Equity Financial Holdings Inc.

Management's Discussion & Analysis

Year Ended December 31, 2016

ABOUT US

Equity Financial Holdings Inc. ("EQI" or the "Corporation"), is a Canadian company with its common shares listed and traded on the Toronto Stock Exchange under the stock symbol "EQI". Through its federally regulated and wholly-owned subsidiary, Equity Financial Trust Company ("EFT" or "Equity Trust"), the Corporation serves the Canadian alternative mortgage market by offering residential mortgage loans to non-prime and near-prime customers who do not meet the conventional underwriting standards of the major Canadian banks.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We have prepared this Management Discussion & Analysis ("MD&A") with reference to National Instrument 51-102 "*Continuous Disclosure Obligations*" of the Canadian Securities Administrators, and it should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "2016 Audited Financial Statements"). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all dollar amounts are in thousands of Canadian dollars unless otherwise indicated. Except as otherwise indicated, the information in this MD&A is current to February 16, 2017.

The non-IFRS measures used in this MD&A are presented in the Non-IFRS Financial Measures section of this MD&A.

Forward-Looking Statements

Certain portions of this MD&A as well as other public statements by the Corporation contain "forward-looking information" within the meaning of applicable Canadian securities legislation, which is also referred to as "forward-looking statements", which may not be based on historical fact. Wherever possible, words such as "will", "plans", "expects", "targets", continues", "estimates", "scheduled", "anticipates", "believes", "intends", "may", "could", "would" or "might", and the negative of such expressions, statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, have been used to identify forward-looking information. Such forward-looking statements include, without limitation, the Corporation's expectations in respect of earnings, fee income, expense levels, future loans and originations, repayment by borrowers, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets activities, the Corporation's expected need for equity or debt financing, business competition, technological change, changes in government regulations and regulatory guidelines, unexpected judicial or regulatory proceedings, catastrophic events, and the Corporation's ability to complete strategic transactions and integrate acquisitions and other factors. Forward looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or which, such events, performance or results will be achieved, if achieved at all.

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 Corporation and the Canadian economy, retail mortgage markets, housing sales, and capital markets. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, factors and assumptions regarding interest rates, availability of key personnel, the effect of competition, government regulation of its business, computer failure or security breaches, future capital requirements, its ability to fund its mortgage business, the value of mortgage originations, the competitive nature of the alternative mortgage market, the expected margin between the interest earned on its mortgage portfolio and the interest to be paid on its deposits, the relative continued health of real estate markets, acceptance of its products in the marketplace, as well as its operating cost structure and the current tax regime.

Forward-looking statements reflect the Corporation's current views with respect to future events and are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. Readers should not place undue reliance on such forward-looking statements as they reflect the Corporation's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, regulatory, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including among others, a significant downturn in capital markets or the economy as a whole, errors or omissions by the Corporation in providing services to its customers, significant increases in the cost of complying with applicable regulatory requirements, civil unrest, economic recession, pandemics, war and acts of terrorism which may adversely impact the North American and global economic and financial markets, inability to raise funds through public or private financing, significant changes in interest rates, failure by the Corporation or its subsidiaries to meet ongoing regulatory obligations, the failure of borrowers or counterparties to honour their financial or contractual obligations to Equity Trust, failure by Equity Trust to adequately monitor and/or adjust its mortgage portfolio management practices for changing circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by Equity Trust to adequately monitor the services provided by third party service providers or to establish alternative arrangements if required, failure by Equity Trust to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from its mortgage broker network, a failure of the computer systems of the Corporation or one or more of its service providers or the risks detailed from time-to-time in the Corporation's quarterly filings, annual information forms, annual reports and annual filings with securities regulators. The preceding list is not exhaustive of possible factors. The Corporation disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates, future events or results, or otherwise, unless required to do so by applicable laws.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as otherwise indicated or as the context otherwise requires, the terms "we", "us" and "our" refer to the Corporation and its consolidated subsidiaries. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

THE BUSINESS

The Corporation operates through its wholly-owned subsidiary Equity Trust, which offers residential mortgage loans funded primarily through the issuance of retail deposits. Equity Trust is a deposit-taking institution regulated by the Office of the Superintendent of Financial Institutions of Canada ("OSFI") and is a member of the Canada Deposit Insurance Corporation ("CDIC").

Mortgage Lending

Equity Trust focuses on financing residential mortgages for non-prime and near-prime customers, a market segment commonly referred to as the alternative mortgage market. Alternative residential mortgage loans are loans to borrowers who do not meet the major banks' underwriting standards. Such mortgages are often granted to self-employed business people, new-comers to Canada and borrowers with an imperfect credit history. Equity Trust's lending activities are predominantly concentrated in urban and suburban areas of Ontario.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 33% of Canada's residential mortgages. (Mortgage Professionals Canada: Annual State of the Residential Mortgage Market in Canada, December 2016)

We provide first mortgages primarily for owner occupied, single-family residential properties for purchases, refinances, equity take-outs and debt consolidation. Both open term and closed term mortgages to a maximum of five years are offered.

Deposits

Equity Trust sources its deposit funding through registered investment dealers and deposit brokers across Canada, offering Guaranteed Investment Certificates ("GICs") for amounts of five thousand dollars and more, for terms from 30 days up to five years. All qualifying Equity Trust deposits are insured by the CDIC.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2016

Table 1: Financial Highlights

	For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2016**	December 31, 2015	December 31, 2014
OPERATIONS			
Net interest income	**$ 16,875**	$ 10,340	$ 12,855
Provision for credit losses	**(753)**	(165)	281
Non-interest income	**2,273**	1,694	1,534
Net interest income and other income, including provision for credit losses	**18,395**	11,869	14,670
Net interest margin [1]	**2.85 %**	2.91 %	3.24 %
Net income (loss)	**$ 1,690**	$ (2,157)	$ (2,919)
Earnings (loss) per share - basic/diluted	**0.18 / 0.18**	(0.23) / (0.23)	(0.30) / (0.30)
ROE (annualized) [2]	**1.8 %**	(2.5)%	(3.1)%
ADJUSTED NET INCOME (LOSS) AND EPS			
Adjusted net income (loss) [3]	**$ 1,690**	$ (1,290)	$ 1,175
Adjusted earnings (loss) per share - basic/diluted [3]	**0.18 / 0.18**	(0.14) / (0.14)	0.12 / 0.12

As at	**December 31, 2016**	December 31, 2015	December 31 2014
BALANCE SHEET			
Assets	**$ 833,744**	$ 431,429	$ 334,953
Mortgages receivable, net	**760,201**	383,282	297,375
Deposits	**726,762**	332,197	235,597
Shareholders' equity	**95,727**	93,455	94,851
FINANCIAL STRENGTH			
Capital Measures [4]			
Regulatory capital (all-in basis)	**$ 85,045**	$ 84,200	$ 85,332
Leverage ratio	**10.0 %**	19.1 %	25.9 %
Assets-to-Capital Multiple	**N/A**	N/A	3.8 x
Common equity tier 1 ratio (all-in basis)	**27.3 %**	49.8 %	65.5 %
Share Information			
Book value per common share	**$ 10.03**	$ 9.80	$ 9.98
Common share price - close	**9.90**	8.06	10.35
Common shares outstanding	**9,543,508**	9,539,508	9,507,508
Market capitalization	**$ 94,481**	$ 76,888	$ 98,403

[1] See definition of Net interest margin under Non-IFRS Financial Measures section of this MD&A.

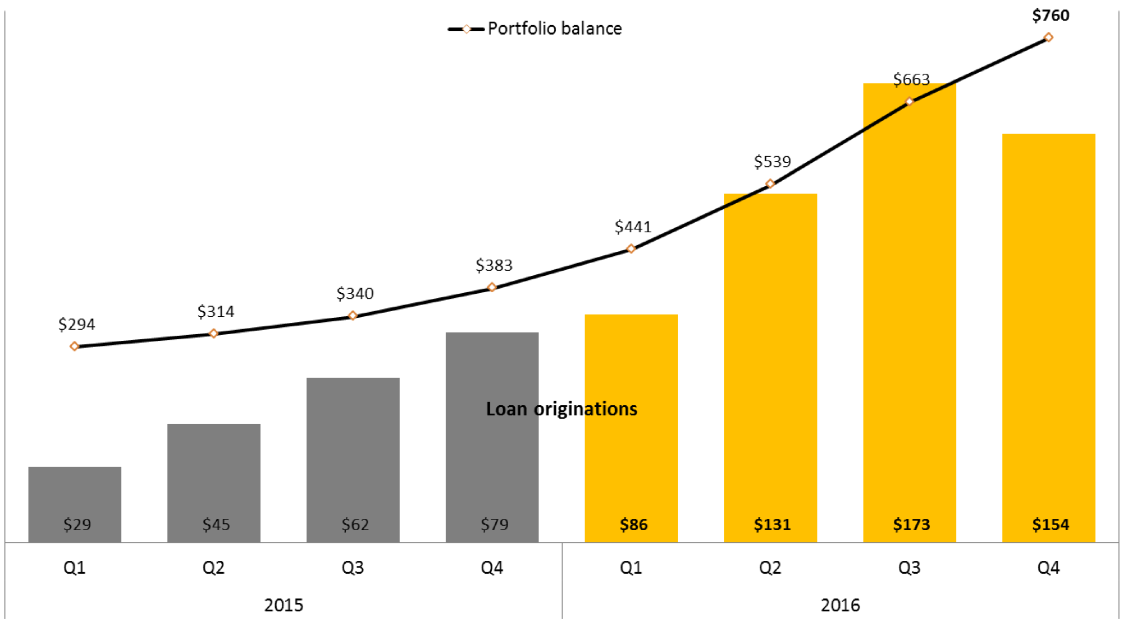
[2] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

[3] Adjusted net income (loss), adjusted basic earnings (loss) per share, adjusted diluted earnings (loss) per share are defined in the Non-IFRS Financial Measures section of this MD&A.

[4] These figures relate to the Corporation's operating subsidiary, Equity Trust, and are calculated under Basel III (see Capital Management below).

Financial Highlights

Figure 1: Quarterly Mortgage Loan Originations and Portfolio Balance 2015 and 2016 ($ millions)



For the year ended December 31, 2016 we earned net income of $1,690, an increase of nearly $4 million compared to the prior year, as we returned to profitability after a period of investment and net losses in each of the previous two years. This net income equated to $0.18 per share and an annualized return on equity of 1.8%. The primary driver of our increased profitability was the near doubling of our mortgage loan portfolio over the last twelve months, leading to net interest income growth at a higher rate than growth in expenses. We achieved record annual mortgage originations of $543,757, including significant year over year growth each quarter while maintaining a net interest margin of 2.85% with low over thirty day arrears and nominal loan losses. Key financial results for the year:

- Net income of $1,690 or $0.18 per share compared to net loss of $2,157 or $0.23 per share in 2015
- Mortgage receivable balance of $760,201 as at December 31, 2016, up 98% from a year ago
- Mortgage originations of $543,757 for the year, up 153% from 2015
- Net interest income of $16,875, up 63% from 2015
- Net interest margin of 2.85% compared to 2.91% in the prior year
- Non-interest income consists of mortgage servicing fees of $1,673, up 34% from 2015. We also earned other fee income of $600, up 33% from 2015, related to EFT's transitional status as trustee for transfer agent and corporate trust clients (see 2013 Sale Transaction).
- Non-interest expenses were $15,812 for the year, up 19% from 2015 primarily due to increased core operating costs in support of asset and revenue growth.

OUTLOOK

In addition to significant business growth in 2016, we completed two key initiatives to support our strategic goals; we launched new mortgage systems and moved into new office space. Our newly implemented mortgage systems will provide greater operational efficiency and scalability as our originations volume and asset base grow. Our newly designed and centrally located office space is expected to help us attract key talent and provides room to expand our mortgage operations and support teams as required over the next several years. For 2017 our management team remains focused on growing our mortgage loan book through the expansion and deepening of key broker relationships, with the expectation that top line earnings growth will continue to outpace expense increases and deliver positive returns to our shareholders.

Equity Trust is a well-capitalized, federally regulated deposit-taking institution, with a management team and Board with many years of experience in the non-prime and near-prime residential mortgage business. While we are mindful of changing economic environments that could impact our business, we believe we are well positioned to take advantage of the profitable opportunities in our industry.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

	For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2016**	December 31, 2015	% Change
Operating Results			
Net interest income	**$ 16,875**	$ 10,340	63 %
Provision for credit losses	**(753)**	(165)	(356)%
Net interest income, including (provision for) recovery of credit losses	**16,122**	10,175	58 %
Non-interest income	**2,273**	1,694	34 %
Net interest income and other income, including provision for credit losses	**18,395**	11,869	55 %
Non-interest expenses	**15,812**	13,335	(19)%
Charge for contingent consideration	**-**	1,000	100 %
Income (loss) before income taxes	**2,583**	(2,466)	205 %
Income tax expense (recovery)	**893**	(309)	(389)%
Total net income (loss)	**$ 1,690**	$ (2,157)	178 %
Earnings (loss) per share			
Total earnings (loss) per share, basic	**0.18**	(0.23)	178 %
Total earnings (loss) per share, diluted	**0.18**	(0.23)	178 %
ROE (annualized) [1]	**1.8 %**	(2.5)%	

[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

Net interest Income

Table 3: Net Interest Income and Net Interest Margin[3]

($000s, except per share and percentage amounts)	December 31, 2016 Average balance[1]	December 31, 2016 Income / Expense	December 31, 2016 Average rate[2]	December 31, 2015 Average balance[1]	December 31, 2015 Income / Expense	December 31, 2015 Average rate[2]
ASSETS						
Cash and cash equivalents and securities	**$ 55,644**	**$ 562**	**1.01 %**	$ 42,404	$ 441	1.04 %
Mortgage receivable	**552,585**	**26,887**	**4.87 %**	320,049	15,714	4.91 %
Total interest bearing assets	**608,229**	**27,449**	**4.50 %**	362,453	16,155	4.53 %
LIABILITIES						
Deposits	**514,398**	**10,574**	**2.06 %**	267,442	5,815	2.17 %
Total interest bearing liabilities	**514,398**	**10,574**	**2.06 %**	267,442	5,815	2.17 %
Net interest income per financial statements		**16,875**			10,340	
Net interest margin for mortgage portfolio [3]			**2.85 %**			2.91 %

[1] Average balance is calculated with reference to daily asset and liability balances.

[2] Average rate is equal to income/expense divided by the average balance on an annualized basis.

[3] See definition of net interest margin under Non IFRS Financial Measures section of this MD&A.

Net interest income for the year ended December 31, 2016 increased by $6,534 or 63% compared to 2015, reflecting the growth in our mortgage loan portfolio in the last twelve months. The average net interest margin earned on our mortgage portfolio for the year ended December 31, 2016 was 2.85%, down compared to 2.91% for the year ended December 31, 2015, reflecting increased variable compensation to key broker partners commensurate with increased origination volumes.

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

($000s)	December 31, 2016	December 31, 2015
Provision for collective credit losses	**$ 677**	$ 33
Provision for individual credit losses	**76**	132
Total provision for credit losses	**$ 753**	$ 165

For the year ended December 31, 2016 the provision for credit losses was $753 compared to $165 in the prior year. The increase in total provision is mainly attributed to provision for collective credit losses which increase as our mortgage loan portfolio grows. The increase in total provision was partially offset by a reduction in our overall collective allowance rate.

Table 5: Allowance for Credit Losses

($000s except percentage amounts)	December 31, 2016	% of Gross Loans	December 31, 2015	% of Gross Loans
Collective allowance	$ 1,751	0.23 %	$ 1,074	0.28 %
Individual allowance	-	- %	93	0.02 %
Total	$ 1,751	0.23 %	$ 1,167	0.30 %

We have established an allowance for credit losses of $1,751 as at December 31, 2016. The increase in our allowance for credit losses for 2016 compared to 2015 mainly reflected the increase in our collective allowance. Although our loan book grew 98% during 2016, our collective allowance increased only 63% due to an overall reduction in our collective allowance rate based on management's judgment of low historical loss experience and an analysis of our historical arrears trends.

During the year ended December 31, 2016 we realized loan losses of $169 on impaired loans, of which $93 related to an impaired loan identified in 2015 and $76 related to an impaired loan identified during the current year. No additional impaired loans were identified as at the end of the year and as such no individual allowance was recorded as at December 31, 2016.

Table 6: Past Due Loans

($000s except percentage amounts)	December 31, 2016	% of Net Loans	December 31, 2015	% of Net Loans
1-30 days	$ 33,391	4.39 %	$ 10,376	2.71 %
31-60 days	2,500	0.33 %	1,714	0.45 %
61-90 days	1,542	0.20 %	317	0.08 %
> 90 days	1,683	0.22 %	1,866	0.49 %
Total	$ 39,116	5.14 %	$ 14,273	3.73 %

A loan is considered past due when a borrower has not made a payment by the contractual due date. The table above presents the carrying value of mortgages that are past due but not classified as impaired either because collection efforts are reasonably expected to result in full repayment or the loans have been restored to current status in accordance with our collection policy since the balance sheet date. Our past due loans percentage as at December 31, 2016 increased compared to December 31, 2015, but arrears over thirty days improved on a year over year basis. The increase in the one to thirty arrears compared to the prior year is primarily due to increased arrears of fifteen days or less, most of which corrected after year end.

The Corporation classifies loans as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest.

Non-interest income

Non-interest income earned from mortgage servicing fees for the year ended December 31, 2016 was $1,673, a year over year decrease of 34%, driven by the growth in our mortgage loan portfolio over the past year. In addition to non-interest income earned from mortgage servicing fees, we also earned other fee income of $600 in the year ended December 31, 2016, compared to $450 in the prior year, related to EFT's transitional status as trustee for client relationships managed by a third party (see 2013 Sale Transaction). The transitional period concluded at the end of the third quarter and this additional fee income will no longer be earned in the future.

Non-interest expenses

Table 7: Non-interest Expenses

	For the years ended		
($000s, except percentage amounts)	**December 31, 2016**	December 31, 2015	% Change
Staffing costs	**$ 9,448**	$ 7,808	21 %
Rent	**789**	452	75 %
General and administration	**5,065**	4,276	18 %
Amortization	**510**	799	(36)%
Total non-interest expenses	**$ 15,812**	$ 13,335	19 %

Staffing Costs – Staffing costs for the year ended December 31, 2016 increased by 21% compared to the year ended December 31, 2015 primarily due to growth in headcount and higher variable compensation tied to corporate objectives.

Rent – The Corporation entered into a new lease agreement during the year. Rent expense was higher in the year as a result of recognizing rent expense on our existing lease in addition to rent expense for our new office space during the buildout of the new space in the fourth quarter.

General and Administration – The 18% increase in general and administration costs in the year ended December 31, 2016 compared to the prior year is primarily due to an increase in core operating costs as a result of our operational growth along with higher mark-to-market expense on deferred share units.

Amortization and depreciation – Amortization and depreciation costs decreased in the year ended December 31, 2016 compared to the year ended December 31, 2015 due to lower amortization of intangible software assets as the costs of our core mortgage and deposit-taking systems became fully amortized during the first quarter of 2016. With the launch of our new mortgage underwriting and servicing systems, we expect the amortization expense to increase back toward historical levels in future periods.

Net income (loss) and earnings (loss) per share

Table 8: Earnings Per Share

	For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2016**	December 31, 2015	Change
Net income (loss)	**$ 1,690**	$ (2,157)	$ (3,847)
Comprehensive income (loss)	**1,613**	(2,157)	(3,770)
Basic earnings (loss) per share	**0.18**	(0.23)	(0.41)
Diluted earnings (loss) per share	**0.18**	(0.23)	(0.41)
ADJUSTED INCOME			
Adjusted net income (loss) [1]	**1,690**	(1,290)	(231)%
Adjusted earnings (loss) per share - basic [1]	**0.18**	(0.14)	(229)%
Adjusted earnings (loss) per share - diluted [1]	**$ 0.18**	$ (0.14)	(229)%

[1] Adjusted net income (loss), adjusted basic earnings (loss) per share and adjusted diluted earnings (loss) per share are defined in the Non-IFRS Financial Measures section of this MD&A.

For the year ended December 31, 2016 we generated net income of $1,690 or $0.18 per share, compared to a net loss of $2,157 or $0.23 per share for the year ended December 31, 2015. After removing the effect of the charge for contingent consideration in 2015, we had an adjusted net loss of $1,290 or $0.14 per share for the year ended December 31, 2015 (see 2013 Sale Transaction). The increase in adjusted earnings from 2015 to 2016 primarily reflects topline earnings growth as a result of the increase in our mortgage loan portfolio in the last twelve months.

2013 SALE TRANSACTION

On April 5, 2013, the Corporation completed the sale of the assets of its transfer agent and corporate trust services business for a purchase price of $64,000 (the "Transaction"). In April 2016, in accordance with the terms of the sale agreement, the Corporation paid $1,000 in previously accrued contingent consideration based on the capital requirements of the transfer agent and corporate trust service business.

Since the date of the sale, transfer agent and corporate trust business relationships have been managed by a third party for its economic benefit, including the administration of segregated funds. Beginning in the second quarter of 2015, the Corporation began earning other fee income related to EFT's transitional status as trustee for these client relationships. Other fee income amounted to $600 for the year (2015 - $450). The transitional period concluded at the end of the third quarter with client relationship and segregated funds fully transferred to another entity and as a result this additional fee income will no longer be earned.

FINANCIAL POSITION REVIEW

Table 9: Balance Sheet Highlights

	As at		Change	
($000s, except percentage amounts)	**December 31, 2016**	December 31, 2015	$	%
ASSETS				
Cash and cash equivalents	**$ 53,013**	$ 44,326	$ 8,687	20 %
Available for sale securities	**12,405**	-	12,405	100 %
Mortgages receivable	**760,201**	383,282	376,919	98 %
Other assets	**8,125**	3,821	4,304	113 %
Total Assets	**833,744**	431,429	402,315	93 %
LIABILITIES				
Customer deposits	**726,762**	332,197	394,565	119 %
Other liabilities	**11,255**	5,777	5,478	95 %
Total Liabilities	**738,017**	337,974	400,043	118 %
Shareholders' equity	**95,727**	93,455	2,272	2 %
Total Liabilities and Shareholders' Equity	**$ 833,744**	$ 431,429	$ 402,315	93 %

Total assets as at December 31, 2016 were $833,744, an increase of 93% compared to the balance as at December 31, 2015 primarily due to the increase in mortgages receivable.

Total liabilities as at December 31, 2016 were $738,017, an increase of 118% compared to the balance as at December 31, 2015 primarily due to the increase in deposit liabilities corresponding to the increase in assets.

Liquidity Resources

Equity Trust is a member of CDIC and sources its deposit funding through registered investment dealers and deposit brokers across Canada. We believe ample liquidity is available to Equity Trust to meet its requirements. Our deposit taking activities constitute our primary funding source and we also use a portion of our internal cash to fund mortgage loans. We manage our liquidity resources in accordance with our liquidity policy (see "Risk Management – Liquidity Risk"), which has been updated to include new OSFI issued liquidity adequacy requirements. Institutions are required to maintain an adequate supply of unencumbered high quality liquid assets that can be converted into cash over a 30-day period. Our liquidity reserve could be comprised of cash and cash equivalents, short-term investments, as well as longer term investments in securities held as available for sale, all of which qualify as high quality liquid assets.

Table 10: Cash and Cash Equivalents and Securities

	As at		Change	
($000s, except percentage amounts)	**December 31, 2016**	December 31, 2015	$	%
Deposits with regulated financial institutions	**$ 53,013**	$ 42,328	$ 10,685	25 %
Short-term investments	**-**	1,998	(1,998)	(100)%
Available for sale securities	**12,405**	-	12,405	100 %
Total Cash and Cash Equivalents and Securities	**$ 65,418**	$ 44,326	$ 21,092	48 %

During the year we purchased debt securities, which are classified as available for sale securities. We held a balance of cash and cash equivalents of $53,013 as at December 31, 2016, an increase of $8,687 compared to $44,326 held at December 31, 2015, as a result of the inflows and outflows described below.

Table 11: Sources and Uses of Cash

	For the years ended		Change	
($000s, except percentage amounts)	**December 31, 2016**	December 31, 2015	$	%
Cash flows provided by operating activities	**$ 25,380**	$ 11,351	$ 14,029	124 %
Cash flows provided by financing activities	**21**	85	(64)	(75)%
Cash flows used in investing activities	**$ (16,714)**	$ (341)	$ (16,373)	(4,801)%

Cash flows from operating activities

Cash flow from operating activities was $25,380 for the twelve months ended December 31, 2016, an increase of $14,029, or 124% compared to cash flows from operating activities for the same period in 2015. Increases to our deposit liability and mortgages receivable balances constitute the largest sources of operating inflows and outflows respectively.

Cash flows from financing activities

Cash flows from financing activities for the twelve months ended December 31, 2016 decreased by $64 or 75%, to $21 compared to the same period in 2015. Cash flows from financing activities in both 2016 and 2015 represent proceeds from the exercise of employee stock options.

Cash flows used in investing activities

Cash flows used in investing activities for the twelve months ended December 31, 2016 were primarily for the purchase of available for sale securities as well as investments in our new mortgage underwriting and servicing systems and the leasehold improvements for our new office space. Cash flows used in 2015 were for maintenance and development of our information technology systems.

Mortgages receivable

Table 12: Mortgage Production & Portfolio Highlights

	For the years ended		
($000s, except percentage and year figures)	**December 31, 2016**	December 31, 2015	December 31, 2014
Mortgage originations	**$ 543,757**	$ 214,851	$ 70,602
Average loan-to-value ratio at origination	**73.6 %**	73.8 %	72.3 %
As at			
Mortgages receivable	**760,201**	383,282	297,374
Mortgages receivable due in one year	**526,825**	244,757	205,417
Weighted average term to maturity in years	**1.0**	1.0	1.0
Weighted average effective interest rate	**4.90 %**	4.86 %	5.10 %
Weighted average amortization period in years	**29.0**	29.6	31.3

Mortgages receivable consist of uninsured loans with terms up to five years for the purchase or refinancing of single-family homes predominantly in urban and suburban areas of Ontario.

For the year ended December 31, 2016 we originated mortgages of $543,757, our highest annual mortgage originations since inception and more than double our annual originations in 2015. Our mortgage receivable balance has doubled in the last twelve months, ending at $760,201 as at December 31, 2016.

As at December 31, 2016, the amount of mortgages due within one year is $526,825, the weighted average term to maturity of the portfolio is 1.0 year with a weighted average amortization period of 29.0 years. The weighted average effective interest rate of the portfolio was 4.90% as at December 31, 2016, which remained relatively stable compared to 4.86% as at December 31, 2015. As at December 31, 2016, the Corporation had outstanding commitments to make future advances on mortgages loans of $38.0 million for various dates through to March 2017.

Customer Deposits

Table 13: Customer Deposits

	As at		
($000s, except percentage and year figures)	**December 31, 2016**	December 31, 2015	December 31, 2014
Deposits	**$ 726,762**	$ 332,197	$ 235,596
Customer deposits due in one year	**526,825**	174,376	162,177
Weighted average term to maturity in years	**1.2**	1.3	1.0
Weighted average effective interest rate	**2.06 %**	2.13 %	2.24 %

Customer deposits consist of GICs, which are sold through registered investment dealers, with fixed maturity dates and a weighted average term to maturity of 1.2 years. As at December 31, 2016, the portion of customer deposits due within one year is $526,825 and the weighted average effective interest rate paid on deposits was 2.06%.

For year ended December 31, 2016, our customer deposits balance increased by $394,565 or 119% compared to the balance as at December 31, 2015 reflecting the growth of our mortgage loan book which is primarily funded by GIC deposits.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk, interest rate risk and market risk. A full discussion on our risk exposures and how we manage them can be found under the section "Risk Management".

Available for sale securities are carried at fair value and the disclosed fair value is determined by using published bid prices.

Mortgages receivable are carried at amortized cost and the disclosed fair value of mortgages receivable is determined by discounting the expected future cash flows of the mortgages at market rates for mortgages with similar terms and credit risks.

Customer deposits are carried at amortized cost and the disclosed fair value of customer deposits is determined by discounting the contractual cash flows using current market interest rates for deposits with similar terms and risks.

Derivative financial instruments are carried at fair value and the disclosed fair value is determined based on commonly used pricing methodologies (primarily discounted cash flow models) that incorporate observable market data. Frequently applied valuation techniques incorporate various inputs such as stock prices, bond prices and interest rate curves into present value calculations.

The following table presents the carrying value of each category of financial assets and liabilities and their estimated fair values as at December 31, 2016. The table does not include assets and liabilities that are not considered financial instruments.

Table 14: Financial Assets and Liabilities

December 31, 2016	**Held for Trading**	**Available for Sale**	**Loans and Receivables/ Financial Liabilities**	**Carrying Value**	Fair Value	Fair Value (Under) Over Carrying Value
Financial assets						
Available for sale securities	**$ -**	**$ 12,405**	**$ -**	**$ 12,405**	$ 12,405	$ -
Mortgages receivable, net	**-**	**-**	**760,201**	**760,201**	762,835	2,634
Total Financial Assets	**-**	**12,405**	**760,201**	**772,606**	775,240	2,634
Financial Liabilities						
Customer deposits	**-**	**-**	**726,762**	**726,762**	728,962	2,200
Derivative liabilities	**78**	**78**	**78**	**78**	78	-
Total Financial Liabilities	**$ 78**	**$ 78**	**$ 726,840**	**$ 726,840**	$ 729,040	$ 2,200

Contractual commitments and contingencies

On July 4, 2016, the Corporation entered into an operating lease agreement for new Toronto office space to replace the existing lease expiring in January 2017. The new lease has a term of ten years plus a free rent period, expiring in 2027. The new lease agreement provides for a five-year renewal option at the expiry of the lease at occupancy rates equivalent to fair market value at time of renewal. The Corporation sublet part of its Toronto lease, expiring in January 2017, for space previously occupied by our discontinued transfer agent and corporate trust services business (see 2013 Sale Transaction).

The Corporation has entered into various software license and maintenance agreements for transaction processing software related to its mortgage lending and deposit taking operations. The agreements expire between 2017 and 2021. The Corporation has also entered into a vendor service agreement expiring in 2019.

The future minimum payments for commitments are as follows:

Table 15: Commitments

	For the year ended December 31, 2016			
($000s)	Not later than one year	Later than one year and not later than five years	Later than five years	**Total**
Office space lease agreements	$ 250	$ 3,823	$ 5,829	**$ 9,902**
Sub-tenant recoveries	(47)	-	-	**(47)**
Software license and maintenance agreements	343	1,130	-	**1,473**
Vendor service agreement	128	256	-	**384**
Total commitments	$ 674	$ 5,209	$ 5,829	**$ 11,712**

QUARTERLY FINANCIAL HIGHLIGHTS

Table 16: Summary of Quarterly Results

	2016	2016	2016	2016	2015	2015	2015	2015
($000s, except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating Results								
Net interest income	**$ 5,483**	$ 4,563	$ 3,671	$ 3,158	$ 2,857	$ 2,553	$ 2,434	$ 2,496
Provision for (reversal of) credit losses	**(123)**	350	359	167	(101)	106	128	32
Non-interest income	**476**	711	591	495	475	465	457	297
Net interest income and other income, including reversal of (provision for) credit losses	**6,082**	4,924	3,903	3,486	3,433	2,912	2,763	2,761
Non-interest expenses	**4,519**	4,286	3,769	3,238	3,761	3,168	3,361	3,048
Charge for contingent consideration	**-**	-	-	-	-	400	600	-
Net income (loss)	**1,072**	423	46	150	(304)	(601)	(992)	(260)
Basic earnings (loss) per share	**0.12**	0.04	-	0.02	(0.03)	(0.06)	(0.10)	(0.03)
Diluted earnings (loss) per share	**0.12**	0.04	-	0.02	(0.03)	(0.06)	(0.10)	(0.03)
Dividends	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance Sheet Highlights								
Cash and cash equivalents	**$ 53,013**	$ 56,548	$ 57,383	$ 41,712	$ 44,326	$ 39,183	$ 48,334	$ 36,462
Mortgages receivable, net	**760,201**	663,157	538,616	441,330	383,282	340,119	314,086	294,398
Total Assets	**833,744**	737,363	605,280	487,184	431,429	383,366	366,394	334,876
Deposits	**726,762**	636,226	506,607	388,934	332,197	285,465	268,704	236,496
Liabilities	**738,017**	642,832	511,363	393,520	337,974	289,758	272,419	240,088
Shareholders' equity	**$ 95,727**	$ 94,531	$ 93,917	$ 93,664	$ 93,455	$ 93,608	$ 93,975	$ 94,788

Net interest income has increased or decreased each quarter in line with the change in the size of our average mortgage portfolio. The net losses in the second and third quarter of 2015 included the effect of contingent consideration related to the sale of our discontinued transfer agent and corporate trust service business (see 2013 Sale Transaction).

FOURTH QUARTER PERFORMANCE

OVERALL PERFORMANCE FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

Table 17: Financial Highlights for the fourth quarter

	For the three months ended		
($000s, except per share and percentage amounts)	**December 31, 2016**	September 30, 2016	December 31, 2015
OPERATIONS			
Net interest income	**$ 5,483**	$ 4,563	$ 2,857
Provision for credit losses	**123**	(350)	101
Non-interest income	**476**	711	475
Net interest income and other income, including provision for credit losses	**6,082**	4,924	3,433
Net interest margin [1]	**2.89 %**	2.87 %	2.88 %
Net income (loss)	**$ 1,072**	$ 423	$ (304)
Earnings (loss) per share - basic/diluted	**0.12 / 0.12**	0.04 / 0.04	(0.03) / (0.03)
ROE (annualized) [2]	**4.5 %**	1.8 %	(2.1)%
ADJUSTED NET INCOME (LOSS) AND EPS			
Adjusted net income (loss) [3]	**$ 1,072**	$ 423	$ (304)
Adjusted earnings (loss) per share - basic/diluted [3]	**0.12 / 0.12**	0.04 / 0.04	(0.03) / (0.03)

As at	**December 31, 2016**	September 30, 2016	December 31, 2015
BALANCE SHEET			
Assets	**$ 833,744**	$ 737,363	$ 431,429
Mortgages receivable, net	**760,201**	663,157	383,282
Deposits	**726,762**	636,226	332,197
Shareholders' equity	**95,727**	94,531	93,455
FINANCIAL STRENGTH			
Capital Measures [4]			
Regulatory capital (all-in basis)	**$ 85,045**	$ 84,813	$ 84,200
Leverage ratio	**10.0 %**	11.2 %	19.1 %
Common equity tier 1 ratio (all-in basis)	**27.3 %**	30.9 %	49.8 %
Share Information			
Book value per common share	**$ 10.03**	$ 9.91	$ 9.80
Common share price - close	**9.90**	10.18	8.06
Common shares outstanding	**9,543,508**	9,543,508	9,539,508
Market capitalization	**$ 94,481**	$ 97,153	$ 76,888

[1] See definition of Net interest margin under Non IFRS Financial Measures section of this MD&A.

[2] See definition of ROE ("return on equity") under Non IFRS Financial Measures section of this MD&A.

[3] Adjusted net income (loss), adjusted basic earnings (loss) per share, adjusted diluted earnings (loss) per share are defined in the Non IFRS Financial Measures section of this MD&A

[4] These figures relate to the Corporation's operating subsidiary, Equity Trust, and are calculated under Basel III (see Capital Management below).

Net interest Income

Table 18: Net Interest Income and Net Interest Margin[3] for the fourth quarter

	For the three months ended								
	December 31, 2016			September 30, 2016			December 31, 2015		
($000s, except per share and percentage amounts)	**Average balance[1]**	**Income / Expense**	**Average rate[2]**	Average balance[1]	Income / Expense	Average rate[2]	Average balance[1]	Income / Expense	Average rate[2]
ASSETS									
Cash and cash equivalents and securities	**$ 69,155**	**$ 186**	**1.07 %**	$ 56,944	$ 146	1.02 %	$ 38,792	$ 88	0.90 %
Mortgage receivable	**714,124**	**8,813**	**4.91 %**	596,548	7,326	4.89 %	359,266	4,378	4.83 %
Total interest bearing assets	**783,279**	**8,999**	**4.56 %**	653,492	7,472	4.54 %	398,058	4,466	4.45 %
LIABILITIES									
Deposits	**684,773**	**3,516**	**2.04 %**	560,266	2,909	2.07 %	306,017	1,609	2.09 %
Total interest bearing liabilities	**684,773**	**3,516**	**2.04 %**	560,266	2,909	2.07 %	306,017	1,609	2.09 %
Net interest income per financial statements		**5,483**			4,563			2,857	
Net interest margin for mortgage portfolio[3]			**2.89 %**			2.87 %			2.88 %

[1] Average balance is calculated with reference to daily asset and liability balances.

[2] Average rate is equal to income/expense divided by the average balance on an annualized basis.

[3] See definition of net interest margin under Non IFRS Financial Measures section of this MD&A.

Net interest income for the fourth quarter of 2016 increased by $920 or 20% compared to the third quarter of 2016 and increased by $2,627 or 92% compared to the fourth quarter of 2015, reflecting the growth in our mortgage loan portfolio. The average net interest margin earned on our mortgage portfolio in the fourth quarter of 2016 was 2.89%, relatively stable compared to 2.87% and 2.88% in the third quarter of 2016 and the fourth quarter of 2015 respectively.

Provision for credit losses

Our provision for credit losses for the fourth quarter of 2016 was a reversal of $121 compared to an expense of $350 in the third quarter of 2016 and a reversal of $101 in the fourth quarter of 2015. The reversal in the fourth quarter of 2016 reflected an overall reduction in our collective allowance rate based on management's judgment of low historical loss experience and an analysis of our historical arrears trends. A similar reduction occurred in the fourth quarter of 2015.

Non-interest income

Non-interest income earned from mortgage servicing fees for the fourth quarter of 2016 was $476, down 2% compared to the third quarter of 2016, due to the seasonality of certain servicing fees. Mortgage servicing fees were up 46% compared to the fourth quarter of 2015, driven by the growth in our mortgage loan portfolio. In addition to income earned from mortgage servicing fees, in prior periods we also earned other fee income of $225 in the third quarter of 2016 and $150 in the fourth quarter of 2015, related to EFT's transitional status as trustee for client relationships managed by a third party (see 2013 Sale Transaction). The transitional period concluded during the third quarter of 2016 and as such we ceased earning this other fee income in the in the fourth quarter of 2016.

Non-interest expenses for the fourth quarter

Table 19: Non-interest Expenses for the Fourth Quarter

($000s, except percentage amounts)	**December 31, 2016**	September 30, 2016	% Change	December 31, 2015	% Change
	For the three months ended				
Staffing costs	**$ 2,625**	$ 2,838	(8)%	$ 2,233	18 %
Rent	**321**	196	64 %	97	231 %
General and administration	**1,429**	1,140	25 %	1,155	24 %
Amortization	**144**	112	29 %	273	(47)%
Total non-interest expenses	**$ 4,519**	$ 4,286	5 %	$ 3,758	20 %

Staffing Costs – Fourth quarter 2016 staffing costs decreased by 8% compared to the third quarter of 2016 due to reduced variable compensation tied to corporate objectives accrued compared to the prior quarter. The year-over-year increase of 18% compared to the fourth quarter of 2015 is primarily due to increased headcount and higher variable compensation.

Rent – The higher rent expense in the fourth quarter of 2016 reflects existing lease costs plus a full quarter of expense related to our new office space, as we commenced recognizing monthly lease costs during the build-out of the space prior to taking occupancy in December. As a result, quarterly rent expense was substantially higher than prior quarters.

General and Administration – The 25% increase in general and administration costs in the fourth quarter of 2016 compared to the third quarter of 2016 was primarily due to performance management and other consulting fees. The year-over-year increase of 23% compared to fourth quarter of 2015 is mainly driven by higher core operating costs resulting from the overall growth of our team and our operations.

Amortization and depreciation – Amortization and depreciation costs increased by 23% compared to the third quarter of 2016 due to the recognition of leasehold improvement and furniture depreciation related to our new office space. The year-over-year decrease of 49% compared to the fourth quarter of 2015 is due to lower amortization of intangible software assets as the costs of our core operation systems became fully amortized during the first quarter of 2016. With the launch of our new mortgage underwriting and servicing systems, we expect the amortization expense to increase back toward historical levels in future periods.

Net income (loss) and earnings (loss) per share for the fourth quarter

Table 20: Earnings Per Share

($000s, except per share and percentage amounts)	December 31, 2016	September 30, 2016	Change	December 31, 2015	Change
	For the three months ended				
Net income (loss)	**$ 1,072**	$ 423	$ 649	$ (304)	$ 1,376
Comprehensive income (loss)	**941**	443	498	(304)	1,245
Basic earnings (loss) per share	**0.12**	0.04	0.08	(0.03)	0.15
Diluted earnings (loss) per share	**0.12**	0.04	0.08	(0.03)	0.15
ADJUSTED INCOME					
Adjusted net income (loss) [1]	**1,072**	423	153 %	(304)	453 %
Adjusted earnings (loss) per share - basic [1]	**0.12**	0.04	200 %	(0.03)	500 %
Adjusted earnings (loss) per share - diluted [1]	**$ 0.12**	$ 0.04	200 %	$ (0.03)	500 %

[1] Adjusted net loss, adjusted basic loss per share and adjusted diluted loss per share are defined in the Non-IFRS Financial Measures section of this MD&A.

For the fourth quarter of 2016 we generated net income of $1,072 or $0.12 per share compared to net income of $423 or $0.04 per share in the third quarter of 2016. The higher net income in the fourth quarter compared to the prior quarter is the result of higher net interest income and a reduction in our collective allowance rate which in turn reduced our provision for credit losses for the quarter. Improved net income for the fourth quarter of 2016 compared to a net loss of $307 or $0.03 per share in the fourth quarter of 2015 primarily reflects higher net income from the growth of our mortgage loan portfolio over the last twelve months.

Mortgages receivable and customer deposits

Table 21: Mortgage Production & Portfolio Highlights for the fourth quarter

($000s, except percentage and year figures)	December 31, 2016	September 30, 2016	December 31, 2015
	For the three months ended		
Mortgage originations	**$ 153,711**	$ 172,777	$ 79,325
Average loan-to-value ratio at origination	**73.6 %**	73.3 %	73.8 %
As at			
Mortgages receivable, net	**760,201**	663,157	383,282
Customer deposits	**$ 726,762**	$ 636,226	$ 332,197

During the fourth quarter of 2016 we originated mortgages of $153,711, 11% lower compared to the third quarter of 2016 due to seasonal factors. Mortgage originations increased by $74,386 or 94% compared to the fourth quarter of 2015, reflecting the growth of our operational capacity and successful expansion of broker relationships in 2016. Our mortgage receivable balance was $760,201 as at December 31, 2016, an increase of 15% compared to the balance as at September 30, 2016 and an increase of 98% compared to the balance as at December 31, 2015.

For the fourth quarter of 2016, our customer deposits balance increased by $90,536 or 14% compared to September 30, 2016 and by $394,565 or 119% compared to the balance as at December 31, 2015. The increase in the deposits balance compared to these prior quarters reflects the growth of our mortgage loan portfolio as well as liquidity needs for upcoming deposit maturities and anticipated mortgage funding activity.

CAPITAL MANAGEMENT

Capital Requirements

Equity Trust's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory requirements, is consistent with our risk appetite framework, and supports our business plans. Our internal capital adequacy assessment process ("ICAAP") is integral to our capital planning activities and incorporates a stress testing program that evaluates the impact potential scenarios have on income and capital. Regulatory capital requirements addressed by our policy include the Leverage Ratio and risk based capital ratios (Common Equity Tier 1, Tier 1 and Total Capital).

Equity Trust calculates regulatory capital and capital ratios based on the Capital Adequacy Requirements ("CAR") Guidelines issued by OSFI. The CAR Guidelines are based on "Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework" ("Basel III") issued by the Basel Committee on Banking Supervision ("BCBS"). Equity Trust's total regulatory capital is comprised entirely of shareholder's equity (the total of share capital, contributed surplus and retained earnings) less adjustments for intangible assets net of deferred taxes, which qualifies as common equity tier 1 capital ("CET1"). Equity Trust derives its risk based CET1 ratio by dividing CET1 capital by the sum of credit risk-weighted assets and operational risk factors. Equity Trust calculates risk-weighted assets using the standardized approach for credit risk and the basic indicator approach for operational risk.

Under Basel III, capital is calculated two ways during a transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on an all-in basis, which includes all applicable deductions immediately. As at December 31, 2016, Equity Trust held CET1 on an all-in basis of $85,045 compared with $84,200 as at December 31, 2015.

Table 22: Regulatory Capital (Based on Equity Financial Trust)

		As at	
($000s, except percentage amounts)		**December 31, 2016**	December 31, 2015
Common Equity Tier 1 capital: Instruments and reserves	**Line No.**	**All-in**	All-in
Directly issues qualifying common share capital plus related stock surpluses	1	**$ 35,123**	$ 33,912
Retained earnings	2	**53,408**	51,697
Accumulated other comprehensive loss	3	**(77)**	-
Common Equity Tier 1 capital before regulatory adjustments	6	**88,454**	85,609
Common Equity Tier 1 capital: Regulatory adjustments			
Total regulatory adjustments to Common Equity Tier 1	28	**(3,409)**	(1,409)
Common Equity Tier 1 capital (CET1)	29	**85,045**	84,200
Tier 1 capital	45	**85,045**	84,200
Total capital	59	**85,045**	84,200
Total risk-weighted assets	60	**311,373**	169,246
Capital ratios			
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	**27.3 %**	49.8 %
Tier 1 (as percentage of risk-weighted assets)	62	**27.3 %**	49.8 %
Total capital (as percentage of risk-weighted assets)	63	**27.3 %**	49.8 %
OSFI all-in target			
Common Equity Tier 1 capital all-in target ratio	69	**7.0 %**	7.0 %
Tier 1 capital all-in target ratio	70	**8.5 %**	8.5 %
Total capital all-in target ratio	71	**10.5 %**	10.5 %

Note: Line item numbers reference the Pillar III Modified Capital Disclosure Requirements issued by OSFI.

Leverage Requirements

Under the Basel III leverage ratio framework, public disclosure of the leverage ratio was required beginning in 2015. OSFI has established leverage ratio targets on a confidential and institution by institution basis. As at December 31, 2016, Equity Trust's leverage ratio is 10.0% (December 31, 2015 - 19.1%), well within the OSFI guideline.

Table 23: Leverage Ratio (Based on Equity Financial Trust)

($000s, except percentage amounts)	Line No.	As at December 31, 2016	As at December 31, 2015
On-balance sheet exposures			
On-balance sheet items	1	**$ 835,138**	$ 431,392
Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	2	**(3,409)**	(1,409)
Total on-balance sheet exposure	3	**831,729**	429,983
Derivative exposures			
Replacement cost	4	**-**	-
Add-on amounts for PFE	5	**123**	-
Total derivatives exposure	11	**123**	-
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	17	**73,064**	59,297
Adjustment for conversion to credit equivalent amounts	18	**58,451**	47,438
Off-balance sheet items	19	**14,613**	11,859
Tier 1 capital	20	**85,045**	84,200
Total exposures	21	**846,465**	441,842
Basel III leverage ratio	22	**10.0 %**	19.1 %

Note: Line item numbers reference the Basel III Leverage Ratio Framework and Disclosure Requirements issued by OSFI.

Capital Resources

Equity Trust has a capital base sufficient to support its current business in alternative mortgage lending. We may, however, require further capital from time to time to support asset growth, pursue strategic initiatives or to develop future related lines of business.

RISK MANAGEMENT

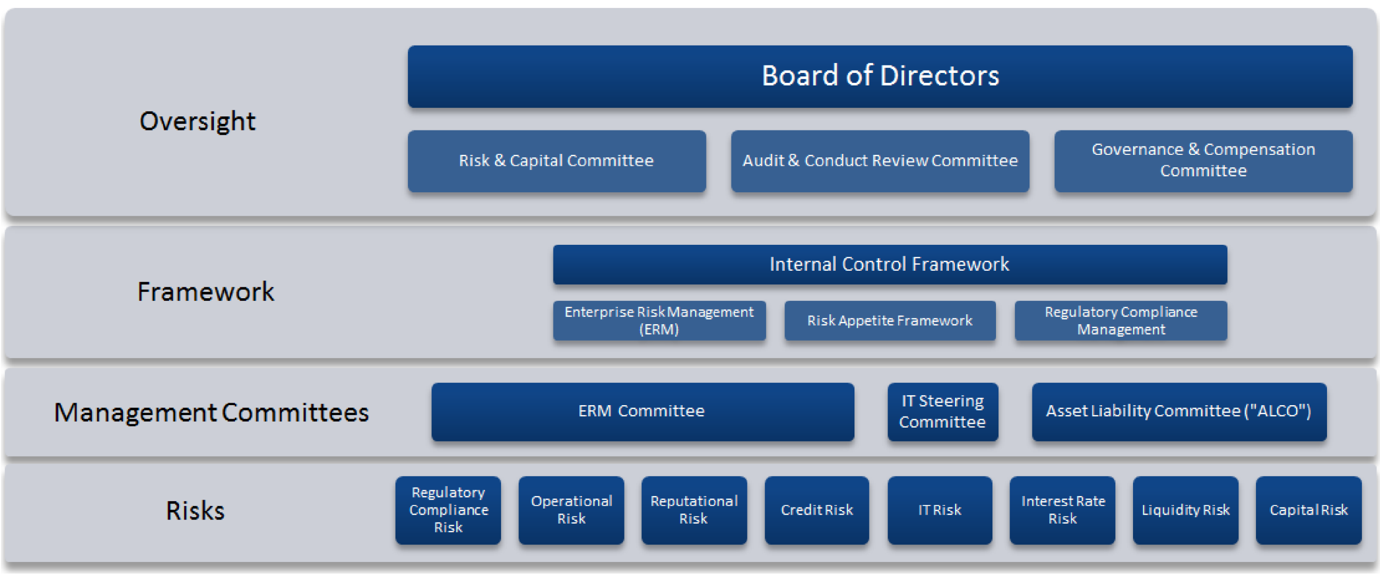
The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, liquidity, interest rate and market risks that are required under *IFRS 7 Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the audited consolidated financial statements for the year ended December 31, 2016.

The Corporation's activities in pursuit of its strategic goals and objectives expose the Corporation to a wide range of risks that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation's Risk Appetite Framework provides a structured process to identity, quantify and limit the amount of risk that Equity Trust is willing to take. The types of risk to which the Corporation is exposed include but are not limited to credit, liquidity, interest rate, market, regulatory compliance, reputational, operational, and information technology.

Enterprise Risk Management Framework

The Corporation has established an Enterprise Risk Management ("ERM") Framework which covers both the public entity as well as its subsidiary Equity Trust. The ERM Framework is a Board approved, systematic and integrated process that enables senior management to effectively manage material risks impacting operations, the achievement of strategic and business objectives and the deployment of capital. The ERM Framework is designed to foster a strong risk management culture by identifying, measuring, mitigating, monitoring and reporting risk, including the establishment of roles, responsibilities, processes and tools which are used in relation to our Risk Appetite Framework. It is an ongoing process involving the Board, senior management and other personnel.

The Board of Directors of Equity Trust, through its three Board Committees, namely the Risk and Capital Committee, Audit and Conduct Review Committee and Governance and Compensation Committee, establishes a strong risk and control culture utilizing a three lines of defense model comprised of operations, risk management and compliance, and internal audit.



Credit Risk

Credit risk is defined as the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of our mortgage lending operations creates an exposure to credit risk resulting from possible defaults in payment by our borrowers. Equity Trust oversees the management of credit risk through its ERM Committee, which is comprised of members of senior management. The ERM Committee meets regularly to review performance and risk factors in the mortgage portfolio and periodically considers and recommends adjustments to the credit risk and concentration limits in our Board approved credit lending policy.

There can be no absolute assurances that our monitoring of credit risk and our efforts to mitigate credit risk through appropriate underwriting policies, procedures and loss mitigation strategies will be sufficient to prevent an adverse effect on our profitability and financial condition. As part of the underwriting process, we rely heavily upon information supplied by both borrowers and third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected by internal controls and procedures before completing the transaction, the credit risk associated with the transaction may be increased.

Our mortgage portfolio consists of uninsured residential mortgages. As a result, our primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage. Our portfolio consists of residential mortgages originated under lending programs designed to serve non-prime and near-prime customers who have limited access to traditional mortgage financing. There is generally a higher risk of default associated with these customers than with traditional borrowers. The typical non or near prime borrower may have had previous financial difficulties or may not yet have established a sufficient credit history. Because we serve customers who are unable to meet the conventional underwriting standards of the major Canadian banks, we generally charge interest at higher rates than those charged by those lenders. The factors used in determining borrowers' creditworthiness may be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on our operating results and financial condition. We mitigate this risk primarily by conducting appropriate diligence on each borrower and by dealing with known and reputable mortgage brokers. In addition, as an uninsured residential mortgage lender, our credit risk also results from reliance on the stability of collateral values. We are therefore selective in the types of property we accept as collateral, the reliability of the appraisal of the property, and its geographic location.

Although subject to change with Board approval, we predominantly lend to borrowers in urban and suburban areas of Ontario. Although the areas we lend in are among Canada's largest housing markets, a significant economic shock to regional economies could have a disproportionately adverse impact on our mortgage portfolio, in light of the general economic conditions and credit risks discussed above, compared to the impact for a lender with a more regionally or nationally diversified mortgage portfolio. As an added precaution against loss, we lend only in neighbourhoods where we believe there is clear evidence that properties are highly marketable as evidenced by indicators such as days-on-market.

Other financial instruments potentially exposed to credit risk include cash and cash equivalents and securities. We consider our exposure to credit risk over cash and cash equivalents and securities to be remote as they consist of cash deposits at Canadian Schedule I banks and securities guaranteed by the Government of Canada, its provinces or municipalities.

Liquidity Risk

Liquidity risk is defined as the possibility we will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet our financial commitments as they become due.

Managing liquidity risk requires management to maintain sufficient liquid assets on hand at all times to pay our cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, accounts payables, accrued liabilities and other business obligations.

Equity Trust has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies Equity Trust's liquidity risk tolerance and minimum liquidity requirements;

- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for both short and long-term time horizons;

- Requirements for the diversification of funding sources;

- The maintenance of a liquidity reserve consisting of cash and cash equivalents and high quality liquid assets ("HQLA");

- Daily reporting that measures compliance with regulatory and Board-approved limits;

- Periodic stress testing of liquidity assumptions and forecasts which may include company-specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and

- A liquidity contingency plan that considers a number of scenarios according to which Equity Trust's liquidity operations could be disrupted and details what actions will be followed under each scenario.

Equity Trust's Asset-Liability Committee ("ALCO") is comprised of members of senior management and is charged with the monitoring of Equity Trust's liquidity exposures. ALCO periodically reviews Equity Trust's liquidity policies and procedures as considered appropriate to evolving business requirements and makes recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity strategy accordingly.

Equity Trust's Board has established minimum liquidity requirement limits using two measures required under Basel III and included in the Liquidity Adequacy Requirements Guideline ("LARG"):

- Liquidity Coverage Ratio ("LCR"): the ratio of Equity Trust's cash reserve to net cash inflows and outflows for a specified time horizon; and

- Net Stable Funding Ratio ("NSFR"): the ratio of Equity Trust's liabilities to assets adjusted by factors that represent their inherent stability or permanence, which will become effective in 2018.

These requirements are supplemented by additional supervisory monitoring metrics including the OSFI-designed Net Cumulative Cash Flow (NCCF).

The appropriateness of these limits is reviewed from time to time by ALCO and the Board in light of prevailing and anticipated business and economic conditions.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our profitability and financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results and financial condition. From time to time, Equity Trust enters into derivative transactions to hedge interest rate risk. Where appropriate, we apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. The use of derivative products is governed by a Board-approved policy that permits the use of derivatives only for the purpose of hedging asset-liability mismatches.

We use simulated interest rate change sensitivity models to estimate the effect of various interest rate change scenarios on the economic value of shareholders' equity ("EVE") and on net interest income for the twelve months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the prepayment and renewal rates of mortgages, the volumes and maturity distributions of future mortgages and deposits, future interest rate margins earned on mortgages and paid on deposits, and the growth of other interest rate sensitive items such as cash. Equity Trust's ALCO is responsible for the oversight of interest rate risk, including the establishment of modelling assumptions, parameters and scenarios.

The following table illustrates the results of management's sensitivity modelling to immediate and sustained interest rate increase and decrease scenarios. 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, limited by the assumption that interest rates will not fall below zero.

Table 24: Impact of Interest Rate Shifts

($000s, except percentage amounts)	Increase	Decrease
Change of 100 bps		
Impact on net interest income	$ 389	$ (412)
Impact on EVE	1,252	(1,377)
EVE impact as a % of common shareholders' equity	1.3 %	(1.4)%
Change of 200 bps		
Impact on net interest income	694	(318)
Impact on EVE	2,396	(1,955)
EVE impact as a % of common shareholders' equity	2.5 %	(2.0)%

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Our market risk factors include price risk on available for sale securities. We mitigate this risk by investing only in high-quality, liquid assets guaranteed by the Government of Canada, its provinces or municipalities and actively monitoring our investments.

Operational Risk

The services provided by us to our clients encompass a large volume of tasks and processes that demand a high degree of precision and timeliness. We may be responsible to our clients for any financial losses resulting from fraud, errors or omissions by us in providing these services. We continue to enhance our managerial and operational resources and controls including our data processing systems and software, to minimize the potential for fraud, errors or omissions, and have insurance coverage in place to mitigate the risk of loss should they occur. However, the impact of such losses, and of the resulting harm to our reputation, could have a material adverse effect on our business, operations and financial results.

Reliance on Third-Party Mortgage Brokers and Deposit Agents

We rely on independent securities dealers and deposit brokers to distribute our GICs. Similarly, our mortgage originations depend on a network of independent mortgage brokers. Under adverse circumstances, we may find it difficult to attract sufficient new deposits from dealers or mortgage business from brokers to sustain our operating requirements. The failure by us to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from our mortgage broker network could negatively affect our financial condition and operating results. We mitigate these risks by establishing and maintaining good working and mutually beneficial relationships with a diverse group of third-party distributors so as not to become overly reliant on any single point of sale.

Reliance on Key Personnel

Our operations are dependent on the abilities, experience and efforts of our management team and other key employees. Should any of these persons be unable or unwilling to continue in their employment with us, this could have a material adverse effect on our business, financial condition and results of operations. We may find it increasingly difficult to attract and to retain the necessary employees to meet our needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur.

Outsourcing Risk

We outsource some functions in order to control costs, reduce risk, and enhance service levels. Outsourcing any of our administrative functions to third parties runs the risk of failure or that the products or services obtained through third parties will be insufficient for our requirements or that of our customers. Should a provider of administrative services fail to perform in accordance with its agreement and/or our expectations, we could be required to find an alternative service provider or to take back that administrative function. If the service were taken in-house, extra costs in the form of additional staff and overhead might result. In addition, while we have arrangements in place to review the service levels and financial stability of these counterparties, a failure by us to adequately monitor this risk, or to establish alternative arrangements on a timely basis if required, could result in a material adverse effect on our operating results and financial condition.

Reputational Risk

Reputational risk is the potential that negative publicity - whether true or not - regarding an institution's business practices, actions or inactions, may cause a decline in the institution's market value, liquidity or customer base. An institution's reputation is a valuable business asset in its own right, essential to optimizing shareholder value, and as such is constantly at risk. Reputational risk cannot be managed in isolation from other forms of risk since all risks have a potential impact on reputation.

Ultimate responsibility for our reputation lies with senior management and the Board of Directors and its committees, which examine reputational risk as part of their ongoing duties. In addition, every employee and representative of our company has a responsibility to contribute in a positive way to our reputation by ensuring that ethical practices are followed at all times. We also have specific policies and procedures in our Code of Conduct that consider the impact of reputational risk.

Capital Risk

Capital risk is defined as the risk that Equity Trust has insufficient capital to comply with regulatory limits and to support its strategic and business objectives, either because it cannot raise new capital or because of losses eroding existing capital. We may need to raise funds through public or private financing in the event that we incur operating losses or require substantial capital investment to finance growth in our mortgage business. There can be no assurance that additional financing will be available on terms favourable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to maintain our federal trust company charter, take advantage of market opportunities, respond to competitive pressures or continue to be viable. Such instability could have a material adverse effect on our business, financial condition and results of operations. If additional funds are raised through the issuance of shares from our treasury, shareholders may suffer dilution of their holdings. See Capital Management for Equity Trust's capital management policy.

Regulatory Compliance Risk

The financial services industry is highly regulated:

Equity Trust is regulated under the Trust and Loan Companies Act (Canada) (“TLCA”) by OSFI. The TLCA and provincial legislation, together with related regulations and guidelines, require us to file annual and other reports on our financial condition, have the ability to impose restrictions on transactions with related parties and to set out requirements governing capital and other matters. OSFI prescribes capital ratio limits specific to each deposit-taking institution which govern how much leverage the institution is allowed to apply in its business.

Changes to laws and regulations applicable to our deposit-taking or mortgage operations, including changes in the interpretation or application of such laws and regulations, could affect those operations, limiting the products or services we may provide and increasing the ability of competitors to compete with our products or services. Failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact our income and damage our reputation.

Information Technology and Cyber Security Risk

The Corporation is highly dependent upon its information technology ("IT") systems, cyber security, email messaging, mobile technologies, and other online capabilities to streamline business operations, protect client information, enhance client and broker service, and otherwise conduct business. However, in doing so, the Corporation is exposed to threats or disruptions to business critical applications and operations, theft, unauthorized data access or lack of systems sufficient to manage the business and its risks efficiently and effectively, and other IT and cyber security risks that could potentially have an adverse impact on its business. Equity Trust oversees the management of IT and cyber security risks through its IT Steering Committee, which is comprised of members of senior management. The IT Steering Committee meets regularly to review performance and risk factors related to IT systems, review IT policies and procedures, and periodically review and update IT strategic and cyber security plans with input from the Board of Directors. The Corporation provides specialized cyber security awareness training to internal personnel as a preventative measure against cyber threats. The Corporation maintains and tests business continuity plans, however, cyber threats are becoming more sophisticated and pervasive, and significant disruptions outside of its control may impair its ability to provide service to clients.

Other Risk Factors that May Affect Future Results

In addition to the risks described in this Risk Management section, there are numerous other risk factors which could cause the Corporation's results to differ significantly from the Corporation's strategic goals and objectives. Some of these external factors are discussed below.

Increasing Competition

The markets in which we operate are competitive and can be influenced by the marketing and pricing decisions of larger industry participants. Our products and services compete with those offered by banks, insurance companies, trust companies and other financial services companies. Many of these competitors are well capitalized, hold a larger percentage of the Canadian residential mortgage market, have significantly greater financial, technical, operational and marketing experience and resources than us and have greater name recognition than Equity Trust. We experience competition in all aspects of our business, including price competition. If price competition increases, we may not be able to raise the interest rates that we charge borrowers, which has the potential to reduce the market value of our mortgages. This could have a material adverse effect on our business, financial condition and results of operations. In addition, while there are a number of barriers to entry in the mortgage and deposit taking services business, we may face additional competition from new entrants into this market.

Stock Market Volatility

Broad stock market fluctuations may adversely affect the market price of our common shares. When the market price of a corporation's stock drops significantly, shareholders sometimes institute class action lawsuits against that corporation. A lawsuit against us, even if without merit, could cause us to incur substantial costs and could divert the time and attention of our management team and other resources.

Risk of Terrorist Attacks or Related Disasters

Civil unrest, economic recession and depression, pandemics, war and additional acts of terrorism may adversely impact the North American and global economies and financial markets.

SIGNIFICANT ACCOUNTING ESTIMATES

To prepare the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. The significant accounting estimates that require management to make significant judgments are outlined in Note 2 to the 2016 Audited Financial Statements. Key areas where management has made estimates and applied judgment include financial instruments, allowance for credit losses, property, plant and equipment, intangible assets, and income taxes. Estimates and underlying assumptions are continually evaluated by management based on historical experience, other external factors, and for certain estimates, expectations of future events that are believed to be reasonable under the current circumstances. 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 used. Actual results could differ from these estimates.

ACCOUNTING STANDARDS AND POLICIES

Our significant accounting policies are disclosed in Note 2 to our 2016 Audited Financial Statements.

Current & future changes in accounting policies

Certain new standards, interpretations and amendments to existing standards have been published by the IASB and the International Financial Reporting Interpretations Committees ("IFRIC") that will become effective for future periods and could have a potential implication on the accounting policies of the Corporation.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, which replaces the guidance in IAS 39. The standard included a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will not be early adopting IFRS 9. IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Corporation will not re-state prior period comparative consolidated financial statements when it adopts the requirements of the new standard.

The transition to IFRS 9 will have a significant impact for financial services companies. The most significant impact on the Corporation's financial reporting will be as a result of the new impairment standard within IFRS 9.

The Corporation has established a project team for the transition to IFRS 9. The project team includes senior stakeholders from the Corporation's Risk Management, Finance and IT groups. The key responsibilities of the project team include defining IFRS 9 risk methodology and accounting policy, identifying data and system requirements, and developing an appropriate governance framework. The project team has engaged in discussions with external consultants regarding modeling and data collection requirements for the implementation of the new standard.

Although the Corporation is making progress in its implementation of IFRS 9, it is not yet possible to make a reliable estimate of the impact of the new standard on its consolidated financial statements. The Corporation will continue to focus on the implementation of IFRS 9 during 2017 and will assess the quantitative impact of applying the new standard by the fourth quarter of 2017.

IFRS 15 - Revenue from Contracts with Customers

In April 2016, the IASB issued an amendment to the revenue standard, clarifying some requirements and providing additional transitional relief for companies that are implementing the new standard. The amendments clarify how to identify a performance obligation, determine whether a company is a principal or an agent and determine whether the revenue from granting a license should be recognised at a point in time or over time. The amendments have the same effective date as the original standard of January 1, 2018.

The Corporation will not be early adopting IFRS 15. IFRS 15 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Corporation will not re-state prior period comparative consolidated financial statements when it adopts the requirements of the new standard.

Although the Corporation is making progress in its implementation of IFRS 15, it is not yet possible to make a reliable estimate of the impact of the new standard on its consolidated financial statements. The Corporation will continue to focus on implementation of the standard throughout 2017 and will have an initial estimate of the impact by the fourth quarter of 2017.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, which replaces the previous lease standard and related interpretations. The new standard requires lessees to recognise assets and liabilities for most leases and is effective for annual periods beginning on or after January 1, 2019. The Corporation is in the process of evaluating the impact of IFRS 16 on its consolidated financial statements.

CONTROL REPORTING

Disclosure Controls and Procedures

Our Disclosure Controls and Procedures ("DCP") are designed to provide reasonable assurance that all relevant information is identified and communicated to our Disclosure Committee. The Disclosure Committee is comprised of members of senior management and is charged with ensuring that appropriate and timely decisions are made regarding public disclosure. Management has evaluated the effectiveness of our DCP and concluded they are effective. There were no material changes in our DCP during the year ended December 31, 2016.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed, based on the Internal Control - Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projecting an evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in our ICFR that occurred during the year ended December 31, 2016 that materially affected or are reasonably likely to materially affect, the reliability of our financial reporting or the preparation of our financial statements for external purposes.

NON-IFRS FINANCIAL MEASURES

The Corporation employs certain financial measures to assess its performance that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. However, we believe the non-IFRS measures are useful supplemental measures that may assist financial analysts and investors in assessing certain aspects of our performance. These measures should not be considered as an alternative to any measures of performance presented in accordance with IFRS.

Adjusted net income (loss) and adjusted basic and diluted earnings (loss) per share

Our 2015 net loss was affected by a contingent consideration fair value adjustment of $1,000 ($867 after tax) related to the 2013 sale of our transfer agent and corporate trust operations (see 2013 Sale Transaction). The table below provides a reconciliation of net income (loss) to adjusted net income (loss).

Table 25: Reconciliation of Net loss to Adjusted net (loss) income

	For the three months ended					For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2016**	September 30, 2016	% Change	December 31, 2015	% Change	**December 31, 2016**	December 31, 2015	% Change
Net income (loss)	**$ 1,072**	$ 423	153 %	$ (304)	453 %	**$ 1,690**	$ (2,157)	178 %
Adjustments for costs incurred in relation to:								
charge for contingent consideration (net of tax)	-	-	0 %	-	0 %	-	867	(100)%
Adjusted net income (loss)	**$ 1,072**	$ 423	153 %	$ (304)	453 %	**$ 1,690**	$ (1,290)	231 %
Adjusted basic earnings (loss) per share	**0.12**	0.04	200 %	(0.03)	500 %	**0.18**	(0.14)	229 %
Adjusted diluted earnings (loss) per share	**$ 0.12**	$ 0.04	200 %	$ (0.03)	500 %	**$ 0.18**	$ (0.14)	229 %

Net interest margin

Net interest margin on our mortgage portfolio is calculated by taking net interest income earned divided by average total mortgage assets generating the interest income.

Return on equity (“ROE”)

ROE is calculated as net income divided by the weighted average of reported shareholders’ equity at the beginning and end of the period, multiplied by the appropriate factor to arrive at an annualized figure. ROE is used as an indicator of whether we use our capital resources efficiently.

DISCLOSURE OF OUTSTANDING SHARE DATA

Our common shares trade on the TSX under the symbol “EQI”. Our authorized share capital consists of an unlimited number of common shares without par value. As at February 16, 2017 we had 9,543,508 common shares outstanding and 734,910 stock options to purchase up to an aggregate of 734,910 common shares, with a weighted average exercise price of $9.35, expiring from February 2017 to February 2021.

ADDITIONAL INFORMATION

Additional information relating to EQI, including the Corporation’s annual information form, is available on SEDAR at www.sedar.com.