$	**226,368**	$	130,721

[1] *In 2012 and 2011 comparative, the Company has disclosed undiscounted gross cash outflows. In 2011 the Company had disclosed undiscounted net cash outflows.*

Fair value hedges:

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

		2012		2011
Changes in fair value – interest rate swaps	**$**	**(153)**	$	(3,147)
Changes in fair value – bond forward agreements		**(217)**		-
Changes in fair value – short sale and repurchase agreement		**(16)**		(999)
Changes in fair value recognized in income	**$**	**(386)**	$	(4,146)

(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 a significant value and, therefore, are not reported separately.

Note 11 – Other Assets

	2012	2011
Prepaid expenses and other	$ 15,343	$ 14,981
Capital assets	3,547	3,764
Receivable relating to securitization activities	2,773	2,630
Accrued interest and dividends on non-mortgage assets	1,393	986
Derivative financial instruments – securitization activities	323	-
Real estate owned	227	197
Derivative financial instruments – hedges	20	36
Income taxes recoverable	-	3,024
	$ 23,626	$ 25,618

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 $13.8 million (2011 – $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 has recorded a pre-tax operational provision of $5,000 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 $8.8 million (2011 – $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 12 – Deposits

	2012	2011
GICs – cashable, payable on demand	$ 743,572	$ 700,301
GICs – fixed maturity dates	4,823,465	3,834,837
Accrued interest	99,530	104,917
Deferred deposit agent commissions	(14,850)	(12,151)
	$ 5,651,717	$ 4,627,904

Included in GICs with fixed maturity dates are $518,213 (December 31, 2011 − nil) of GICs designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense - deposits. The fair value is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued. The fair value adjustment of ($1,134) (December 31, 2011 – nil) is included in Interest expense – deposits.

The impact of change in fair value for GIC designation as at fair value through income is as follows:

	2012	2011
Changes in fair value recognized in income	$ (1,134)	$ -

Note 13 – Income Taxes

(a) Income tax provision:

	2012	2011
Current tax expense:		
Current year	$ 24,248	$ 20,986
Adjustments for prior years	1,511	40
	25,759	21,026
Deferred tax expense:		
Reversal of temporary differences	(2,207)	585
Adjustments for prior years	(284)	-
Reduction in tax rate	199	118
	(2,292)	703
Total income tax expense	$ 23,467	$ 21,729

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

	2012	2011
Canadian statutory income tax rate	26.3%	28.1%
Increase (decrease) resulting from:		
Tax-exempt income	(5.7%)	(3.3%)
Future tax rate changes	0.2%	0.1%
Non-deductible expenses and other	1.6%	1.0%
Effective income tax rate	22.4%	25.9%

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 liabilities are comprised of:

	2012	2011
Deferred income tax assets:		
Allowance for credit losses	$ 5,788	$ 3,928
Share issue expenses	176	396
	5,964	4,324
Deferred income tax liabilities:		
Net mortgage fees	5,058	6,426
GIC commissions	3,910	3,141
Securitization activities	2,283	2,397
Other	211	150
	11,462	12,114
Net deferred income tax liabilities	$ 5,498	$ 7,790

Note 14 – Other Liabilities

	2012	2011
Mortgagor realty taxes	$ 22,340	$ 18,975
Accounts payable and accrued liabilities	10,102	6,802
Income taxes payable	4,670	-
Derivative financial instruments – interest rate swaps	2,301	2,808
Securitized mortgage servicing liability	1,518	-
Derivative financial instruments – securitization activities	-	2
	$ 40,931	$ 28,587

Note 15 – 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, 2012 and 2011.

(b) Term loan:

As at December 31, 2012, the Company had a non-revolving term loan of $12,500 that was due on maturity together with any accrued and unpaid interest. During the first quarter of 2012, the Company extended the maturity date of the loan from March 16, 2012 to January 15, 2013. There were no material changes in other terms and conditions of the loan. Interest is paid monthly at a fixed rate of 6.41% per annum and the loan balance 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 debentures purchased from Equitable Trust using the proceeds of the loan. 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.

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

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

Note 16 – 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 is redeemable at par at any time at the Company's option. Series 8 is redeemable at par any time on or after December 18, 2014 and Series 9 is redeemable at par at any time on or after December 15, 2015, subject to certain terms and conditions. Any redemption of the debentures, contractual or earlier, is subject to regulatory approval. Interest on Series 7 debentures is paid quarterly at a fixed rate of 7.10% per annum. Interest on Series 8 debentures is payable semi-annually at a fixed rate of 6.50% per annum 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 debentures is payable monthly at a fixed rate of 6.09% per annum 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. Interest on Series 10 debentures is paid semi-annually at a fixed rate of 5.399% per annum.

2012

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

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

Note 17 – 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

Note 17 – Shareholders' Equity (continued)

Issued and outstanding shares:

				2012				2011
	Number of shares		**Amount**	**Dividends per share[1]**	Number of shares		Amount	Dividends per share
Preferred shares, Series 1:	**2,000,000**	**$**	**48,494**	**$ 1.81**	2,000,000	$	48,494	$ 1.81

				2012				2011
	Number of shares		**Amount**	**Dividends per share[1]**	Number of shares		Amount	Dividends per share[1]
Common shares:								
Balance, beginning of year	**15,018,401**	**$**	**129,771**		14,943,437	$	128,068	
Contributions from reinvestment of dividends	**29,222**		**817**		22,264		582	
Contributions from exercise of stock options	**142,360**		**3,068**		52,700		943	
Transferred from contributed surplus relating to the exercise of stock options	**-**		**568**		-		178	
Balance, end of year	**15,189,983**	**$**	**134,224**	**$ 0.52**	15,018,401	$	129,771	$ 0.45

[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 on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 1 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 2 (the "Series 2 preferred shares"), subject to certain conditions, on September 30, 2014 and on September 30 every five years thereafter.

Series 2 - floating rate preferred shares

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

Note 17 – Shareholders' Equity (continued)

(c) Common shares:

Issuances of common shares

During the year ended December 31, 2012, 142,360 (2011 − 52,700) shares were issued as a result of the exercise of stock options for cash consideration of $3,068 (2011 − $943) and $568 (2011 − $178) was transferred from Contributed surplus to Common shares as a result of these exercises. In addition, 29,222 (2011 − 22,264) 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 18 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As at December 31, 2012, the maximum number of common shares available for issuance under the plan was 985,381. The outstanding options expire on various dates to December 2019. A summary of the Company's stock option activity and related information for the years ended December 31, 2012 and 2011 is as follows:

	2012		2011	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**733,950**	**$ 24.36**	966,150	$ 24.20
Granted	**137,927**	**23.17**	7,500	26.01
Exercised	**(142,360)**	**21.55**	(52,700)	17.90
Forfeited/cancelled	**(210,700)**	**32.66**	(187,000)	25.63
Outstanding, end of year	**518,817**	**$ 22.96**	733,950	$ 24.36
Exercisable, end of year	**179,075**	**$ 19.79**	355,150	$ 26.15

Note 18 – Stock-based Compensation (continued)

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2012:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 24.10	5,700	0.2	2,700
$ 21.63	5,000	0.4	-
$ 11.55	77,750	0.9	48,300
$ 20.60	111,100	2.9	58,900
$ 24.75	108,600	3.9	39,300
$ 24.50	70,000	3.9	28,000
$ 26.01	7,500	6.0	1,875
$ 29.32	123,167	6.2	-
$ 27.23	10,000	6.4	-

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $853 (2011 – $961) 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 2012 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	December 31, 2012	December 31, 2011
Risk-free rate	**1.5%**	1.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**30.5%**	30.5%
Expected dividends	**1.9%**	2.1%
Weighted average fair value of each option granted	**$ 6.14**	$ 5.85

(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, 2012, 9,181 DSUs (2011 – 6,773) had been granted by the Company. DSUs outstanding as at December 31, 2012 amounted to 33,095 (2011 – 23,409) and the recorded liability was $1,075 (2011 – $591). Compensation expense recorded in 2012, relating to DSUs outstanding during the year amounted to $483 (2011 – $182).

Note 18 – Stock-based Compensation (continued)

(c) Restricted share unit plan:

The Company's Board approved an RSU plan in 2012. RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the RSU plan, each RSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs when cash dividends are paid on the Company's common shares. Each RSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting. For the period ended December 31, 2012, RSUs granted totaled 20,940 and the compensation expense recorded relating to RSUs outstanding during the period amounted to $188. As at December 31, 2012, RSUs outstanding amounted to 19,652 and the recorded liability was $188.

Note 19 – Earnings Per Share

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

	2012	2011
Earnings per common share – basic:		
Net income	**$ 81,207**	$ 62,186
Dividends on preferred shares	**3,625**	3,625
Net income available to common shareholders	**$ 77,582**	$ 58,561
Weighted average basic number of common shares outstanding	**15,075,159**	14,977,289
Earnings per common share – basic	**$ 5.15**	$ 3.91
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 77,582**	$ 58,561
Weighted average basic number of common shares outstanding	**15,075,159**	14,977,289
Adjustment to weighted average number of common shares outstanding:		
Stock options	**108,683**	124,005
Weighted average diluted number of common shares outstanding	**15,183,842**	15,101,294
Earnings per common share – diluted	**$ 5.11**	$ 3.88

For the year ended December 31, 2012, the calculation of the diluted earnings per share excluded 226,944 (2011 – 454,464) average options outstanding with a weighted average exercise price of $28.72 (2011 – $30.19) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 20 – 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 shareholders' equity while Tier 2 capital is comprised of 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, which was completed in the quarter ending December 31, 2012. The amount amortized to retained earnings for the year ended December 31, 2012 was $18.9 million.

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

($ THOUSANDS)	**December 31, 2012**	December 31, 2011
Tier 1 capital:		
Common shares	**$ 137,303**	$ 132,819
Non-cumulative preferred shares	**50,000**	50,000
Contributed surplus	**4,589**	4,303
Retained earnings	**317,754**	248,752
Accumulated other comprehensive loss[1]	**(1,767)**	(2,095)
IFRS transition adjustment[2]	**-**	18,931
Total	**507,879**	452,710
Tier 2 capital:		
Collective allowance (Tier 2A)	**21,960**	-
Debentures (Tier 2B)[3]	**125,781**	65,171
Total	**147,741**	65,171
Total regulatory capital	**$ 655,620**	$ 517,881

(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 is 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 21 – 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:

		2012		2011
Less than 1 year	**$**	**845**	$	826
1 – 5 years		**1,778**		2,649
Greater than 5 years		**-**		33
	$	**2,623**	$	3,508

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 2012 amounted to $1,711 (2011 - $1,586).

(b) Credit commitments:

As at December 31, 2012, the Company had outstanding commitments to fund $445,059 (2011 − $388,101) of mortgages in the ordinary course of business. $383,114 (2011 − $266,721) of these commitments are expected to be funded within one year and $61,945 (2011 − $121,380) remain open for various dates after one year.

The Company has issued letter of credits in the normal course of business. Letter of credits in the amount of $788 (2011 - $788) were outstanding at December 31, 2012, none of which have been drawn upon at that date.

(c) Contingencies:

The Company became aware of an alleged fraud relating to four condominium corporation loans, details of which are outlined in Note 11 – 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 $8.8 million (2011 – $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 22 – 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:

		2012		2011
Annual compensation	**$**	**2,853**	$	2,223
Post-employment benefits		**37**		22
Termination benefits		**-**		436
Share-based payments		**1,001**		712
	$	**3,891**	$	3,393

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

As at December 31, 2012, key management personnel held 2,429,974 (2011 – 2,396,075) common shares and 3,300 (2011 – 5,300) preferred shares. These shareholdings include common shares of 2,309,339 (2011 – 2,318,339) that were beneficially owned by the Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management held 299,142 (2011 – 410,500) options to purchase common shares of the Company at prices ranging from $11.55 to $29.32.

(c) Other transactions:

Certain of the Company's key management personnel have invested in GIC deposits and/or debentures of the Company. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties. During the year, the Company issued $368 (2011 – nil) of GIC deposits to key management personnel, which were outstanding as at December 31, 2012 (2011– nil). There were no debentures issued to key management personnel during the years ended 2012 and 2011. As at December 31, 2012, key management personnel held $2,650 (2011 – $2,650) of debentures. The GIC deposits and debentures were held by related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the Directors.

Note 23 – 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, 2012.

	Floating rate	0 – 3 months	4 months – 1 year	Total within 1 year	1 – 5 years	Greater than 5 years	Non-interest sensitive	Total[1]
Assets:								
Cash and cash equivalents and restricted cash	$ 434,242	$ 8,806	$ -	$ 443,048	$ -	$ -	$ -	$ 443,048
Effective interest rate	*1.18%*	*0.97%*	*-*	*1.17%*	*-*	*-*	*-*	*1.17%*
Securities purchased under reverse repurchase agreements	-	78,551	-	78,551	-	-	-	78,551
Effective interest rate	*-*	*1.05%*	*-*	*1.05%*	*-*	*-*	*-*	*1.05%*
Investments	5,273	150,526	103,917	259,716	151,030	17,154	11,580	439,480
Effective interest rate	*4.13%*	*1.81%*	*3.43%*	*2.51%*	*5.90%*	*3.96%*	*-*	*3.66%*
Mortgages receivable	1,168,419	404,024	1,442,448	3,014,891	2,141,585	80,460	29,655	5,266,591
Effective interest rate	*5.02%*	*4.80%*	*4.77%*	*4.87%*	*5.05%*	*3.41%*	*-*	*4.89%*
Mortgage receivable - securitized	40,274	113,920	1,156,161	1,310,355	3,046,779	947,794	37,953	5,342,881
Effective interest rate	*2.70%*	*4.73%*	*4.30%*	*4.29%*	*3.55%*	*4.16%*	*-*	*3.81%*
Other assets	-	-	-	-	-	-	30,889	30,889
Total assets	$ 1,648,208	$ 755,827	$ 2,702,526	$ 5,106,561	$ 5,339,394	$ 1,045,408	$ 110,077	$ 11,601,440
Liabilities:								
Deposits[2]	$ 743,573	$ 631,198	$ 1,923,721	$ 3,298,492	$ 2,269,648	$ 32	$ 83,545	$ 5,651,717
Effective interest rate	*1.34%*	*1.94%*	*2.18%*	*1.95%*	*2.54%*	*0.00%*	*-*	*2.15%*
Securitization liabilities	-	85,283	1,155,090	1,240,373	2,979,861	1,031,929	9,507	5,261,670
Effective interest rate	*-*	*3.69%*	*3.36%*	*3.38%*	*2.84%*	*3.69%*	*-*	*3.13%*
Obligations under repurchase agreements	-	9,882	-	9,882	-	-	-	9,882
Effective interest rate	*-*	*1.00%*	*-*	*1.00%*	*-*	*-*	*-*	*1.00%*
Other liabilities and deferred taxes	-	-	-	-	-	-	46,429	46,429
Bank term loans	-	12,500	-	12,500	-	-	-	12,500
Effective interest rate	*-*	*6.41%*	*-*	*6.41%*	*-*	*-*	*-*	*6.41%*
Debentures[3]	-	9,450	-	9,450	108,221	-	-	117,671
Effective interest rate	*-*	*7.29%*	*-*	*7.29%*	*5.86%*	*-*	*-*	*5.98%*
Shareholders' equity	-	-	-	-	48,494	-	453,077	501,571
Total liabilities and shareholders' equity	$ 743,573	$ 748,313	$ 3,078,811	$ 4,570,697	$ 5,406,224	$ 1,031,961	$ 592,558	$ 11,601,440
Off-balance sheet items[4]	$ -	$ (420,219)	$ 249,262	$ (170,957)	$ 213,868	$ (42,911)	$ -	$ -
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 904,635	$ (412,705)	$ (127,023)	$ 364,907	$ 147,038	$ (29,464)	$ (482,481)	$ -

(1) *Accrued interest is excluded in calculating interest sensitive assets and liabilities.*
(2) *Cashable GICs are included with floating rate liabilities as these are cashable by the depositor upon demand.*
(3) *Any prepayments of 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.*

Note 24 – Subsequent Events

On January 3, 2013, the Company repaid its non-revolving term loan of $12,500 together with all accrued and unpaid interest. On the same date, with the approval of OSFI, the Company redeemed its Series 7 debentures of $9,450 with all accrued and unpaid interest. The Series 7 debentures were redeemable at par at any time at the Company's option.

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

William Edmunds

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

Tim Wilson

Vice-President and Chief Financial Officer 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 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

Rajesh Raut
Controller of Equitable Trust

John Simoes

Senior Director, Financial Planning and Reporting of Equitable Trust

Nicholas Strube

Treasurer of Equitable Trust

SHAREHOLDER AND CORPORATE INFORMATION

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

Quebec Office

3333 Graham Boulevard, Suite 604

Town of Mount-Royal, Quebec, Canada, H3R 3L5

Western Region Office

600 1333 8th Street S.W.

Calgary, Alberta, Canada, T2R 1M6

Website

www.equitabletrust.com

Transfer Agent And Registrar

Computershare Investor Services Inc.

100 University Avenue, 9th Floor

Toronto, Ontario, Canada, M5J 2Y1

1.800.564.6253

Investor Relations

Tim Wilson

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

416.515.7000

investor@equitablegroupinc.com

Stock Listings

TSX: ETC and ETC.PR.A

Annual Meeting of Shareholders

Wednesday, May 15, 2013, 4:15 p.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.