EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Equity Financial Holdings Inc. ("EQI" or the "Corporation") have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Equity Financial Holdings Inc.

December 31, 2016

CONTENTS

	Page
Financial Statements	
Independent Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Consolidated Statements of Comprehensive Income (Loss)	6
Consolidated Statements of Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equity Financial Holdings Inc.,

We have audited the accompanying consolidated financial statements of Equity Financial Holdings Inc., which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2016 and 2015, and 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 the auditors' 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, the auditors 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 audit 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 financial position of Equity Financial Holdings Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

February 15, 2017

EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

($000s Canadian dollars)	As at December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 6)	**$ 53,013**	$ 44,326
Available-for-sale securities (Note 7)	**12,405**	-
Mortgages receivable, net (Note 8)	**760,201**	383,282
Deferred tax assets (Note 14)	**1,108**	894
Other assets (Note 10)	**1,115**	699
Property, plant and equipment (Note 12)	**2,074**	399
Intangible assets (Note 13)	**3,828**	1,829
	833,744	431,429
Liabilities and Shareholders' Equity		
Liabilities		
Customer deposits (Note 9)	**726,762**	332,197
Current income taxes payable	**913**	135
Deferred tax liabilities (Note 14)	**283**	251
Deferred share unit liability (Note 16)	**1,624**	837
Contingent consideration payable (Note 21)	**-**	1,000
Derivative liabilities (Note 18)	**78**	-
Other liabilities (Note 11)	**8,357**	3,554
	738,017	337,974
Shareholders' Equity		
Share capital (Note 15)	**33,545**	33,515
Contributed surplus	**3,048**	2,419
Retained earnings	**59,211**	57,521
Accumulated other comprehensive loss	**(77)**	-
	95,727	93,455
	$ 833,744	$ 431,429

Approved on Behalf of the Board of Directors:

/signed/ - Michael R. Jones
Director

/signed/ - Brad R. Kipp
Director

The accompanying notes and shaded sections of the MD&A form an integral part of these consolidated financial statements.

EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

($000s Canadian dollars, except share and per share amounts)	For the years ended December 31, 2016	December 31, 2015
Interest income	**$ 27,449**	$ 16,155
Interest expense	**(10,574)**	(5,815)
Net interest income	**16,875**	10,340
Provision for credit losses (Note 8)	**(753)**	(165)
Net interest income, less provision for credit losses	**16,122**	10,175
Non-interest income		
Mortgage servicing fees	**1,673**	1,244
Other fee income (Note 21)	**600**	450
Total non-interest income	**2,273**	1,694
Net interest income and non-interest income, including provision for credit losses	**18,395**	11,869
Non-interest expenses		
Staffing costs	**9,448**	7,808
Other operating expenses	**6,364**	5,527
Total non-interest expenses	**15,812**	13,335
Charge for contingent consideration (Note 21)	**-**	1,000
Income (loss) before income taxes	**2,583**	(2,466)
Income tax expense (recovery) (Note 14)		
Current	**1,075**	260
Deferred	**(182)**	(569)
Total income tax expense (recovery)	**893**	(309)
Net income (loss)	**$ 1,690**	$ (2,157)
Net earnings (loss) per common share		
Basic earnings (loss) per share	**$ 0.18**	$ (0.23)
Diluted earnings (loss) per share	**$ 0.18**	$ (0.23)
Weighted average number of common shares outstanding		
Basic	**9,540,590**	9,532,647
Diluted	**9,564,599**	9,535,450

The accompanying notes and shaded sections of the MD&A form an integral part of these consolidated financial statements.

EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the years ended	
($000s Canadian dollars)	**December 31, 2016**	December 31, 2015
Net income (loss)	**$ 1,690**	$ (2,157)
Other comprehensive loss		
Available-for-sale securities		
Net unrealized losses	**(105)**	-
Income tax recovery	**(28)**	-
Total other comprehensive loss	**(77)**	-
Comprehensive income (loss)	**$ 1,613**	$ (2,157)

The accompanying notes and shaded sections of the MD&A form an integral part of these consolidated financial statements.

EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015

($000s Canadian dollars, except share amounts)	Share Capital Number		Amount		Contributed Surplus		Retained Earnings		Accumulated Other Comprehensive Loss		Total Shareholders' Equity
Balance as at December 31, 2015	**9,539,508**	**$**	**33,515**	**$**	**2,419**	**$**	**57,521**	**$**	**-**	**$**	**93,455**
Other comprehensive loss	**-**		**-**		**-**		**-**		**(77)**		**(77)**
Exercise of stock options (Note 15)	**4,000**		**30**		**(9)**		**-**		**-**		**21**
Net income	**-**		**-**		**-**		**1,690**		**-**		**1,690**
Share-based payment expense	**-**		**-**		**638**		**-**		**-**		**638**
Balance as at December 31, 2016	**9,543,508**	**$**	**33,545**	**$**	**3,048**	**$**	**59,211**	**$**	**(77)**	**$**	**95,727**
Balance as at December 31, 2014	9,527,508		33,401		1,772		59,678		-		94,851
Exercise of stock options (Note 15)	12,000		114		(29)		-		-		85
Net loss	-		-		-		(2,157)		-		(2,157)
Share-based payment expense	-		-		676		-		-		676
Balance as at December 31, 2015	9,539,508	$	33,515	$	2,419	$	57,521	$	-	$	93,455

The accompanying notes and shaded sections of the MD&A form an integral part of these consolidated financial statements.

EQUITY FINANCIAL HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000s Canadian dollars)	For the years ended December 31, 2016	December 31, 2015
Operating activities		
Net income (loss) for the year	**$ 1,690**	$ (2,157)
Adjustments to determine cash flows relating to operating assets and liabilities		
Amortization of premium/discount on securities	**22**	-
Depreciation of property, plant and equipment	**284**	328
Amortization of intangible assets	**226**	471
Realized loss on impaired mortgages	**(169)**	(54)
Share-based payments	**638**	676
Provision for credit losses	**753**	165
Changes in operating assets and liabilities		
Income tax expense (recovery)	**893**	(309)
Income tax (paid) received	**(271)**	297
Increase in mortgages receivable	**(377,503)**	(86,018)
Increase in customer deposits	**394,565**	96,600
Increase in deferred share unit liability	**787**	462
(Decrease) increase in contingent consideration payable	**(1,000)**	1,000
Increase in derivative liabilities	**78**	-
Increase in other assets	**(416)**	(101)
Increase (decrease) in other liabilities	**4,803**	(9)
Cash flows provided by operating activities	**25,380**	11,351
Financing activities		
Shares issued pursuant to stock options exercised	**21**	85
Cash flows provided by financing activities	**21**	85
Investing activities		
Additions to property, plant and equipment	**(1,959)**	(120)
Additions of intangible assets	**(2,225)**	(221)
Purchase of securities	**(12,530)**	-
Cash flows used in investing activities	**(16,714)**	(341)
Net increase in cash and cash equivalents during the year	**8,687**	11,095
Cash and cash equivalents at the beginning of the year	**44,326**	33,231
Cash and cash equivalents at the end of the year	**$ 53,013**	$ 44,326
Supplementary disclosure of cash flow information		
Cash interest received	**$ 25,913**	$ 15,778
Cash interest paid	**(5,376)**	(4,577)
Non-cash transactions: Deferred share unit grants	**573**	630

The accompanying notes and shaded sections of the MD&A form an integral part of these consolidated financial statements.

1. Nature of operations

Equity Financial Holdings Inc. ("EQI" or the "Corporation") is a Canadian financial services company, traded on the Toronto Stock Exchange under the stock symbol EQI. Through its federally regulated and wholly owned subsidiary, Equity Financial Trust Company ("EFT"), 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. The Corporation is incorporated and domiciled in Canada with its registered office located at 100 King Street, Suite 4610, Toronto, Ontario.

2. Significant accounting policies

a. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on the cost basis, except for the following consolidated balance sheet items:

- Available-for-sale securities and derivatives, which are measured at fair value (see 2 c.)
- Liabilities for cash-settled share-based payment arrangements, which are measured at fair value (see 2 n.)
- Liability for contingent consideration payable which is measured at fair value (see Note 2 d.)

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below and have been consistently applied to all the years presented, unless otherwise stated.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on February 16, 2017.

b. Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Corporation and its subsidiary after the elimination of intercompany transactions.

A subsidiary is an entity controlled by the Corporation. The Corporation has control when it has power over the entity, has exposure or rights to variable returns from its involvement and has the ability to use its power over the entity to affect returns. The subsidiary included in the consolidated financial statements is EFT.

c. Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated by management based on historical experience and other external factors, and for certain estimates, expectations of future events that are believed to be reasonable under the current circumstances.

Information about assumptions and estimation uncertainties that could have a significant impact on the consolidated financial statements is included in the following notes:

2. Significant accounting policies continued

c. Critical accounting judgments, estimates and assumptions continued

- 2d. Financial instruments
- 2g. Allowance for credit losses on mortgages receivable
- 2i. Property, plant and equipment.
- 2j. Intangible assets
- 2l. Income taxes

d. Financial instruments

i. Recognition and classification of financial assets and liabilities

Financial assets

The Corporation classifies financial assets either as “at fair value through profit or loss" ("FVTPL") or as “loans and receivables”, which include mortgages receivable and available-for-sale securities.

Financial assets classified as FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in the consolidated statements of operations.

Financial assets, except loans and receivables, are recognized on the trade date, where their purchase or sale are under a contract of which the terms require delivering the financial asset within the timeframe established by the market concerned. The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Loans and receivables are financial assets with fixed and determinable payments that are not quoted in an active market. Such assets are initially recognized on settlement date at fair value plus any transaction costs, and subsequently they are measured at amortized cost using the effective interest method, less any allowance for credit losses.

Held for trading securities are financial assets purchased for resale, primarily held for liquidity requirements or are derivatives (except for a derivative that is a designated and effective hedging instrument in an accounting hedge). Held for trading securities are measured at fair market value and related realized and unrealized gains and losses are reported in income under non-interest income.

Available-for-sale securities are financial assets purchased for longer-term investment that may be sold in response to, or in anticipation of, changes in market conditions of liquidity requirements. Interest income from available-for-sale securities, which includes amortization of premiums and discounts, is recognized using the effective interest rate method and is included in interest income in the consolidated statements of operations. Available-for-sale securities are measured at their fair market value, using published bid prices, as at the consolidated balance sheet dates. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income ("AOCI") until the security is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to net income.

2. Significant accounting policies continued

d. Financial instruments continued

i. Recognition and classification of financial assets and liabilities continued

Financial liabilities

Customer deposits are measured at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Contingent consideration payable is measured at fair value, with any adjustments on remeasurement recognized in the consolidated statements of operations.

ii. Determination of fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the principal market or most advantageous market that is accessible to the Corporation for the asset or liability.

Subsequent to initial recognition, financial instruments classified as FVTPL are remeasured using quoted market prices from active markets or, where quoted market prices are not available, using fair value estimates determined using valuation methods that refer to observable market data.

iii. Impairment

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period or more frequently if required. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the present value of estimated future cash flows is lower than the asset's carrying amount. The financial asset's carrying amount is reduced by the impairment loss either directly, or in the case when a trade receivable or a mortgage receivable is considered uncollectible, it is written off against an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of operations.

At each reporting date, the Corporation assesses whether there is objective evidence that available-for-sale securities are impaired. Objective evidence that a security is impaired can include significant financial difficulty of the issuer, indications that an issuer will enter bankruptcy or the lack of an active market for the security. When there is objective evidence of an impairment of an available-for-sale security, any cumulative loss that has been recognized in other comprehensive income ("OCI") is reclassified from AOCI to net income. The amount of the cumulative loss reclassified is the difference between the acquisition cost (net of any principal repayment, amortization and cumulative losses recognized in net income) and current fair value. Subsequent increases in fair value of debt securities that can be objectively related to an event occurring after the impairment loss was recognized result in a reversal of the impairment loss through net income.

iv. Risks associated with financial instruments

The use of financial instruments exposes the Corporation to credit risk, liquidity risk, interest rate risk and market risk. Elements of these risks and how the Corporation manages them are outlined in detail in Note 5 and pages 26 to 31 of the Corporation's 2016 Annual Management's Discussion and Analysis ("MD&A").

2. Significant accounting policies continued

e. Cash and cash equivalents

Cash and cash equivalents consist of deposits with regulated financial institutions and liquid short-term investments, including government guaranteed investments, of which the term to maturity at the date of purchase is less than three months and which are readily convertible to known amounts of cash. Interest earned on cash and cash equivalents is included in interest income in the consolidated statements of operations.

f. Mortgages receivable

Mortgages receivable are recorded at amortized cost plus accrued interest, net of unamortized broker fees, deferred commitment fees and an allowance for credit losses. Net fees relating to mortgage origination are amortized to earnings on an effective interest basis over the term of the mortgages to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan.

Interest income is accrued as earned with the passage of time and continues to accrue when a loan is considered impaired using the effective interest rate method (with an appropriate allowance for credit loss as discussed below).

The Corporation classifies a mortgage receivable 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.

When loans are classified as impaired, the book value of such loans is adjusted to their estimated realizable value based on the fair value of any security underlying the loans, net of any costs of realization, by establishing an allowance for credit losses as described below.

An impaired loan is not returned to a performing status unless all principal and interest payments are up to date, and management is reasonably assured of the full recoverability of the loan.

g. Allowance for credit losses on mortgages receivable

An allowance for credit losses is maintained at an amount that, in management's opinion, is considered adequate to absorb all credit-related losses that have occurred in the portfolio, whether or not detected at period-end. The allowance for credit losses on mortgage assets consists of both the individually and collectively assessed allowance. The adequacy of the allowance for credit losses is reviewed at least quarterly. Losses expected from future events are not recognized. The allowance for credit losses is deducted from mortgages receivable on the consolidated balance sheets. The provision for credit losses reflected in the consolidated statements of operations is the change in the allowance for credit losses.

i. Individual allowances

Individual allowances are determined on an item-by-item basis and reflect the associated estimate of credit loss. At the end of each reporting period, the Corporation first assesses whether objective evidence of impairment exists individually for mortgage assets. Individual allowances are set up for mortgages where evidence exists that the loan is not fully recoverable. The individual allowance is measured as the difference between the mortgage's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of the mortgage reflects the cash flows that may result from power of sale or foreclosure, less costs for obtaining and selling the property underlying the mortgage.

2. Significant accounting policies continued

g. Allowance for credit losses on mortgages receivable continued

ii. Collective allowance

The collective allowance is established to absorb credit losses on the aggregate exposures in the Corporation's loan portfolio for which losses have been incurred but not yet individually reported or identified. If an individual allowance is not required for a particular mortgage, the Corporation includes the mortgage in a group of mortgage assets with similar credit risk characteristics and collectively assesses them for impairment. Management's assessment process considers industry peer group experience and other relevant factors including economic conditions, security and mortgage type, geographical exposure, arrears trends and loan to value ratios.

iii. Impairment

An impairment loss is reflected in the consolidated statements of operations in the year in which the impairment is identified. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the mortgage are credited to the allowance for credit losses on the consolidated balance sheets.

h. Derivative financial instruments

The Corporation utilizes derivatives to manage interest rate risk. Derivatives are carried at fair value and reported as assets if they have a positive fair value and as liabilities if they have a negative fair value. The Corporation applies hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The Corporation utilizes fair value hedges for accounting purposes.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Corporation's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability being hedged, the hedging instrument and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation of between 80% and 125% in the changes in fair values between the hedged and hedging items.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, at least quarterly. Hedge ineffectiveness occurs when the changes in the fair value of the hedging item differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

The Corporation uses interest rate swap derivatives to hedge changes in the fair value of fixed-rate liabilities (the hedged items) attributable to interest rate risk. Changes in fair value due to hedged risk of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in net realized and unrealized gain (loss) on derivatives in the consolidated statements of operations. Changes in fair value of the hedging item (interest rate swap) are also recognized in net realized and unrealized gain or (loss) on derivatives.

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in income immediately.

i. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The Corporation recognizes depreciation to write off the cost of assets less their residual values over their estimated useful lives on a straight-line basis. The ranges of useful lives for each asset type are as follows:

2. Significant accounting policies continued

i. Property, plant and equipment continued

Furniture	5 to 10 years
Computer equipment	4 years
Computer infrastructure	7 years
Leasehold improvements	Term of lease

The Corporation reviews the estimated useful lives, residual values and depreciation methods at each year-end, accounting for the effect of any changes in an estimate on a prospective basis.

The gain or loss arising on disposing of or retiring an item of property, plant and equipment is determined as the difference between the sales proceeds and the asset's carrying amount and is recognized in the consolidated statements of operations.

j. Intangible assets

Acquired intangible assets

The trust licence granted to EFT under the federal *Trust and Loans Companies Act* does not expire and is therefore considered to have an indefinite life. It is carried at cost and is not amortized; however, it is assessed for impairment on an annual basis.

Computer software is carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over estimated useful lives of 2 to 5 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, accounting for the effect of any changes in estimate on a prospective basis.

Internally generated intangible assets

The Corporation's internally generated intangible assets consist of computer software. The Corporation recognizes expenditure on research activities as an expense in the period in which it is incurred. The Corporation recognizes an internally generated intangible asset arising from development (or from the development phase of an internal project).

The amount initially recognized for internally generated intangible assets is the sum of the eligible expenditures incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, the development expenditures are recognized in the consolidated statements of operations in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and impairment losses, on the same basis as acquired definite-life intangible assets. Internally generated computer software is amortized on a straight-line basis over estimated useful lives of 2 to 5 years.

2. Significant accounting policies continued

j. Intangible assets continued

Asset impairment

The Corporation assesses, at each reporting date, whether there is an indication that an intangible asset may be impaired. The trust licence and work-in-progress internally generated intangible assets are reviewed for impairment at least annually. If any indication of impairment exists, the Corporation estimates the asset's recoverable amount to determine the extent of the impairment loss. Where it is not possible to estimate a specific asset's recoverable amount, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use, where value in use is the present value of the future cash flows expected to be derived from the assets of the CGU. Where the carrying amount of the asset or the CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. The impairment loss is immediately recognized in the consolidated statements of operations.

Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of operations.

k. Customer deposits

Customer deposits are comprised of guaranteed investment certificates ("GICs") issued to depositors. Deposits, with the exception of those designated in qualifying fair value interest rate hedging relationships, are recorded on the consolidated balance sheets at amortized cost using the effective interest method. Deferred deposit agent commissions are accounted for as a component of customer deposits and amortized to interest expense over the term of the deposit using the effective interest method.

l. Income taxes

Income tax expense represents the sum of taxes currently payable and deferred taxes.

Taxes currently payable are based on taxable earnings for the year. Taxable earnings differ from net income or loss as reported in the consolidated statements of operations because of items of income or expense taxable or deductible in other years and items that are never taxable or deductible. The Corporation calculates its liability for current taxes using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in computing taxable earnings. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings nor the accounting earnings.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2. Significant accounting policies continued

l. Income taxes continued

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and, if necessary, reduced to the amount expected to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in income or loss, except when they relate to items recognized outside of income or loss (whether in other comprehensive income or directly in equity), in which case the taxes are also recognized outside of income or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

m. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares that are included when the conditions necessary for issuance have been met. Diluted earnings (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options. Diluted earnings (loss) per share exclude all dilutive potential common shares if their effect is anti-dilutive.

n. Share-based payments

i. Stock options

Fair value is determined on the grant date of the stock option and is recognized as an expense over the vesting period, with a corresponding increase to contributed surplus based on the Corporation's estimate of the number of options expected to vest. When stock options are exercised, the proceeds received by the Corporation, together with any related amount recorded in contributed surplus, are credited to share capital.

ii. Deferred share units

The fair value of the amount payable to directors and employees in respect of deferred share units, which are settled in cash, is recognized as an expense in the consolidated statements of operations with a corresponding change in liabilities, over the period that the individual becomes unconditionally entitled to payment. The liability is remeasured at each reporting date and at the settlement date based on the fair value of the stock price. Any changes in the liability are recognized in other expenses in the consolidated statements of operations.

iii. Employee share purchase plan contributions

The Corporation's contributions under the plan on behalf of employees are included in staffing costs.

2. Significant accounting policies continued

o. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and that the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

i. Interest income and expense

Interest income includes interest income earned on mortgages receivable, bank deposit balances, short-term investments and available-for-sale securities. Interest expense is the cost of issuing customer deposits.

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statements of operations using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability by allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Corporation estimates cash flows by considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

ii. Non-interest income

Non-interest income includes mortgage servicing fees and other fee income. Mortgage servicing fees include annual maintenance fees and renewal fees, non-sufficient fund fees, discharge fees, legal fees, and other miscellaneous fees. Other fee income was related to EFT's transitional status as trustee for client relationships managed by a third party.

Non-interest income is accrued or recognized as income when the associated services are rendered.

p. Leases

The Corporation recognizes operating lease payments as an expense on a straight-line basis over the lease term. Lease incentives received to enter into operating leases are recognized initially as a liability and then as a reduction of rental expense on a straight-line basis over the lease term.

3. Future changes in accounting policies

The IASB and the International Financial Reporting Interpretations Committees (“IFRIC”) have issued a number of new or revised standards or interpretations that will become effective for future periods and have potential implication on the accounting policies of the Corporation. Those which are considered to be relevant to the Corporation's operations are as follows:

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.

3. Future changes in accounting policies continued

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 Information Technology 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 recognize 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.

4. Capital management

The Corporation's managed capital comprises of shareholders' equity, which totaled $95,727 as at December 31, 2016 (December 31, 2015 – $93,455). Senior management is responsible for managing the Corporation's capital and the main objectives are to ensure the longevity of its capital to support continued operations and to provide shareholders' return on equity. To achieve these objectives, the Corporation manages capital to meet regulatory requirements of its subsidiary, EFT, to ensure sufficient resources are available to meet day-to-day operating requirements, to allow it to enhance existing systems and develop new systems, and to have the financial ability to expand the scope of its operations and services. EFT is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions of Canada ("OSFI").

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

Regulatory capital and capital ratios calculations are based on the Capital Adequacy Requirements Guideline issued by OSFI. The guidelines are based on Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework ("Basel III"). To measure compliance with minimum risk-based capital ratio requirements, capital is calculated on the "all-in" basis, which includes all applicable deductions required by 2018 in the current period.

As at December 31, 2016, EFT held CET 1 on an "all-in" basis of $85,045, compared to $84,200 as at December 31, 2015.

Basel III leverage ratio

The leverage ratio is currently defined as Tier 1 capital divided by the total exposure measure. The exposure measure is the sum of (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction exposures and (d) off-balance sheet items. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratios that meet or exceed 3%.

The full Basel III Pillar 3 capital and leverage ratio disclosures can be found on pages 22 to 24 of the Corporation's 2016 Annual MD&A.

EFT's regulatory capital, capital and leverage ratios are outlined in the table below.

4. Capital management continued

Capital Disclosures

As at	December 31, 2016	December 31, 2015
Common Equity Tier 1 capital: instruments and reserves	**All-in**	All-in
Directly issued qualifying common share capital plus related stock surplus	**$ 35,123**	$ 33,912
Retained earnings	**53,408**	51,697
Accumulated other comprehensive loss	**(77)**	-
Common Equity Tier 1 capital before regulatory adjustments	**88,454**	85,609
Common Equity Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Common Equity Tier 1	**(3,409)**	(1,409)
Common Equity Tier 1 capital	**85,045**	84,200
Tier 1 capital	**85,045**	84,200
Total capital	**85,045**	84,200
Total risk-weighted assets	**311,373**	169,246
Capital ratios		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	**27.3 %**	49.8 %
Tier 1 (as a percentage of risk-weighted assets)	**27.3 %**	49.8 %
Total capital (as a percentage of risk-weighted assets)	**27.3 %**	49.8 %
OSFI all-in target		
Common Equity Tier 1 capital all-in target ratio	**7.0 %**	7.0 %
Tier 1 capital all-in target ratio	**8.5 %**	8.5 %
Total capital all-in target ratio	**10.5 %**	10.5 %

Leverage Ratio Disclosures

As at	December 31, 2016	December 31, 2015
Leverage ratio exposure	**$ 846,465**	$ 441,842
Leverage ratio (Tier 1 capital / leverage ratio exposure)	**10.0 %**	19.1 %

5. Financial instruments

a. Risks associated with financial instruments

The Corporation, similar to other financial institutions, is exposed to risks related to general economic conditions, operational errors, reliance on third party agents and outsourcing, competition, stock market volatility and government regulation, many of which are beyond the Corporation's direct control. The use of financial instruments exposes the Corporation to credit risk, liquidity risk, interest rate risk and market risk. A discussion of the Corporation's risk exposures and how it manages those risks can be found in the shaded sections of pages 24 to 31 of the Corporation's 2016 Annual MD&A.

i. Interest rate sensitivity

The Corporation's exposure to interest rate risk results from the difference between the maturity of interest rate sensitive assets and liabilities. The following table shows the gap positions as at December 31, 2016 and 2015 based on contractual maturities. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

As at December 31, 2016	**Floating Rate**	**1 Year or Less**	**1 to 2 Years**	**Greater than 2 Years**	**Non-interest Sensitive**	**Total**
Assets						
Cash and cash equivalents	$ 53,013	$ -	$ -	$ -	$ -	$ 53,013
Effective interest rate	0.95 %	-	-	-	-	0.95 %
Available-for-sale securities	-	-	-	12,405	-	12,405
Effective interest rate	-	-	-	1.44 %	-	1.44 %
Mortgages receivable, net	-	526,825	153,096	80,280	-	760,201
Effective interest rate	-	4.92 %	4.90 %	4.86 %	-	4.90 %
Other assets	-	-	-	-	8,125	8,125
Total assets	$ 53,013	$ 526,825	$ 153,096	$ 92,685	$ 8,125	$ 833,744
Liabilities						
Customer deposits	$ -	$ 429,708	$ 181,153	$ 115,901	$ -	$ 726,762
Effective interest rate	-	1.98 %	2.17 %	2.27 %	-	2.06 %
Other liabilities	-	-	-	-	11,255	11,255
Shareholders' equity	-	-	-	-	95,727	95,727
Total liabilities and shareholders' equity	-	429,708	181,153	115,901	106,982	833,744
Off-balance sheet items	-	(24,500)	14,000	10,500	-	-
Interest rate sensitivity gap	53,013	72,617	(14,057)	(12,716)	(98,857)	-
Cumulative gap	$ 53,013	$ 125,630	$ 111,573	$ 98,857	$ -	$ -
Cumulative gap as a percentage of total assets	6.4 %	15.1 %	13.4 %	11.9 %	-	-

5. Financial instruments continued

As at December 31, 2015	Floating Rate	1 Year or Less	1 to 2 Years	Greater than 2 Years	Non-interest Sensitive	Total
Assets						
Cash and cash equivalents	$ 44,326	$ -	$ -	$ -	-	$ 44,326
Effective interest rate	1.04%	-	-	-	-	1.04%
Mortgages receivable, net	-	244,757	101,662	36,863	-	383,282
Effective interest rate	-	4.97 %	4.64 %	4.74 %	-	4.86 %
Other assets	-	-	-	-	3,821	3,821
Total assets	$ 44,326	$ 244,757	$ 101,662	$ 36,863	$ 3,821	$ 431,429
Liabilities						
Customer deposits	$ -	$ 174,376	$ 91,875	$ 65,946	$ -	$ 332,197
Effective interest rate	-	2.03 %	2.20 %	2.40 %	-	2.13 %
Other liabilities	-	-	-	-	5,777	5,777
Shareholders' equity	-	-	-	-	93,455	93,455
Total liabilities and shareholders' equity	-	174,376	91,875	65,946	99,232	431,429
Interest rate sensitivity gap	44,326	70,381	9,787	(29,083)	(95,411)	-
Cumulative gap	$ 44,326	$ 114,707	$ 124,494	$ 95,411	$ -	$ -
Cumulative gap as a percentage of total assets	10.3 %	26.6 %	28.9 %	22.1 %	-	-

Based on the current interest rate gap position as at December 31, 2016, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by $412 (December 31, 2015 – $229 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by $389 (December 31, 2015 – $466 increase).

b. Fair value of financial instruments

The valuation methods and assumptions used to estimate fair values of financial instruments are described as follows:

i. Available-for-sale securities

Available-for-sale securities are carried at fair value on the consolidated balance sheets. The disclosed fair value of available-for-sale securities is determined by using published bid prices.

5. Financial instruments continued

ii. Mortgages receivable

Mortgages receivable are carried at amortized cost on the consolidated balance sheets. 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.

iii. Contingent consideration payable

Contingent consideration payable is carried at fair value on the consolidated balance sheets. The disclosed fair value of the contingent consideration payable is determined by using management's best estimate based on a probability weighted range of future outcomes.

iv. Customer deposits

Customer deposits are carried at amortized cost on the consolidated balance sheets. 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.

v. Derivative financial instruments

Derivative financial instruments are carried at fair value on the consolidated balance sheets. The disclosed fair value of derivative financial instruments 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. The table does not include assets and liabilities that are not considered financial instruments.

						As at December 31, 2016
	Held for Trading	Available-for-Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value 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	-
Total financial liabilities	$ 78	$ -	$ 726,762	$ 726,840	$ 729,040	$ 2,200

5. Financial instruments continued

					As at December 31, 2015
	Fair Value Through Income	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over Carrying Value
Financial assets					
Mortgages receivable, net	$ -	$ 383,282	$ 383,282	$ 384,855	$ 1,573
Total financial assets	-	383,282	383,282	384,855	1,573
Financial liabilities					
Customer deposits	-	332,197	332,197	334,755	2,558
Contingent consideration payable	1,000	-	1,000	1,000	-
Total financial liabilities	$ 1,000	$ 332,197	$ 333,197	$ 335,755	$ 2,558

c. Fair value hierarchy

The Corporation categorizes its financial assets and liabilities into one of three fair value hierarchy levels as described below:

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The following table presents the fair values of financial instruments recorded at amortized cost or fair value across the levels of the fair value hierarchy.

					As at December 31, 2016
	Level 1	**Level 2**	**Level 3**	**Fair Value**	**Carrying Value**
Financial assets					
Available-for-sale securities	**$ 12,405**	**$ -**	**$ -**	**$ 12,405**	**$ 12,405**
Mortgages receivable, net	**-**	**-**	**762,835**	**762,835**	**760,201**
Total financial assets	**12,405**	**-**	**762,835**	**775,240**	**772,606**
Financial liabilities					
Customer deposits	**-**	**-**	**728,962**	**728,962**	**726,762**
Derivative liabilities	**-**	**78**	**-**	**78**	**78**
Total financial liabilities	**$ -**	**$ 78**	**$ 728,962**	**$ 729,040**	**$ 726,840**

5. Financial instruments continued

					As at December 31, 2015
	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Financial assets					
Mortgages receivable, net	$ -	$ -	$ 384,855	$ 384,855	$ 383,282
Total financial assets	-	-	384,855	384,855	383,282
Financial liabilities					
Customer deposits	-	-	334,755	334,755	332,197
Contingent consideration payable	-	-	1,000	1,000	1,000
Total financial liabilities	$ -	$ -	$ 335,755	$ 335,755	$ 333,197

There were no transfers into or out of any of the three levels during the current or prior year.

6. Cash and cash equivalents

As at	**December 31, 2016**	December 31, 2015
Deposits with regulated financial institutions	**$ 53,013**	$ 42,328
Short-term investments	**-**	1,998
Total cash and cash equivalents	**$ 53,013**	$ 44,326

Cash and cash equivalents include balances with banks and short-term investments with original maturity dates of less than 90 days.

7. Available-for-sale securities

The following table presents the analysis of securities at carrying value, by type and maturity or reprice date, as follows:

					December 31, 2016	December 31, 2015
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	Total Fair Value
Debt securities guaranteed by a province or municipality	**$ -**	**$ -**	**$ 12,405**	**$ -**	**$ 12,405**	$ -
	$ -	**$ -**	**$ 12,405**	**$ -**	**$ 12,405**	$ -

Included in securities guaranteed by a province is $255 of restricted investments, held as collateral for a swap facility.

The following table presents the analysis of unrealized gains and losses on securities reflected on the consolidated balance sheets:

7. Available-for-sale securities continued

				December 31, 2016	December 31, 2015
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Fair Value**	**Total Fair Value**
Debt securities guaranteed by a province or municipality	**$ 12,510**	**$ -**	**$ (105)**	**$ 12,405**	$ -
	$ 12,510	**$ -**	**$ (105)**	**$ 12,405**	$ -

Net unrealized gains and losses are included in AOCI and presented in the table above.

Unrealized gains or losses represent the differences between the amortized cost of a security and its current fair value. The Corporation regularly monitors its investments and market conditions for indications of impairment. As at December 31, 2016, the Corporation assessed its investments for evidence of impairment and has not identified adverse credit events in relation to its securities.

During the year ended December 31, 2016, the Corporation did not recognize any impairment losses on available-for-sale securities.

8. Mortgages receivable

a. Mortgages receivable

					As at December 31, 2016
	Gross Amount	**Individual Allowance**	**Collective Allowance**	**Total**	**Net Amount**
Mortgages	**$ 760,416**	**$ -**	**$ 1,751**	**$ 1,751**	**$ 758,665**
Accrued interest	**1,536**	**-**	**-**	**-**	**1,536**
Balance	**$ 761,952**	**$ -**	**$ 1,751**	**$ 1,751**	**$ 760,201**

					As at December 31, 2015
	Gross Amount	Individual Allowance	Collective Allowance	Total	Net Amount
Mortgages	$ 383,671	$ 93	$ 1,074	$ 1,167	$ 382,504
Accrued interest	778	-	-	-	778
Balance	$ 384,449	$ 93	$ 1,074	$ 1,167	$ 383,282

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

As at December 31, 2016, the portion of mortgages due within one year is $526,825 (December 31, 2015 – $244,757)

8. Mortgages receivable continued

and the weighted average term to maturity of the portfolio is 1.0 year (December 31, 2015 – 1.0 year). The weighted average effective interest rate of the portfolio as at December 31, 2016 is 4.90% (December 31, 2015 – 4.86%).

The Corporation has outstanding commitments to make future advances on mortgage loans of $37,700 as at December 31, 2016 (December 31, 2015 – $19,300). Commitments for the loans remain open for various dates through to March 2017.

b. Allowance for credit losses

	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Individual Allowance	**Collective Allowance**	**Total**	Individual Allowance	Collective Allowance	Total
Balance, beginning of year	**$ 93**	**$ 1,074**	**$ 1,167**	$ 15	$ 1,041	$ 1,056
Provision for credit losses	**76**	**677**	**753**	132	33	165
Realized losses	**(169)**	**-**	**(169)**	(54)	-	(54)
Balance, end of year	**$ -**	**$ 1,751**	**$ 1,751**	$ 93	$ 1,074	$ 1,167

c. Past due mortgages but not impaired

A loan is considered past due when a borrower has not made a payment by the contractual due date. The following table presents the carrying value of mortgages that are past due but not classified as impaired because collection efforts are reasonably expected to result in full repayment, or they have been restored to current status in accordance with the Corporation's collection policy since the consolidated balance sheet dates.

As at	**December 31, 2016**	December 31, 2015
1 to 30 days	**$ 33,391**	$ 10,376
31 to 60 days	**2,500**	1,714
61 to 90 days	**1,542**	317
Over 90 days	**1,683**	1,866
	$ 39,116	$ 14,273

d. Impaired mortgage

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.

8. Mortgages receivable continued

d. Impaired mortgage continued

The following table presents the carrying values of impaired mortgages.

As at		December 31, 2016		December 31, 2015
Gross amount of impaired loan	$	-	$	500
Individual allowance		-		(93)
Net amount	$	-	$	407

9. Customer deposits

As at		December 31, 2016		December 31, 2015
Term deposit principal	$	**720,686**	$	329,068
Accrued interest		**8,081**		4,068
Deferred broker commissions		**(2,005)**		(939)
	$	**726,762**	$	332,197

Customer deposits are comprised of GICs with fixed maturity dates over a period of 30 days to 5 years. As at December 31, 2016, the portion of customer deposits due within one year is $429,708 (December 31, 2015 – $174,376) and the average term to maturity is 1.2 years (December 31, 2015 – 1.3 years). The weighted average effective interest rate as at December 31, 2016 is 2.06% (December 31, 2015 – 2.13%).

Term deposit principal include $24,500 of deposits designated in qualifying fair value interest rate hedging relationships and are measured at fair value with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates that have occurred since the deposits were issued and the fair value adjustment as at December 31, 2016 is $78 (December 31, 2015 - nil). Refer to Note 18 - "Derivative financial instruments" for further details.

10. Other assets

As at		December 31, 2016		December 31, 2015
Accounts receivable	$	**292**	$	159
Prepaid expenses and other current assets		**823**		540
	$	**1,115**	$	699

11. Other liabilities

As at		December 31, 2016		December 31, 2015
Accounts payable and other liabilities	$	**7,882**	$	3,271
Deferred revenue		**475**		283
	$	**8,357**	$	3,554

12. Property, plant and equipment

		Furniture		Computer Equipment and Infrastructure		Leasehold Improvements		Total
Opening cost, January 1, 2016	$	**470**	$	**1,136**	$	**384**	$	**1,990**
Additions a.		**561**		**257**		**1,141**		**1,959**
Closing cost, December 31, 2016		**1,031**		**1,393**		**1,525**		**3,949**
Opening accumulated amortization, January 1, 2016		**397**		**888**		**306**		**1,591**
Depreciation expense		**87**		**117**		**80**		**284**
Closing accumulated amortization, December 31, 2016		**484**		**1,005**		**386**		**1,875**
Net book value as at December 31, 2016	$	**547**	$	**388**	$	**1,139**	$	**2,074**

		Furniture		Computer Equipment and Infrastructure		Leasehold Improvements		Total
Opening cost, January 1, 2015	$	465	$	1,021	$	384	$	1,870
Additions		5		115		-		120
Closing cost, December 31, 2015		470		1,136		384		1,990
Opening accumulated amortization, January 1, 2015		311		716		236		1,263
Depreciation expense		86		172		70		328
Closing accumulated amortization, December 31, 2015		397		888		306		1,591
Net book value as at December 31, 2015	$	73	$	248	$	78	$	399

a. The 2016 additions to furniture and leasehold improvements are related to the new Toronto office space (Note 19).

13. Intangible assets

	Intangible Asset With Indefinite Life	Computer Software		Total
	Licence costs	**Purchased a.**	**Internally Generated a.**	
Opening cost, January 1, 2016	**$ 1,276**	**$ 2,132**	**$ 245**	**$ 3,653**
Additions a.	**-**	**1,299**	**926**	**2,225**
Closing cost, December 31, 2016	**1,276**	**3,431**	**1,171**	**5,878**
Opening accumulated amortization, January 1, 2016	**-**	**1,655**	**169**	**1,824**
Amortization expense	**-**	**180**	**46**	**226**
Closing accumulated amortization, December 31, 2016	**-**	**1,835**	**215**	**2,050**
Net book value as at December 31, 2016	**$ 1,276**	**$ 1,596**	**$ 956**	**$ 3,828**

	Intangible Asset With Indefinite Life	Computer Software		Total
	Licence costs	Purchased	Internally Generated	
Opening cost, January 1, 2015	$ 1,276	$ 1,911	$ 245	$ 3,432
Additions	-	221	-	221
Closing cost, December 31, 2015	1,276	2,132	245	3,653
Opening accumulated amortization, January 1, 2015	-	1,232	121	1,353
Amortization expense	-	423	48	471
Closing accumulated amortization, December 31, 2015	-	1,655	169	1,824
Net book value as at December 31, 2015	$ 1,276	$ 477	$ 76	$ 1,829

a. Included in the balance for purchased computer software and internally generated software is $1,299 and $926, respectively, for software licensing and implementation costs related to new mortgage systems which were under development during the year.

14. Income taxes

The operations of the Corporation are subject to income tax rates of approximately 26.5% (2015 – 26.5%). The following table reconciles the expected income tax provision at applicable Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations:

	For the years ended	
	December 31, 2016	December 31, 2015
Income (loss) before income taxes	**$ 2,583**	$ (2,466)
Income tax expense (recovery) at statutory rate	**684**	(653)
Non-taxable portion of charge for contingent consideration	**-**	133
Share-based payment expense not deductible for tax purposes	**191**	198
Non-deductible expenses for tax purposes	**18**	13
Income tax expense (recovery)	**$ 893**	$ (309)

The movements in the 2016 deferred tax assets and liabilities are as follows:

	Opening Balance as at January 1, 2016	Recognized in Net Earnings	**Closing Balance as at December 31, 2016**
Deferred tax assets			
Non-capital losses	$ 651	$ 7	**$ 658**
Deferred acquisitions, financing and share issuance costs	21	(1)	**20**
Mortgage provision for credit losses	31	15	**46**
DSU liability	222	208	**430**
Charge for contingent consideration	133	(133)	**-**
Other	37	98	**135**
Deferred tax assets	1,095	194	**1,289**
Deferred tax liabilities			
Property, plant and equipment	(114)	8	**(106)**
Licence costs	(338)	-	**(338)**
Other	-	(20)	**(20)**
Deferred tax liabilities	(452)	(12)	**(464)**
Net deferred tax assets	$ 643	$ 182	**$ 825**
Consolidated balance sheets			
Deferred tax assets	$ 894	$ 214	**$ 1,108**
Deferred tax liabilities	(251)	(32)	**(283)**
Net deferred tax assets	$ 643	$ 182	**$ 825**

14. Income taxes continued

The movements in the 2015 deferred tax assets and liabilities are as follows:

	Opening Balance as at January 1, 2015	Recognized in Net Earnings	Closing Balance as at December 31, 2015
Deferred tax assets			
Non-capital losses	$ 483	$ 168	$ 651
Deferred acquisitions, financing and share issuance costs	85	(64)	21
Mortgage provision for credit losses	28	3	31
DSU liability	99	123	222
Charge for contingent consideration	-	133	133
Other	32	5	37
Deferred tax assets	$ 727	$ 368	$ 1,095
Deferred tax liabilities			
Property, plant and equipment	(315)	201	(114)
Licence costs	(338)	-	(338)
Deferred tax liabilities	(653)	201	(452)
Net deferred tax assets	$ 74	$ 569	$ 643
Consolidated balance sheets			
Deferred tax assets	$ 641	$ 253	$ 894
Deferred tax liabilities	(567)	316	(251)
Net deferred tax assets	$ 74	$ 569	$ 643

15. Share capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value.

	Number of Shares		Amount
Issued and outstanding as at December 31, 2015	**9,539,508**	**$**	**33,515**
Exercise of stock options a.	**4,000**		**30**
Issued and outstanding as at December 31, 2016	**9,543,508**		**33,545**
Issued and outstanding as at December 31, 2014	9,527,508		33,401
Exercise of stock options b.	12,000		114
Issued and outstanding as at December 31, 2015	9,539,508	$	33,515

a. Transactions completed during the year ended December 31, 2016:

An employee of the Corporation exercised 4,000 stock options at a weighted average exercise price of $5.35 per share for total proceeds of $21. The weighted average share price at the time of exercise was $9.65 per share. Share capital also increased by a reclassification from contributed surplus of $9, which is the amount previously recognized as share-based payment expense for these options.

b. Transactions completed during the year ended December 31, 2015:

Employees and Directors of the Corporation exercised 12,000 stock options at a weighted average exercise price of $7.08 per share for total proceeds of $85. The weighted average share price at the time of exercise was $7.76 per share. Share capital also increased by a reclassification from contributed surplus of $29, which is the amount previously recognized as share-based payment expense for these options.

16. Share-based payments

a. Stock options

The amended Stock Option Plan (the “Plan”) was approved by the shareholders of the Corporation on May 26, 2016. The purpose of the Plan is to provide additional incentives to key employees, directors and consultants and to promote the success of the Corporation's business by allowing such persons to partake in the equity of the Corporation. Management proposes the issuance of options and the Board of Directors provides approval of all options granted under the Plan.

The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares as at the date of grant of each option under the Plan, which as at December 31, 2016 was 954,351 (December 31, 2015 – 953,951).

16. Share-based payments continued

a. Stock options continued

	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Number of Stock Options		**Weighted Average Exercise Price**	Number of Stock Options		Weighted Average Exercise Price
Opening balance	**656,860**	**$**	**9.78**	583,000	$	9.79
Options granted	**174,050**		**7.90**	95,360		9.38
Options exercised	**(4,000)**		**5.35**	(12,000)		7.08
Options expired	**(21,334)**		**9.94**	(1,834)		10.80
Options forfeited	**(70,666)**		**9.86**	(7,666)		9.41
Ending Balance	**734,910**		**9.35**	656,860		9.78
Vested options	**149,954**	**$**	**10.00**	100,503	$	9.91

The weighted average remaining contractual life for all options outstanding as at December 31, 2016 is 2.81 years (December 31, 2015 - 3.41 years). During the year ended December 31, 2016, the Corporation recognized $638 (2015 - $676) as share-based payment expense related to stock options within staffing costs.

The following table reflects the stock options outstanding as at December 31, 2016:

Number of Exercisable Options	**Number of Options**	**Exercise Price**	**Expiry**
-	174,050	$7.90	February 2021
33,333	50,000	$8.85 to $8.99	September 2019 to November 2019
43,787	421,360	$9.40 to $9.75	May 2019 to February 2020
72,834	89,500	$10.10 to $10.90	February 2017 to June 2019
149,954	734,910		

During the years ended December 31, 2016 and 2015, 174,050 and 95,360 options, respectively, were granted to employees under the Plan. The options will vest over a three-year period. The Black-Scholes model was used to estimate the fair value of these options at grant date. Included in stock options outstanding, is 330,000 of performance-based options that will vest over a three year period. Each tranche of the performance-based options will vest if at any time after the first, second, and third years, certain specified share price targets are achieved for a period of at least 20 consecutive days. A Monte Carlo simulation was used to determine the fair value of the performance-based options at the grant date.

16. Share-based payments continued

A summary of the 2016 and 2015 option grants are presented below:

										For the year ended December 31, 2016
										Black-Scholes Assumptions
Number of Options	**Date Granted**	**Recipient(s)**	**Fair Value**	**Vesting Period**	**Risk-free Interest Rate**	**Expected Life**	**Expected Volatility**	**Dividend Yield**	**Exercise Price**	**Fair value per Option**
174,050	February 12, 2016	Employees	$ 427,544	3 years	0.51 %	5 years	35 %	$ -	$ 7.90	$ 2.46

										For the year ended December 31, 2015
										Black-Scholes Assumptions
Number of Options	Date Granted	Recipient(s)	Fair Value	Vesting Period	Risk-free Interest Rate	Expected Life	Expected Volatility	Dividend Yield	Exercise Price	Fair value per Option
55,360	February 18, 2015	Employees	$ 161,917	3 years	0.57 %	5 years	35 %	$ -	$ 9.40	$ 2.92
40,000	May 15, 2015	Employees	114,679	3 years	0.80 %	5 years	34 %	-	$ 9.35	$ 2.87
95,360			$ 276,596							

b. Deferred share units

The Corporation offers a Deferred Share Unit ("DSU") Plan for members of the Board of Directors and Employees. Under the plan, Directors are granted DSUs as part of their annual compensation, which vest at the time of grant. DSUs are granted to employees as deferred incentive compensation and they vest at the end of three years. When an individual ceases to be a Director or an Employee, the DSUs shall be redeemed for cash no later than December 31 of the first calendar year thereafter. The value of each DSU will be equivalent to the closing share price of the Corporation's common shares on the cessation date.

As at December 31, 2016, there were 174,788 DSUs outstanding (December 31, 2015 – 103,840) representing a liability of $1,624 (December 31, 2015 – $837). DSUs of 70,948, with a grant date fair value of $573 were granted during the year ended December 31, 2016 (December 31, 2015 – 72,912). For the year ended December 31, 2016, an expense of $787 was recorded relating to DSUs issued and outstanding during the year (December 31, 2015 – $511). The DSUs are revalued at each reporting date based on the closing price of the Corporation's shares.

16. Share-based payments continued

Details of the outstanding deferred share units are as follows:

As at	December 31, 2016	December 31, 2015
Units		
Outstanding, beginning of year	**103,840**	36,230
Granted	**70,948**	72,912
Redeemed	**-**	(5,302)
Outstanding, end of year	**174,788**	103,840
Liability		
Balance, beginning of year	**$ 837**	$ 375
Expense recognized in the statements of operations	**787**	511
Redeemed	**-**	(49)
Balance, end of year	**$ 1,624**	$ 837

c. Employee share purchase plan ("ESPP")

Under the ESPP, eligible employees can contribute between 1% and 45% of their annual gross salary towards the purchase of common shares of the Corporation. For each eligible contribution, the Corporation contributes an amount equal to one-third of an eligible employee's contribution, to a maximum of 5% of their annual gross salary for the plan year.

During the year ended December 31, 2016, the Corporation expensed $111 (December 31, 2015 - $83) under this plan.

17. Earnings per share

The following table sets out the computation of basic and diluted earnings per share:

	For the years ended December 31,	
	2016	2015
Basic earnings per share		
Net income (loss)	**$ 1,690**	$ (2,157)
Weighted average number of common shares outstanding - basic	**9,540,590**	9,532,647
Earnings per share - basic	**$ 0.18**	$ (0.23)
Diluted earnings per share		
Net income (loss)	**1,690**	(2,160)
Weighted average number of common shares outstanding - basic	**9,540,590**	9,532,647
Effect of dilutive shares	**24,009**	2,803
Weighted average number of common shares outstanding - diluted	**9,564,599**	9,535,450
Earnings per share - diluted	**$ 0.18**	$ (0.23)

18. Derivative financial instruments

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained from market sources or calculated from market prices.

Fair value hedging relationships

The Corporation uses interest rate swaps to hedge changes in fair value of fixed-rate liabilities, which are associated with changes in market interest rates. Fair value hedges are hedges of fixed-rate customer deposit liabilities.

The following table presents gains or losses related to fair value hedges included in the Corporation's financial results:

	For the years ended December 31,	
	2016	2015
Fair value changes recorded on interest rate swaps	**$ (78)**	$ -
Fair value changes of hedged fixed-rate liabilities for interest rate risk	**78**	-
Hedge ineffectiveness recognized in non-interest income	**$ -**	$ -

18. Derivative financial instruments continued

As at December 31, 2016 and 2015, the outstanding interest rate swap position is as follows:

							As at December 31, 2016	As at December 31, 2015
	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Derivative Asset	Derivative Liability	Net Fair Market Value	Net Fair Market Value
Swaps designated as accounting hedges								
1 to 5 years	$ 24,500	$ -	$ 123	$ 38	$ -	$ (78)	$ (78)	$ -

The notional amount is not recorded as an asset or liability as it represents the face amount of the contract to which the rate is applied in order to calculate the amount of cash exchanged. Notional amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with the derivative. The 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. The credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline. The risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.

19. Related party transactions

Key management personnel are classified as related parties and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, including directors and officers. The compensation of key management personnel is as follows:

	For the years ended December 31,	
	2016	2015
Compensation		
Salaries and other short-term employee benefits	**$ 2,951**	$ 2,082
Share-based payments	**1,405**	1,109
Termination benefits	**106**	-
	$ 4,462	$ 3,191

20. Commitments

The Corporation entered into an operating lease agreement on July 4, 2016 for new Toronto office space to replace the existing lease expiring in January 2017. The new lease has a term of 10 years plus a free rent period, expiring in 2027. The office space lease agreement provides for a five-year renewal at the expiry of the lease at occupancy rates equivalent to fair market value at time of renewal.

The Corporation has entered into various software licence and maintenance agreements for transaction-processing software related to its mortgage lending and deposit-taking operations. The agreements expire in 2017 and 2021. The Corporation has

20. Commitments continued

also entered into vendor service agreements expiring in 2019.

Operating lease payments in 2016 were $789 (2015 - $452) and are included in other operating expenses.

The future minimum payments for commitments are as follows:

	For the year ended December 31, 2016			
	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 licence and maintenance agreements	**343**	**1,130**	**-**	**1,473**
Vendor service agreement	**128**	**256**	**-**	**384**
Total commitments	**$ 674**	**$ 5,209**	**$ 5,829**	**$ 11,712**

	For the year ended December 31, 2015			
	Not Later Than One Year	Later Than One Year and Not Later Than Five Years	Later Than Five Years	Total
Office space lease agreements	$ 1,049	$ 89	$ -	$ 1,138
Sub-tenant recoveries	(484)	(57)	-	(541)
Software licence and maintenance agreements	309	1,130	94	1,533
Vendor service agreement	128	383	-	511
Total commitments	$ 1,002	$ 1,545	$ 94	$ 2,641

21. 2013 sale transaction

On April 5, 2013, the Corporation closed the sale transaction for 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 consideration based on the future capital requirements of the transfer agent and corporate trust service business.

Since the date of sale, transfer agent and corporate trust business relationships were managed by a third party for its economic benefit, including the administration of segregated funds. During the year ended December 31, 2016, the Corporation earned other fee income of $600 (2015 - $450) related to EFT's transitional status as trustee for these client relationships. The transitional period has concluded with client relationships and segregated funds were fully transferred to another entity as of September 30, 2016.