

DELIVERING WHAT MATTERS



**THIRD QUARTER 2013
INTERIM FINANCIAL STATEMENTS**

EQUITABLE GROUP INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and nine months ended September 30, 2013

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and nine months ended September 30, 2013. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2013, together with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012, together with accompanying notes. This report, and the information provided herein, is dated as at November 13, 2013. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q3 2013 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" herein and in the Company's documents filed on SEDAR at www.sedar.com.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Company and the Canadian economy. Although the Company believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Company in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its mortgage business, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

BUSINESS PROFILE AND OBJECTIVES

Equitable Group Inc. (TSX: EQB and EQB.PR.A) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank. Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total assets of approximately \$12 billion and 290 committed employees, offering savings and mortgage lending products to retail and commercial customers across Canada. Equitable Bank was founded in 1970 as The Equitable Trust Company (“Equitable Trust”) and operated as Equitable Trust until July 1, 2013.

Our operations are organized according to specialty. Within Equitable Bank’s Core Lending business, Single Family Lending Services funds mortgages for owner-occupied and investment properties across Canada while Commercial Lending Services provides mortgages on a variety of commercial properties on a national basis. Equitable Bank’s Securitization Financing business originates and securitizes insured residential mortgages under the Canada Mortgage and Housing (“CMHC”) administered National Housing Act. Equitable Bank provides savings products including Guaranteed Investment Certificates and deposit accounts.

Equitable Bank is distinguished by our focus on underserved niches and customers in the financial services market including business-for-self borrowers, newcomers to Canada establishing credit for the first time, the credit challenged and real estate investors; extensive partnerships with Canada’s mortgage brokers, mortgage bankers, deposit brokers, investment dealers and financial planners who provide independent professional advice to Equitable’s customers; responsive service; rigorous lending and underwriting standards; a low-cost, non-branch business model; disciplined capital deployment; a successful long-term financial track record; high employee engagement; and, community involvement.

Management’s strategies are designed to create shareholder value by optimizing Return on Equity (“ROE”) and to protect the Bank’s depositors. The priorities that support our approach are outlined in the chart below:

Strategic Priorities	How We Accomplish Them
<p>Grow by providing effective service, competitive products and cost-efficient operations</p>	<ul style="list-style-type: none"> • Deliver service excellence to borrowers, mortgage brokers, deposit agents, and our other business partners to win more business • Operate without branches or high fixed costs and with the capability to deliver rapid responsive solutions • Leverage the Company's access to funding and other capabilities to prudently diversify our product mix over time
<p>Build our capabilities and brand</p>	<ul style="list-style-type: none"> • Invest in the development of our employees, and in the continuous improvement of our products, processes and systems • Become an employer of choice for talented individuals in the financial services community • Advance our reputation and the marketplace awareness of our Company • Support the communities in which we do business
<p>Consistently create shareholder value</p>	<ul style="list-style-type: none"> • Maintain a diverse portfolio of residential and commercial mortgages in our Core Lending business • Complement Core Lending with a Securitization Financing business focused on multi-unit residential properties (e.g. apartment buildings) • Apply rigorous capital allocation and pricing discipline • Use retained earnings and non-dilutive forms of capital to fund growth and support our strong capital position • Grow common share dividends consistently
<p>Maintain a low risk profile</p>	<ul style="list-style-type: none"> • Originate only conventional mortgages in our Core Lending businesses (less than 80% loan to value in single family and less than 75% in commercial) • Employ disciplined underwriting and collection practices • Operate in large urban centres with stable and liquid real estate markets, carefully expanding our geographic coverage over time • Hold an appropriate amount of liquid assets at all times and maintain diversity in our funding sources

Please refer to Equitable's 2012 Annual Report for a more detailed description of the business and our priorities.

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended					Nine months ended		
	Sep 30, 2013	Jun 30, 2013	% Change	Sep 30, 2012	% Change	Sep 30, 2013	Sep 30, 2012	% Change
OPERATIONS								
Net income	\$ 23,226	\$ 22,898	1%	\$ 21,054	10%	\$ 67,038	\$ 61,067	10%
Net income available to common shareholders	22,319	21,992	1%	20,147	11%	64,319	58,348	10%
EPS – basic	\$ 1.46	\$ 1.44	1%	\$ 1.34	9%	\$ 4.22	\$ 3.88	9%
EPS – diluted	\$ 1.44	\$ 1.43	1%	\$ 1.33	8%	\$ 4.17	\$ 3.85	8%
Return on Equity – annualized ⁽¹⁾	17.5%	18.2%	(0.7%)	18.9%	(1.4%)	17.7%	19.2%	(1.5%)
Return on average assets – annualized ⁽¹⁾	0.8%	0.8%	-%	0.8%	-%	0.7%	0.8%	(0.1%)
Net Interest Margin - TEB - total assets ⁽¹⁾	1.50%	1.46%	0.04%	1.49%	0.01%	1.46%	1.48%	(0.02%)
Productivity ratio – TEB ⁽¹⁾⁽²⁾	31.6%	30.3%	1.3%	29.1%	2.5%	30.7%	30.1%	0.6%
BALANCE SHEET								
Total assets	11,831,155	11,837,872	(0%)	11,228,030	5%			
Mortgages receivable	10,970,223	10,806,401	2%	10,221,518	7%			
Mortgages Under Management	11,737,731	11,360,724	3%	10,352,532	13%			
Shareholders' equity	565,506	545,919	4%	481,673	17%			
CREDIT QUALITY								
Realized loan losses – net of recoveries	427	873	(51%)	161	165%	1,324	664	99%
Net impaired mortgages as a % of total mortgage assets ⁽³⁾	0.29%	0.22%	0.07%	0.35%	(0.06%)			
Allowance for credit losses as a % of total mortgage assets	0.28%	0.27%	0.01%	0.24%	0.04%			
SHARE CAPITAL								
Number of common shares outstanding at period end	15,311,624	15,280,854	0%	15,098,158	1%			
Dividends declared per common share	\$ 0.15	\$ 0.15	-%	\$ 0.14	7%	\$ 0.44	\$ 0.38	16%
Dividends declared per preferred share	\$ 0.45	\$ 0.45	-%	\$ 0.45	-%	\$ 1.36	\$ 1.36	-%
Book value per common share	\$ 33.77	\$ 32.55	4%	\$ 28.69	18%			
Common share price – close	\$ 45.00	\$ 35.92	25%	\$ 32.21	40%			
Market capitalization	689,023	548,888	26%	486,312	42%			
EQUITABLE BANK CAPITAL RATIOS								
Common Equity Tier 1 ratio ⁽¹⁾	12.1%	12.4%	(0.3%)	11.9%	0.2%			
Tier 1 capital ratio ⁽¹⁾	13.1%	13.5%	(0.4%)	13.3%	(0.2%)			
Total capital ratio (including collective allowance) ⁽¹⁾	15.9%	16.5%	(0.6%)	15.5%	0.4%			

⁽¹⁾ See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

⁽²⁾ Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

⁽³⁾ Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.

Q3 2013 HIGHLIGHTS

Equitable produced record earnings and successfully delivered on our strategic priorities in Q3 2013:

Grow by providing effective service, competitive products and cost-effective operations	<ul style="list-style-type: none">• Increased mortgage assets by 7% over Q3 2012• Added the <i>Equitable Bank High Interest Savings Account</i>, available through the FundSERV network, to our portfolio of safe and secure deposit solutions• Secured a \$300 million facility from a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization
Build our capabilities and brand	<ul style="list-style-type: none">• Successfully completed our first quarter operating as a Schedule I Bank• Originated a record \$729 million of Core Lending mortgages in the quarter, with the performance driven by both the Commercial and Single Family businesses• Renegotiated the contract for our core technology platform, reinforcing the strength of our partnership and generating long-term cost savings for Equitable
Consistently create shareholder value	<ul style="list-style-type: none">• Delivered record EPS of \$1.44, up by 8% over Q3 of the prior year• Produced an ROE of 17.5% (above our five-year average of 17.2%)• Declared common share dividends that were 7% higher than in Q3 2012
Maintain a low risk profile	<ul style="list-style-type: none">• Maintained a loan-to-value ratio of 68% on our residential mortgage portfolio• Realized actual loan losses of just \$427 thousand in the quarter• Experienced no losses from the recent catastrophic events in Canada, including the flooding in Alberta• Reported a Common Equity Tier 1 (“CET1”) ratio of 12.1%, which was well ahead of most industry benchmarks

DIVIDENDS

On November 13, 2013, the Company’s Board of Directors increased the quarterly dividend to \$0.16 per common share, payable on January 3, 2014, to common shareholders of record at the close of business on December 13, 2013. This dividend represents a 14% increase over dividends declared in November 2012.

In addition, on November 13, 2013, the Company’s Board of Directors declared a quarterly dividend in the amount of \$0.453125 per preferred share, payable on December 31, 2013, to preferred shareholders of record at the close of business on December 13, 2013.

BUSINESS OUTLOOK

In the third quarter, Equitable once again demonstrated the strength of our franchise and the benefits of our diversified business model. We expect that our strategy, including our disciplined approach to capital allocation, will continue to deliver high returns on our shareholders' equity.

During the summer months, the Canadian housing market gained momentum, although growth levels varied by geographic region and property type. Our single family mortgage production benefitted both from this rebound in activity and from our superior – and improved – levels of customer service. As a result of this high level of production relative to the current size of the portfolio and our renewal rates on existing mortgages, we believe that annual growth in our single family balances will trend around year-to-date levels (the mid 20 percent range) for the remainder of 2013. Our preliminary outlook for 2014 is that production will increase modestly and renewal rates will remain stable. With that, our overall portfolio should continue to grow, but likely at rates slightly below those achieved in 2013.

Going forward, each quarter we have the opportunity to renew a substantial portion of the mortgages in our Securitization Financing portfolio. Based on our experience in 2013, we anticipate renewing just under half of the mortgages that are scheduled to mature over the next five quarters. We also plan to supplement those renewals with targeted levels of production, such that we utilize the full amount of our Canada Mortgage Bond capacity each quarter. As a result, total Mortgages Under Management (the sum of assets reported on balance sheet and derecognized) should grow slightly over that timeframe. On the other hand, the Securitization Financing portfolio reported on our Balance Sheet will likely decline at rates in the low single digits during 2013 and 2014 because almost half of the assets being securitized are being derecognized. The decrease could be more pronounced if we choose to sell the retained interests in some future securitizations and thereby, achieve derecognition for those additional assets. Gains on securitization and sale of mortgages will likely continue around current levels for the remainder of the year as assets are securitized and derecognized.

We expect our arrears rates and loan losses to remain low in 2013. Assuming Canadian unemployment and interest rates stay within the range of broad market expectations, single family arrears rates and losses should also remain low in 2014. Similarly, our loan-by-loan and overall analysis of our commercial portfolio indicates that losses should stay low. Management will continue to manage credit risk through the application of our traditional prudent lending practices.

The Company believes that the total Net Interest Margin (“NIM”) on the mortgage portfolio will remain relatively stable over the remainder of 2013 and throughout 2014, though NIM may experience some fluctuations due to inherently volatile mortgage prepayment charge income. Furthermore:

- Total NIM in both 2013 and 2014 will benefit from the continued shift in volume towards the Company's higher margin Core Lending book
- Within Core Lending, NIM should stabilize over the remainder of 2013 and in 2014, mainly due to recent initiatives aimed at optimizing renewal pricing in Single Family Lending
- Securitization Financing NIM should compress slightly in Q4 2013 and throughout 2014 due to the origination of new and renewal of existing mortgages at lower spreads

Equitable will continue investing to grow our bank's franchise and support our high level of customer service. Even with that investment, the Company will continue to operate efficiently on both an absolute and relative basis compared to other financial institutions, particularly taking into account the relative scale of our operations. We expect the productivity ratio in 2013 to be only marginally higher than in 2012. We will continue to prudently manage other hiring and spending to keep those expense increases consistent with the growth of the business.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. **See “Cautionary Note Regarding Forward-Looking Statements” on page 1 of this MD&A.**

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

(\$ THOUSANDS EXCEPT PER SHARE AMOUNTS)	Three months ended					Nine months ended		
	Sep 30, 2013	Jun 30, 2013	% Change	Sep 30, 2012	% Change	Sep 30, 2013	Sep 30, 2012	% Change
Net income	\$ 23,226	\$ 22,898	1%	\$ 21,054	10%	\$ 67,038	\$ 61,067	10%
EPS – diluted	\$ 1.44	\$ 1.43	1%	\$ 1.33	8%	\$ 4.17	\$ 3.85	8%
Net interest income ⁽¹⁾	44,705	42,406	5%	40,640	10%	127,274	115,614	10%
Provision for credit losses	1,650	1,650	-%	1,872	(12%)	5,400	5,792	(7%)
Non-interest expenses	15,297	14,257	7%	12,699	20%	42,790	36,926	16%
Income taxes	7,850	7,868	(0%)	7,244	8%	22,614	16,313	39%

⁽¹⁾ See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.

NET INTEREST INCOME

Net interest income is the main driver of profitability for the Company. Table 3 illustrates the Company's net interest income for the three and nine months ended September 30, 2013.

Table 3: Net interest income

(\$ THOUSANDS)	Three months ended						Nine months ended			
	Sep 30, 2013		Jun 30, 2013		Sep 30, 2012		Sep 30, 2013		Sep 30, 2012	
	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾
Core Lending:										
<i>Revenues derived from:</i>										
Mortgages	\$ 71,633	4.97%	\$ 67,838	5.03%	\$ 62,442	5.13%	\$ 204,123	5.00%	\$ 178,205	5.20%
Liquidity investments	2,053	1.35%	2,131	1.39%	2,002	1.38%	6,154	1.37%	5,258	1.49%
Equity securities – TEB ⁽²⁾	819	3.41%	1,237	5.06%	2,050	4.96%	3,770	4.81%	7,277	5.57%
	74,505	4.60%	71,206	4.66%	66,494	4.73%	214,047	4.64%	190,740	4.88%
<i>Expenses related to:</i>										
Deposits	34,035	2.35%	32,866	2.42%	31,669	2.52%	98,562	2.40%	89,955	2.58%
Debentures and bank facilities	1,437	5.50%	1,425	5.50%	1,085	6.45%	5,265	6.43%	3,232	6.52%
	35,472	2.40%	34,291	2.47%	32,754	2.57%	103,827	2.48%	93,187	2.63%
Net interest income – TEB ⁽²⁾⁽³⁾	39,033	2.38%	36,915	2.39%	33,740	2.38%	110,220	2.36%	97,553	2.47%
Taxable equivalent adjustment	(421)		(401)		(774)		(1,340)		(2,448)	
Net interest income	\$ 38,612		\$ 36,514		\$ 32,966		\$ 108,880		\$ 95,105	
Securitization Financing:										
<i>Revenues derived from:</i>										
Mortgages	\$ 49,498	3.77%	\$ 51,313	3.88%	\$ 54,821	4.16%	\$ 153,797	3.87%	\$ 163,274	4.15%
Liquidity investments	961	1.57%	995	1.55%	441	1.25%	2,681	1.57%	1,324	1.37%
	50,459	3.67%	52,308	3.77%	55,262	4.09%	156,478	3.77%	164,598	4.09%
<i>Expenses related to:</i>										
Securitization liability	41,800	3.35%	44,526	3.44%	45,802	3.62%	131,575	3.44%	138,651	3.68%
Deposits	2,566	2.35%	1,890	2.42%	1,786	2.52%	6,509	2.40%	5,438	2.58%
	44,366	3.27%	46,416	3.39%	47,588	3.56%	138,084	3.37%	144,089	3.62%
Net interest income	\$ 6,093	0.44%	\$ 5,892	0.42%	\$ 7,674	0.57%	\$ 18,394	0.44%	\$ 20,509	0.51%
Total assets:										
Net Interest Income - TEB ⁽²⁾⁽³⁾	\$ 45,126	1.50%	\$ 42,807	1.46%	\$ 41,414	1.49%	\$ 128,614	1.46%	\$ 118,062	1.48%

⁽¹⁾ Rates are calculated based on the average of the month-end interest earning balances outstanding during the period.

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

⁽³⁾ See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.

Q3 2013 v Q3 2012

Net interest income was up by 10%, in line with the increase in average asset balances of \$1.0 billion or 9%. NIM remained relatively stable, increasing one basis point (“bp”) to 1.50% from 1.49% in 2012, partly as a result of the continued shift in the mix of assets towards our higher margin Core Lending business.

NIM earned on Core Lending assets remained at 2.38%, consistent with Q3 2012. Over the past four quarters, Equitable has implemented changes to optimize pricing on Single Family mortgage renewals. These changes have helped to offset the NIM compression resulting from the shift in asset mix towards single family residential mortgages, which generally earn lower spreads than commercial mortgages but provide a high return on capital. Our NIM was also reduced by two bps during Q3 2013 due to a \$0.4 million mark-to-market adjustment on a held for trading investment, recorded through income from equity securities and reflecting what we believe to be a temporary decrease in value.

Securitization Financing NIM was down 13 bps because of lower mortgage prepayment income relative to an exceptionally high level last year, certain adjustments recorded in 2012, and higher levels of liquidity held in 2013 because of the timing of mortgage maturities and securitization liability repayments.

Q3 2013 v Q2 2013

Net interest income was up by 6% sequentially, benefitting from an increase in average asset balances of 2% and a four bp increase in NIM. The growth in NIM was driven primarily by the continued shift in asset mix towards Core Lending. NIM within each of Core Lending and Securitization Financing was relatively unchanged.

YTD 2013 v YTD 2012

Year-over-year, net interest income grew 10% as average asset balances increased \$1.2 billion or 11%. Total YTD NIM was relatively stable at 1.46%, compared with 1.48% in 2012. Core Lending NIM was down by 11 bps mainly due to changes to our debenture structure, growth in our lower-yielding liquidity portfolio, and reduced mortgage prepayment income. Securitization Financing NIM was down by 7 bps because of lower mortgage prepayment income and a larger liquidity portfolio.

The causes of the changes in NIM from period to period are provided in more detail in Table 4 below.

Table 4: Factors affecting NIM

(IN BASIS POINTS)	Q3 2013 vs. Q3 2012	Q3 2013 vs. Q2 2013	YTD 2013 vs. YTD 2012
Core Lending NIM:			
Mortgage prepayment income	(4)	(2)	(3)
Size and rate of liquidity investments	4	2	(3)
Size and rate of equity securities holdings	(4)	(2)	(1)
Size and rate of debentures and bank facilities	-	-	(3)
Q1 2013 debt redemption charge	-	-	(2)
Other ⁽¹⁾	4	1	1
Total change in NIM	-	(1)	(11)
Securitization Financing NIM:			
Mortgage prepayment income	(20)	-	(6)
Size and rate of liquidity investments	(3)	-	(3)
One-time adjustments	5	-	2
Other ⁽¹⁾	5	2	-
Total change in NIM	(13)	2	(7)

⁽¹⁾ Other includes various effects including the effect of the shift in mix of the mortgage portfolio, pricing refinements, the timing of new originations and renewals, the timing of securitizations, and the number of days in the period.

PROVISION FOR CREDIT LOSSES

The provision for credit losses of \$1.7 million was consistent with the Q2 2013 provision and \$0.2 million lower than the same quarter of the prior year. The modest level of our credit provision reflects the quality of the underlying mortgage portfolio and our sufficient balance sheet allowances.

OTHER INCOME

Table 5: Other income

(\$THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2013	Jun 30, 2013	% Change	Sep 30, 2012	% Change	Sep 30, 2013	Sep 30, 2012	% Change
Fees and other income	\$ 1,654	\$ 1,237	34%	\$ 983	68%	\$ 4,348	\$ 2,969	46%
Net (loss) gain on investments	(13)	(1)	1,200%	389	(103%)	631	692	(9%)
Gains on securitization activities and income from retained interest	1,385	1,831	(24%)	857	62%	4,280	857	399%
Fair value gain (loss) on derivative financial instruments - securitization	292	1,200	(76%)	-	N/A	1,309	(34)	(3,950%)
Total	\$ 3,318	\$ 4,267	(22%)	\$ 2,229	49%	\$ 10,568	\$ 4,484	136%

Q3 2013 v Q3 2012

Other income increased by 49% to \$3.3 million in Q3 2013, compared to \$2.2 million in the corresponding quarter of the prior year. The \$1.1 million increase is attributable mainly to:

- a \$0.5 million increase in mortgage administration fees, driven by organic growth of the mortgage portfolio;
- an additional \$0.5 million of gains recorded on the securitization and derecognition of insured residential mortgages;
- \$0.3 million of fair value gains on derivative financial instruments related to securitization activities;
- a \$0.2 million HST refund related to the 2012 taxation year and recorded as other income; offset by
- \$0.4 million lower investment gains.

Q3 2013 v Q2 2013

Other income decreased by \$0.9 million or 22% sequentially mainly due to a \$0.9 million decrease in fair value gains on derivative financial instruments and \$0.4 million lower gains on securitization activities. These decreases were offset by an increase in mortgage administration fees and an HST refund received in the quarter.

YTD 2013 v YTD 2012

For the nine months ended September 30, 2013, other income increased by \$6.1 million or 136% to \$10.6 million. The increase is a result of:

- \$3.4 million of additional gains recorded on the securitization and derecognition of insured residential mortgages;
- \$1.3 million of fair value gains on derivative financial instruments related to our securitization activities;
- \$0.9 million of higher mortgage administration fees, driven by organic growth of the mortgage portfolio; and
- \$0.5 million of HST refunds received in Q1 and Q3 of 2013, related to previous taxation years and recorded as other income.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and productivity ratio

(\$ THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2013	Jun 30, 2013	% Change	Sep 30, 2012	% Change	Sep 30, 2013	Sep 30, 2012	% Change
Compensation and benefits	\$ 8,738	\$ 8,663	1%	\$ 7,298	20%	\$ 25,128	\$ 20,833	21%
Premises and equipment	2,417	1,330	82%	1,271	90%	5,242	3,683	42%
Other	1,476	1,299	14%	1,314	12%	3,868	3,650	6%
Mortgage servicing	1,065	1,031	3%	1,049	2%	3,196	3,166	1%
Licenses, regulatory fees and insurance	624	843	(26%)	837	(25%)	2,333	2,691	(13%)
Marketing, travel and communications	588	657	(11%)	545	8%	1,717	1,413	22%
Legal, audit and related services	389	434	(10%)	385	1%	1,306	1,490	(12%)
Total	\$ 15,297	\$ 14,257	7%	\$ 12,699	20%	\$ 42,790	\$ 36,926	16%
Productivity ratio – TEB	31.6%	30.3%	1.3%	29.1%	2.5%	30.7%	30.1%	0.6%
Full-time employee ("FTE") – period average	283	279	1%	242	17%	275	228	21%

Q3 2013 v Q3 2012

Equitable's productivity ratio increased to 31.6% in the third quarter of 2013 compared to 29.1% in the corresponding quarter of the prior year due to a \$2.6 million increase in non-interest expenses. Notwithstanding that increase, the Company continues to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations.

The increase in non-interest expenses reflects growth of the Company's business and the investments required to maintain one of our significant competitive advantages, the high level of service we provide to mortgage brokers and borrowers. The majority of the net increase relates to FTE growth that occurred prior to Q3 2013, and the costs to support the incremental staff, such as premises and equipment. The increase also reflects \$0.6 million of costs associated with renegotiating our contract with our core technology systems provider, allowing the Company to gain additional access at lower overall costs on a go forward basis. Adjusting for these contract renegotiation costs, our productivity ratio would have been 30.3%.

Q3 2013 v Q2 2013

Our productivity ratio rose 1.3 percentage points due to an increase in non-interest expenses of 7% or \$1.0 million, driven largely by the costs of renegotiating our core systems contract discussed above.

YTD 2013 v YTD 2012

Non-interest expenses increased \$5.9 million or 16% year-over-year. The majority of the increase reflects the Company's investment in its employee base and the related operating expenses, as well as the costs of negotiating our systems contract and our bank conversion.

INCOME TAXES

Q3 2013 v Q3 2012

Our Q3 2013 effective income tax rate was 25.3%, consistent with the 25.6% rate experienced in the corresponding quarter of the prior year.

Q3 2013 v Q2 2013

Our Q3 2013 effective income tax rate was 0.3 percentage points lower than in the second quarter of 2013. The decrease resulted from a slight increase in tax-exempt dividend income earned from our preferred securities portfolio and other adjustments.

YTD 2013 v YTD 2012

Our year-to-date effective tax rate increased to 25.2% from 21.1% in the same period of 2012. The difference is largely due to the impact of an investment gain realized in the second quarter of 2012. Excluding the effect of this investment gain, our 2012 effective tax rate was 25.4% and was comparable to our effective rate in 2013.

We expect our effective tax rate for 2013 and 2014 to continue to be below the statutory rate of 26.3% as a result of tax-exempt dividend income.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

(\$ THOUSANDS)	Sep 30, 2013	Jun 30, 2013	% Change	Dec 31, 2012	% Change	Sep 30, 2012	% Change
Total assets	\$ 11,831,155	\$ 11,837,872	(0%)	\$ 11,601,440	2%	\$ 11,228,030	5%
Mortgages principal – Core Lending	5,898,012	5,573,741	6%	5,160,785	14%	5,011,200	18%
Mortgages principal – Securitization Financing	5,047,184	5,193,620	(3%)	5,415,773	(7%)	5,177,313	(3%)
Total liquid assets as a % of total assets	7.3%	7.1%	0.2%	8.3%	(1.0%)	8.7%	(1.4%)

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets that optimizes our ROE, while focusing our strategic growth efforts on Single Family Lending Services. The following tables provide quarterly mortgage principal continuity schedules by lending business for Q3 2013 and Q3 2012:

Table 8: Mortgage principal continuity schedule

(\$ THOUSANDS)	Three months ended September 30, 2013						
	Single Family Lending Services	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽²⁾	Securitization Financing MUM ⁽³⁾
Q2 2013 closing balance	\$ 3,386,331	\$ 2,187,410	\$ 5,573,741	\$ 5,193,620	\$ 10,767,361	\$ 593,363	\$ 5,786,983
Production	463,961	265,383	729,344	190,537	919,881	-	190,537
Core lending securitized ⁽²⁾	(137,880)	-	(137,880)	137,880	-	-	137,880
Securitized and derecognized	-	-	-	(206,199)	(206,199)	206,199	-
Net repayments	(185,429)	(81,764)	(267,193)	(268,654)	(535,847)	(7,027)	(275,681)
Q3 2013 closing balance	\$ 3,526,983	\$ 2,371,029	\$ 5,898,012	\$ 5,047,184	\$ 10,945,196	\$ 792,535	\$ 5,839,719
% Change from Q2 2013	4%	8%	6%	(3%)	2%	34%	1%
% Change from Q3 2012	24%	9%	18%	(3%)	7%	383%	9%
Net repayments percentage ⁽⁴⁾	5.5%	3.7%	4.8%	5.2%	5.0%	1.2%	4.8%

(\$ THOUSANDS)	Three months ended September 30, 2012						
	Single Family Lending Services	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽²⁾	Securitization Financing MUM ⁽³⁾
Q2 2012 closing balance	\$ 2,537,802	\$ 2,169,097	\$ 4,706,899	\$ 5,238,952	\$ 9,945,851	\$ -	\$ 5,238,952
Production	428,423	207,969	636,392	288,442	924,834	-	288,442
Core lending securitized ⁽²⁾	(8,850)	-	(8,850)	8,850	-	-	8,850
Securitized and derecognized	-	-	-	(164,443)	(164,443)	164,443	-
Net repayments	(115,955)	(207,286)	(323,241)	(194,488)	(517,729)	(424)	(194,913)
Q3 2012 closing balance	\$ 2,841,420	\$ 2,169,780	\$ 5,011,200	\$ 5,177,313	\$ 10,188,513	\$ 164,019	\$ 5,341,331
% Change from Q2 2012	12%	0%	6%	(1%)	2%	N/A	2%
Net repayments percentage ⁽⁴⁾	4.6%	9.6%	6.9%	3.7%	5.2%	N/A	3.7%

⁽¹⁾ Core lending securitized represents Single Family mortgages that were securitized in the period and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the period as part of Single Family Lending Services (i.e. not securitized again at the time of renewal).

⁽²⁾ Derecognized mortgage principal represents mortgages under administration that are not reported on Equitable's balance sheet. These mortgages were securitized using transaction structures that transferred substantially all the risks and rewards associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages.

⁽³⁾ Securitization Financing Mortgages Under Management includes Securitization Financing and Derecognized Mortgage Principal.

⁽⁴⁾ Net repayment percentage is calculated by dividing net repayments by the opening balance.

Q3 2013 v Q3 2012

Total mortgage principal increased by \$0.8 billion or 7%, driven by 18% growth in Core Lending balances.

Within Core Lending, Single Family was up 24% due to high levels of production and our success with mortgage renewals, and even with the securitization of \$312 million of mortgages over the past four quarters. The Commercial portfolio grew by 9%, as a result its origination success.

Including \$793 million of derecognized mortgage principal, Securitization Financing Mortgages Under Management ("MUM") grew 9% or \$0.5 billion. MUM is more reflective of the performance of the underlying securitization business than is assets reported on the balance sheet. Securitization Financing MUM grew despite an increase in the level of repayments in recent quarters, which occurred because of large volumes of CMB maturities. MUM growth was helped by high levels of production over the past twelve months and by the securitization of \$273 million of mortgages previously reported in our Core Lending balances.

Q3 2013 v Q2 2013

Total mortgage principal increased by 2%, primarily because of a \$0.3 billion or 6% increase in Core Lending balances.

The growth in Core Lending was attributable to both the Commercial Lending and Single Family businesses, which grew 8% and 4%, respectively. A high level of production was the main driver of growth in both businesses and the growth occurred despite the securitization of \$138 million of Single Family mortgages in the quarter.

Securitization Financing MUM increased by \$52.7 million or 1%, as new production and renewals were offset by repayments.

MORTGAGE ASSET PRODUCTION

Mortgage production levels are seasonal, particularly in Single Family Lending Services, and as such, we do not focus on quarter over quarter production comparisons. The table below provides quarterly and year-to-date mortgage production for 2013 and for the same periods in 2012.

Table 9: Mortgage production – by lending business

	Three months ended						Nine months ended					
	Sep 30, 2013			Sep 30, 2012			Sep 30, 2013			Sep 30, 2012		
	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change
(\$ THOUSANDS)												
Single Family Lending Services	\$ 463,961	50.4%		\$ 428,423	46.3%	8%	\$1,149,082	47.2%		\$1,146,145	53.8%	0%
Commercial Lending Services	265,383	28.8%		207,969	22.5%	28%	649,069	26.6%		479,874	22.5%	35%
Mortgage production – Core Lending	729,344	79.3%		636,392	68.8%	15%	1,798,151	73.8%		1,626,019	76.3%	11%
Securitization Financing	190,537	20.7%		288,442	31.2%	(34%)	637,845	26.2%		503,780	23.7%	27%
Total mortgage production	\$ 919,881	100.0%		\$ 924,834	100.0%	(1%)	\$2,435,996	100.0%		\$2,129,799	100.0%	14%

Q3 2013 v Q3 2012

The Company's Core Lending production grew 15% or \$93 million, due to a 28% increase in Commercial Lending production and a record quarter for Single Family Lending Services. The growth in Commercial Lending production reflects the depth of long-term business partnerships and the contribution of new partnerships established during 2013. Single Family was up by 8% over an exceptionally strong third quarter in 2012, with this performance reflecting the strength of the Canadian housing market and our recently enhanced levels of service quality.

Securitization Financing production was down by 34% in the quarter. The decrease reflects our focus on renewing a large volume of maturing mortgages and the volume limits imposed by our quarterly Canada Mortgage Bond capacity – specifically, we aim to have the total of our mortgage originations and renewals equal this capacity limit.

YTD 2013 v YTD 2012

Total mortgage production increased \$306 million or 14%, driven by growth in Commercial Lending and Securitization Financing. After a record Q3 2013, Single Family Lending's year-to-date production is now just ahead of 2012 levels, despite our slower start to 2013.

SECURITIZATION

We regularly securitize mortgages in order to effectively manage our funding costs. If the securitized mortgages and the structure of a transaction meet specific criteria, they may qualify for balance sheet derecognition. The table below provides a summary of the mortgages securitized and derecognized in the quarter, as well as the associated retained interest and gain on sale amounts.

Table 10: Securitization and derecognition activity

(\$THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2013	Jun 30, 2013	% Change	Sep 30, 2012	% Change	Sep 30, 2013	Sep 30, 2012	% Change
Securitized and derecognized								
– retained interest recorded	\$ 206,199	\$ 151,257	36%	\$ 69,023	199%	\$ 475,891	\$ 69,023	589%
Securitized and derecognized								
– no retained interest ⁽¹⁾	-	-	N/A	95,420	(100%)	-	95,420	(100%)
Total principal derecognized	\$ 206,199	\$ 151,257	36%	\$ 164,443	25%	\$ 475,891	\$ 164,443	189%
Retained interest recorded	\$ 7,514	\$ 6,272	20%	\$ 2,226	238%	\$ 18,750	\$ 2,226	742%
Gains on sale	1,570	1,494	5%	846	86%	4,190	846	395%
Gain on sale percentage	0.76%	0.99%	(0.23%)	0.51%	0.25%	0.88%	0.51%	0.37%

⁽¹⁾ Securitizations that result in derecognition with no retained interests recorded on the balance sheet occur when the Company sells its residual interests in the securitizations (commonly referred to as interest-only strips) to third parties.

Q3 2013 v Q3 2012

We securitized and derecognized \$206 million of non-prepayable mortgages during the third quarter of 2013, which represents an increase of 25%. Volumes were up because more borrowers opted for non-prepayable mortgage products this year, which when securitized are derecognized.

We also recorded a gain on sale of \$1.6 million on these transactions. The gains recognized in the quarter relative to the principal derecognized were 25 bps higher than in 2012 as a result of the mix of securitization activity. In 2012, we sold the residual interests (the interest-only strips) on 58% of the mortgage balances derecognized in the quarter and those transactions typically generate a lower overall spread.

Q3 2013 v Q2 2013

The volume of mortgages securitized and derecognized increased by 36% sequentially, mainly due to market demand for non-prepayable mortgages. Gains on sale as a percentage of the assets derecognized were 76 bps during the quarter, down 23 bps from Q2 2013. The gain on sale percentage was lower due to hedging gains realized in the prior quarter, the timing of various securitization related cash flows, and the higher benchmark interest rates used to discount the gain on sale in Q3. The spreads on the underlying mortgages remained relatively consistent period over period.

YTD 2013 v YTD 2012

Since new securitization transaction structures were introduced in Q3 2012, we have been able to originate higher volumes of mortgages in our Securitization Financing business and a significant portion of these mortgages have been derecognized because of market demand for our non-prepayable products. Year-over-year, mortgages securitized and derecognized were up by 189% and the associated gains on sale increased by 395%.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The Company's active management of credit risk and our workout efforts continue to yield positive results. The success of our credit management strategies is highlighted in the metrics in Table 11. Management believes that these measures reflect the health of the Company's mortgage portfolio and indicate that our allowances for credit losses adequately provide for our risk of loss.

Table 11: Mortgage credit metrics

(\$ THOUSANDS)	Sep 30, 2013	Jun 30, 2013	Sep 30, 2012
Net realized loan losses for the three month period ended	\$ 427	\$ 873	\$ 161
Gross impaired mortgage assets ⁽¹⁾	36,124	28,004	39,842
Net impaired mortgage assets ⁽¹⁾⁽²⁾	31,818	23,705	35,869
Net impaired mortgage assets as a % of total mortgage assets ⁽¹⁾⁽²⁾	0.29%	0.22%	0.35%
Allowance for credit losses	30,696	29,473	24,778
Allowance for credit losses as a % of total mortgage assets	0.28%	0.27%	0.24%
Allowances for credit losses as a % of gross impaired mortgage assets	85%	105%	62%
Mortgage principal in arrears 30 to 89 days ⁽³⁾	22,558	27,424	27,124
Mortgage principal in arrears 30 to 89 days as a % of total mortgage principal ⁽³⁾	0.21%	0.25%	0.27%
Mortgage principal in arrears 90 days or more ⁽⁴⁾	33,891	25,193	31,265
Mortgage principal in arrears 90 days or more as a % of total mortgage principal ⁽⁴⁾	0.31%	0.23%	0.31%

⁽¹⁾ Conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.

⁽²⁾ Net impaired mortgages reflect gross impaired mortgage assets less individual allowances.

⁽³⁾ Insured mortgages less than 365 days in arrears are not included in arrears 30 to 89 days.

⁽⁴⁾ Mortgage principal in arrears 90 days or more does not include insured mortgages that are less than 365 days in arrears.

Q3 2013 v Q3 2012

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio was high in both Q3 2013 and Q3 2012.

- The rates of mortgage principal in arrears 90 days or more remained at 0.31%
- The rates of early stage delinquency (between 30 to 89 days past due) decreased from 0.27% to 0.21%. Early stage delinquency is a leading indicator of credit quality in future periods
- Net impaired mortgage assets as a % of total mortgage assets was 0.29%, six bps lower than at a year ago
- Allowance for credit losses represented 85% of gross impaired mortgage assets, up from 62% in Q3 2012

- Current quarter net realized loan losses remained low but increased \$0.3 million compared with an exceptionally low prior year quarter

Q3 2013 v Q2 2013

As expected by management, arrears and impaired rates returned to their historical norms in Q3 and were up from the extraordinarily low levels experienced in Q2 2013.

- The rates of mortgage principal in arrears 90 days or more increased from 0.23% to 0.31%
- Net impaired mortgage assets as a % of total mortgage assets increased from 0.22% to 0.29%
- The rate of early stage delinquency (between 30 to 89 days past due) decreased slightly to 0.21% from 0.25%

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management closely monitors the Company's liquidity position and believes that the level of liquid resources held, together with Equitable's ability to raise deposits, is sufficient for us to meet our funding and deposit maturity commitments, as well as to ensure that we can collect our other receivables and meet our other obligations. Actual liquidity may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality.

Table 12: Liquid assets⁽³⁾

(\$ THOUSANDS)	Sep 30, 2013	Jun 30, 2013	Sep 30, 2012
Eligible deposits with regulated financial institutions ⁽¹⁾	\$ 373,471	\$ 417,264	\$ 355,813
Debt securities issued by regulated financial institutions	123,951	159,214	215,056
Government guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	20,073	10,091	14,902
Debt securities guaranteed by Government of Canada	25,474	27,681	28,116
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽²⁾	226,315	150,064	191,849
Obligations under repurchase agreements	(5,570)	(15,701)	-
Liquid assets held for regulatory purposes	763,714	748,613	805,736
Other deposits with regulated financial institutions	523	138	269
Equity securities	94,112	96,282	165,472
Total liquid assets⁽³⁾	\$ 858,349	\$ 845,033	\$ 971,477
Total assets held for regulatory purposes as a % of total Equitable Bank assets	6.5%	6.3%	7.2%
Total liquid assets as a % of total assets	7.3%	7.1%	8.7%

⁽¹⁾ Eligible deposits with regulated financial institutions represent deposits of Equitable Bank which are held with major Canadian banks and excludes \$11.1 million (June 30, 2013 - \$14.7 million, September 30, 2012 - \$18.6 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$55.9 million (June 30, 2013 - \$61.2 million, September 30, 2012 - \$81.2 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

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

⁽³⁾ See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

Q3 2013 v Q3 2012

Liquid assets held for regulatory purposes were down by \$42.0 million or 5% despite the increase in outstanding mortgage commitments from \$533 million at September 30, 2012 to \$591 million at the end of the current quarter. The balance decreased due to the Company's more efficient management of our liquid asset portfolio.

Equity securities decreased by \$71.4 million, primarily due to the planned sale of preferred shares issued by other financial institutions in late 2012 and early 2013.

Q3 2013 v Q2 2013

At September 30, 2013, liquid assets held for regulatory purposes were \$15.1 million higher than at last quarter end. The increase reflects higher mortgage commitments. Mortgage commitments were \$591 million at September 30, 2013 compared to \$541 million at June 30, 2013.

OTHER ASSETS

Other assets were \$32.9 million at the end of September 2013, up by 53% or \$11.5 million over September 2012. The increase was mainly due to \$7.9 million of real estate owned assets recorded as a result of four mortgage foreclosures in 2013 (September 30, 2012 - \$0.1 million) and a \$2.9 million increase related to the capitalization of systems development costs.

Other assets include an \$8.4 million receivable related to an alleged fraud that was identified in Q3 2011 (September 30, 2012 - \$8.8 million). We continue to pursue a recovery of this amount but there is no assurance that proceeds or recoveries will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the receivables.

DEPOSITS

Equitable's ability to fund our mortgage businesses with insured deposits, by attracting deposit brokers and customers with our exceptional service, is critical to our success. Equitable sources deposits primarily through a national distribution network of third party deposit agents.

On September 23, 2013, we successfully launched the *Equitable Bank High Interest Savings Account ("HISA")*. The product is available across Canada from authorized investment dealers, in nominee format through the FundSERV network. The addition of the HISA to our deposits portfolio allows us to provide more value to our investment advisor partners while delivering a highly competitive rate of interest to our depositors.

Deposit balances were up by 15% over Q3 2012 and 5% over Q2 2013. Deposits have grown in-line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

SECURITIZATION LIABILITIES

The majority of the Company's historic securitization transactions do not qualify the securitized mortgages for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheet and accounted for as securitization financing.

Securitization liability principal was down by 7% over Q3 2012 and by 6% over Q2 2013, with the amount of the liability being generally consistent with the level of Securitization Financing assets reported on our Balance Sheet.

DEBENTURES AND TERM LOANS

There was no change to our debentures and term loans in the current quarter. Debentures and term loans increased by \$27.3 million over September 30, 2012. The change is due to:

- a \$65 million new issuance of 5.4% Series 10 debentures ("Series 10") in October 2012, net of:
- a \$9.5 million redemption of 7.1% Series 7 subordinated debentures on January 3, 2013 at par value;
- a \$15.8 million redemption of 6.5% Series 8 subordinated debentures on March 5, 2013, ahead of their December 2014 par call date and at a 5% premium to par value; and
- the repayment of a \$12.5 million 6.4% bank term loan.

Details related to the Company's debentures and term loan can be found in Notes 15 and 16 to the audited consolidated financial statements found within the Company's 2012 Annual Report and Notes 14 and 15 to the unaudited interim consolidated financial statements for September 30, 2013.

CAPITAL MANAGEMENT

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

Effective January 1, 2013, OSFI's Capital Adequacy Requirements ("CAR") Guideline was updated to reflect the BCBS reforms commonly referred to as 'Basel III'. The CAR Guideline requires Canadian-regulated financial institutions to meet a minimum 7.0% CET1 ratio on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments), starting in Q1 2013. Equitable Bank's CET1 ratio on an "all-in" basis was 12.1% as at September 30, 2013.

Similarly, our Tier I and Total Capital ratios were 13.1% and 15.9%, respectively, on an "all-in" basis at September 30, 2013, and exceeded regulatory minimums. Our Tier I ratio was down compared with the prior quarter and Q3 of last year primarily due to growth of our Core Lending assets. Our total capital ratio was up by 0.4% from Q3 2012, as the net effect of issuing \$65 million of Series 10 subordinated debentures in Q4 2012 and redeeming \$38 million of subordinated debentures in Q1 2013 offset the impact of growth in our Core Lending book. Our Total Capital ratio was down from Q2 2013 due to Core Lending asset growth.

Our Assets-to-Capital Multiple ("ACM") increased by 0.2x sequentially, from 13.7x at Q2 2013 to 13.9x at Q3 2013. The change was partly attributable to the maturity and renewal of \$186 million of 'grandfathered' Securitization Financing assets that were previously exempt from inclusion in our ACM calculation. We expect that a similar amount of 'grandfathered' assets will be renewed in each of the next several quarters and that our ACM could increase as a result. In certain transactions, we may be able to achieve derecognition of the underlying assets, and the assets would not impact our ACM. Notwithstanding this potential increase, management believes that the Company's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth.

On a regular basis, we stress test the mortgage portfolio in order to understand the potential impact of extreme but plausible adverse economic scenarios. We use the tests to analyze the impact that an increase in unemployment, rising interest rates, a decline in real estate prices, and other factors could have on our financial position. Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the Company has sufficient capital to absorb the potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 13: Capital measures of Equitable Bank

(\$ THOUSANDS, EXCEPT ACM)	Basel III	Basel III	Basel II
	Sep 30, 2013	Jun 30, 2013	Sep 30, 2012
Total risk-weighted assets	\$ 4,271,391	\$ 4,002,150	\$ 3,710,926
Common Equity Tier 1 Capital:			
Common shares	139,414	139,002	134,068
Contributed surplus	4,828	4,683	4,679
Retained earnings	375,819	355,664	301,617
Accumulated other comprehensive loss ⁽¹⁾	(3,254)	(1,455)	(1,819)
IFRS transition adjustment ⁽²⁾	-	-	4,733
Less: Regulatory Adjustments	(935)	(1,046)	-
Net Common Equity Tier 1 Capital	515,872	496,848	443,278
Additional Tier 1 Capital ⁽³⁾	45,000	45,000	50,000
Net Tier 1 Capital	560,872	541,848	493,278
Tier 2 capital:			
Collective allowance (Tier 2A)	26,390	25,174	20,806
Subordinated debentures (Tier 2B)	92,483	92,483	60,781
Total	118,873	117,657	81,587
Total regulatory capital	\$ 679,745	\$ 659,505	\$ 574,865
Regulatory capital to risk-weighted assets on an "all-in" basis: ⁽⁴⁾			
Tier 1 capital	13.1%	13.5%	13.3%
Tier 2 capital	2.8%	3.0%	2.2%
Total ratio	15.9%	16.5%	15.5%
CET1 ratio ⁽⁴⁾	12.1%	12.4%	11.9%
ACM	13.9	13.7	13.7

⁽¹⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of the CET1 in its entirety, however, the amount of cash flow hedge reserves that relates to the hedging of items that are not fair valued are derecognized.

⁽²⁾ As permitted by OSFI, the transition adjustment for IFRS was amortized over an eight quarter period ending on December 31, 2012.

⁽³⁾ Effective January 1, 2013, Equitable Bank's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.

⁽⁴⁾ See Non-GAAP Financial Measures section of this MD&A.

SUMMARY OF QUARTERLY RESULTS

Table 14: Summary of quarterly results

Table 14 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

(\$THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2 ⁽²⁾	Q1	Q4
OPERATIONS								
Net income	\$ 23,226	\$ 22,898	\$ 20,914	\$ 20,140	\$ 21,054	\$ 22,073	\$ 17,940	\$ 17,025
Net income available to common shareholders	22,319	21,992	20,008	19,234	20,147	21,167	17,034	16,119
EPS – basic	\$ 1.46	\$ 1.44	\$ 1.32	\$ 1.27	\$ 1.34	\$ 1.41	\$ 1.13	\$ 1.07
EPS – diluted	\$ 1.44	\$ 1.43	\$ 1.30	\$ 1.26	\$ 1.33	\$ 1.40	\$ 1.13	\$ 1.07
Net interest income	44,705	42,406	40,162	40,555	40,640	38,451	36,524	35,346
NIM – TEB ⁽²⁾⁽³⁾ :								
Total Assets	1.50%	1.46%	1.42%	1.44%	1.49%	1.49%	1.45%	1.41%
Core Lending	2.38%	2.39%	2.32%	2.30%	2.38%	2.50%	2.54%	2.56%
Securitization Financing	0.44%	0.42%	0.47%	0.52%	0.57%	0.50%	0.46%	0.42%
Total revenues	127,861	127,380	124,511	125,824	123,211	117,739	116,425	113,689
Return on equity – annualized	17.5%	18.2%	17.5%	17.3%	18.9%	21.1%	17.7%	17.3%
Return on assets – annualized	0.8%	0.8%	0.7%	0.7%	0.8%	0.8%	0.7%	0.6%
Productivity ratio – TEB ⁽³⁾	31.6%	30.3%	30.3%	30.3%	29.1%	30.6%	30.8%	30.3%
MORTGAGE PRODUCTION								
Single Family Lending Services	463,961	400,403	284,718	393,486	428,423	429,850	287,872	320,340
Commercial Lending Services	265,383	210,694	172,992	185,623	207,969	153,498	118,407	188,898
Core Lending	729,344	611,097	457,710	579,109	636,392	583,348	406,279	509,238
Securitization financing	190,537	280,932	166,376	475,146	288,442	104,785	110,553	70,336
BALANCE SHEET								
Total assets	11,831,155	11,837,872	11,602,293	11,601,440	11,228,030	10,867,531	10,470,238	10,257,013
Mortgages receivable	10,970,223	10,806,401	10,737,609	10,609,472	10,221,518	9,978,718	9,687,879	9,577,087
Total liquid assets	858,349	845,033	770,516	965,969	971,477	975,994	836,770	784,386
Shareholders' equity	565,506	545,919	521,829	501,571	481,673	462,473	443,457	426,640
Book value per common share	\$ 33.77	\$ 32.55	\$ 31.07	\$ 29.83	\$ 28.69	\$ 27.46	\$ 26.26	\$ 25.18

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

⁽²⁾ NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.

⁽³⁾ For purposes of improving comparability across periods, the Q2 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio holdings. Including the investment gain, the productivity ratio – TEB was 27.3%.

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position.

Other than the changes in accounting policies set out below, all other accounting policies applied by the Company are the same as those applied by the Company as at and for the year ended December 31, 2012. Refer to Note 3 of the audited consolidated financial statements found within the Company's 2012 Annual Report.

Effective January 1, 2013, the Company adopted IFRS 10, *Consolidated Financial Statements*, and IFRS 13, *Fair Value Measurement* and has revised its accounting policies as below:

(a) Subsidiaries:

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees. Accordingly, the Company controls an investee when it is exposed to and has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its investees as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

(b) Fair value measurement:

As a result of adoption of IFRS 13, the Company has adopted a new definition of fair value in that fair value is 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 in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

The change had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13.

CRITICAL ACCOUNTING ESTIMATES

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

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

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include securitization, the commitments we make to fund our pipeline of mortgage originations (see Note 7 and Note 8 to the interim consolidated financial statements for the period ended September 30, 2013) and letters of credit issued in the normal course of business.

The Company securitizes insured residential mortgages through the creation of MBS. At September 30, 2013, the outstanding securitized mortgage principal that qualified for derecognition totaled \$793 million (September 30, 2012 – \$164).

Letters of credit in the amount of \$2.5 million were outstanding at September 30, 2013 (September 30, 2012 – \$0.8 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

From time to time, certain of the Company's directors and officers purchase GICs and subordinated debentures from the Company in the ordinary course of business, on market terms. See Note 22 to the consolidated financial statements found within the Company's 2012 Annual Report for further details.

RISK MANAGEMENT

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect our business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board of Directors (the "Board"), primarily through its Risk and Capital Committee, plays an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's business activities, including our use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, funding and liquidity risk, and interest rate risk. For a detailed discussion of the risks that affect the Company, please refer to pages 44 to 52 of the Company's 2012 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

Credit risk is defined as the possibility that we will not receive the full value of amounts and recovery costs owed to us if counterparties fail to honour their obligations to the Company. Credit risk arises principally from our lending activities and our investments in debt and equity securities.

Equitable's primary focus is on providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses on page 16 of this MD&A.

The Company also invests in equity securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 42.2% or \$39.7 million of the preferred share equity securities portfolio at September 30, 2013, compared to 67.2% or \$111 million a year earlier.

LIQUIDITY AND FUNDING RISK

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

The Company has a low tolerance for liquidity and funding risk and adheres to a Liquidity and Funding Risk Management policy that requires us to maintain a pool of high quality liquid assets. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. These assets amounted to \$764 million at September 30, 2013 and \$806 million at September 30, 2012.

INTEREST RATE RISK

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at September 30, 2013, see Note 20 to the interim consolidated financial statements.

Management uses simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the Economic Value of Shareholders' Equity ("EVE") and on net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. EVE is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

Table 15 illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on net interest income during the 12-month period following September 30, 2013. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change.

Table 15: Interest rate shock

(\$ THOUSANDS)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
Impact on net interest income	\$ 5,514	\$ (3,469)
Impact on EVE	\$ (951)	\$ 3,222
EVE impact as a % of common shareholders' equity	(0.2%)	0.6%
200 basis point shift		
Impact on net interest income	\$ 11,641	\$ (3,460)
Impact on EVE	\$ (1,667)	\$ 3,900
EVE impact as a % of common shareholders' equity	(0.3%)	0.8%

⁽¹⁾ Interest rate decrease is limited by a floor of 0%.

UPDATED SHARE INFORMATION

At November 13, 2013, the Company had 15,311,839 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 559,197 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of \$15.2 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the third quarter of 2013, there were no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- Taxable Equivalent Basis ("TEB"): the presentation of financial information on a TEB is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest.
- Return on Shareholders' Equity ("ROE"): this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- Return on average assets: this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.
- Productivity ratio: this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. A lower productivity ratio reflects a more efficient cost structure.
- Net Interest Margin ("NIM"): this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets – TEB for the period. The assets used in the calculation represent assets employed to generate the income.
- Liquid assets: is a measure of the Company's liquid resources, held for the purposes of funding mortgages, deposit maturity commitments, and ability to collect other receivables and other obligations. A detailed calculation can be found in Table 11 of this MD&A.
- Common Equity Tier 1 Capital ("CET1"): this key measure of capital strength is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI.

- Tier 1, Tier 2 and total capital ratios: these adequacy ratios are calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI.
- Economic value of shareholders' equity ("EVE"): is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure captures all interest rate mismatches across all terms.
- Adjusted results: in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

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

- Net interest income: this additional GAAP measures is defined as total revenues derived from interest or dividend generating assets less total expenses related to interest bearing liabilities.
- Total revenue: total revenue is defined as total interest income plus other income.

SUPPLEMENTARY INFORMATION

The following section provides additional quantitative disclosures related to the Company's mortgage portfolio. Some of these disclosures relate to disclosure requirements outlined in OSFI's Guideline B-20, "Residential Mortgage Underwriting Practices and Procedures", which became effective for Equitable Bank on January 1, 2013.

Table 16: Mortgage principal outstanding – by property type

					Sep 30, 2013		
(\$THOUSANDS)	Uninsured		Insured		Total	% of total	
Single family dwelling	\$	3,442,160	\$	73,234	\$	3,515,394	32.1%
Mixed-use property		350,945		-		350,945	3.2%
Multi-unit residential		652,813		777		653,590	6.0%
Commercial		1,119,886		-		1,119,886	10.2%
Mortgages held for sale		-		-		-	0.0%
Construction		258,197		-		258,197	2.4%
Mortgage principal – Core Lending		5,824,001		74,011		5,898,012	53.9%
Single family dwelling		-		465,870		465,870	4.3%
Multi-unit residential		-		4,581,314		4,581,314	41.9%
Mortgage principal – Securitization Financing		-		5,047,184		5,047,184	46.1%
Total mortgage principal outstanding	\$	5,824,001	\$	5,121,195	\$	10,945,196	100.0%
		53.2%		46.8%		100.0%	

					Jun 30, 2013		
(\$THOUSANDS)	Uninsured		Insured		Total	% of total	
Single family dwelling	\$	3,190,833	\$	183,827	\$	3,374,660	31.3%
Mixed-use property		354,893		-		354,893	3.3%
Multi-unit residential		551,411		797		552,208	5.1%
Commercial		1,031,029		-		1,031,029	9.6%
Mortgages held for sale		-		-		-	0.0%
Construction		260,953		-		260,953	2.4%
Mortgage principal – Core Lending		5,389,119		184,624		5,573,743	51.7%
Single family dwelling		-		394,397		394,397	3.7%
Multi-unit residential		-		4,799,221		4,799,221	44.6%
Mortgage principal – Securitization Financing		-		5,193,618		5,193,618	48.3%
Total mortgage principal outstanding	\$	5,389,119	\$	5,378,242	\$	10,767,361	100.0%
		50.1%		49.9%		100.0%	

					Sep 30, 2012		
(\$THOUSANDS)	Uninsured		Insured		Total	% of total	
Single family dwelling	\$	2,808,834	\$	129,241	\$	2,938,075	28.8%
Mixed-use property		358,292		-		358,292	3.5%
Multi-unit residential		502,885		1,032		503,917	5.0%
Commercial		843,245		-		843,245	8.3%
Mortgages held for sale		15,625		5,966		21,591	0.2%
Construction		346,080		-		346,080	3.4%
Mortgage principal – Core Lending		4,874,961		136,239		5,011,200	49.2%
Single family dwelling		-		396,864		396,864	3.9%
Multi-unit residential		-		4,780,449		4,780,449	46.9%
Mortgage principal – Securitization Financing		-		5,177,313		5,177,313	50.8%
Total mortgage principal outstanding	\$	4,874,961	\$	5,313,552	\$	10,188,513	100.0%
		47.8%		52.2%		100.0%	

Table 17: Mortgage principal by interest rate type

	Sep 30, 2013	Sep 30, 2012
Fixed rate mortgages	87%	88%
Floating rate mortgages with interest rate floors	7%	7%
Floating rate mortgages without interest rate floors	6%	5%
Total	100%	100%

The following table provides a summary of our total mortgage portfolio by province:

Table 18: Mortgage principal by province

	Sep 30, 2013	Sep 30, 2012
Ontario	58%	59%
Alberta	16%	14%
Quebec	13%	13%
British Columbia	6%	6%
Other Provinces	7%	8%
Total Canada	100%	100%

The following table presents a geographical breakdown of our residential mortgage portfolio:

Table 19: Residential mortgage principal by location

(\$ THOUSANDS)	Sep 30, 2013								
	Insured ⁽¹⁾				Uninsured ⁽²⁾				Total
	Core Lending	Securitization Financing	Total	%	Core Lending	%	Total	%	
Province									
Ontario	\$ 49,198	\$ 279,422	\$ 328,620	8%	\$ 2,670,215	67%	\$ 2,998,835	75%	
Alberta	16,863	98,565	115,428	3%	521,788	13%	637,216	16%	
British Columbia	3,136	47,067	50,203	1%	127,079	3%	177,282	4%	
Manitoba	2,210	7,487	9,697	0%	58,686	1%	68,383	2%	
Other Provinces	1,827	33,329	35,156	1%	64,392	2%	99,548	3%	
Total Residential	\$ 73,234	\$ 465,870	\$ 539,104	14%	\$ 3,442,160	86%	\$ 3,981,264	100%	
Downtown Toronto condominiums ⁽³⁾	1,867	4,122	5,989	0.2%	48,355	1.2%	54,344	1.4%	
	Jun 30, 2013								
Total Residential	\$ 183,827	\$ 394,397	\$ 578,224	15%	\$ 3,190,833	85%	\$ 3,769,057	100%	
Downtown Toronto condominiums ⁽³⁾	\$ 2,800	\$ 4,251	\$ 7,051	0.2%	\$ 50,743	1.3%	\$ 57,794	1.5%	

⁽¹⁾ Insured by either CHMC or Genworth.

⁽²⁾ There are no uninsured mortgages in the Company's Securitization Financing business.

⁽³⁾ Represents single family residential condominium mortgages and are included in Ontario totals above.

Table 20: Residential mortgage portfolio by remaining amortization

	Sep 30, 2013								
	<5 years	5 - <10 years	10 - <15 years	15 - <20 years	20 - <25 years	25 - <30 years	30 - <35 years	>=35 years	Total
Total Residential Mortgages	\$ 2,837 0%	\$ 4,646 0%	\$ 22,379 1%	\$ 90,489 2%	\$ 366,370 9%	\$ 2,808,156 71%	\$ 643,095 16%	\$ 43,292 1%	\$ 3,981,264 100%
	Jun 30, 2013								
Total Residential Mortgages	0%	0%	1%	2%	9%	69%	17%	2%	100%

The Company's Residential mortgages are secured by residential properties in Canada. The following table provides a summary of the average LTV ratios for uninsured residential mortgages newly originated and acquired in Q3 2013 and also the average LTV ratios of our total uninsured residential portfolio as at September 30, 2013, by province:

Table 21: Average loan-to-value of newly originated and existing residential mortgages

Province	Sep 30, 2013		Jun 30, 2013	
	Average LTV % of newly originated mortgages	Average LTV % of total residential mortgages ⁽¹⁾	Average LTV % of newly originated mortgages	Average LTV % of total residential mortgages ⁽¹⁾
Ontario	75%	68%	75%	69%
Alberta	74%	68%	73%	68%
British Columbia	69%	69%	70%	71%
Manitoba	72%	66%	71%	65%
Other Provinces	72%	70%	73%	71%
Total Canada	75%	68%	74%	69%
Downtown Toronto condominiums ⁽²⁾	67%	57%	67%	59%

⁽¹⁾ Based on current property values. Current values are estimated using the Teranet Housing Price Index.

⁽²⁾ Included in Ontario totals above.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT SEPTEMBER 30, 2013

With comparative figures as at December 31, 2012 and September 30, 2012

(\$ THOUSANDS)

	September 30, 2013	December 31, 2012	September 30, 2012
Assets:			
Cash and cash equivalents	\$ 373,994	\$ 379,447	\$ 356,082
Restricted cash	67,061	63,601	99,874
Securities purchased under reverse repurchase agreements	62,808	78,551	59,827
Investments (Note 6)	300,120	439,480	467,108
Mortgages receivable – Core Lending (Note 7)	5,890,023	5,154,943	5,005,815
Mortgages receivable – Securitization Financing (Notes 7 & 8)	5,080,200	5,454,529	5,215,703
Securitization retained interests (Note 8)	24,069	7,263	2,199
Other assets (Note 10)	32,880	23,626	21,422
	\$ 11,831,155	\$ 11,601,440	\$ 11,228,030
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits (Note 11)	\$ 6,380,288	\$ 5,651,717	\$ 5,546,360
Securitization liabilities (Note 8)	4,740,418	5,261,670	5,100,972
Obligations related to securities sold short	-	-	1,964
Obligations under repurchase agreements	5,570	9,882	-
Deferred tax liabilities (Note 12)	10,043	5,498	6,402
Other liabilities (Note 13)	36,847	40,931	25,488
Bank term loans (Note 14)	-	12,500	12,500
Debentures (Note 15)	92,483	117,671	52,671
	11,265,649	11,099,869	10,746,357
Shareholders' equity:			
Preferred shares (Note 16)	48,494	48,494	48,494
Common shares (Note 16)	137,176	134,224	131,598
Contributed surplus (Note 17)	5,242	5,003	5,094
Retained earnings	381,337	323,737	306,629
Accumulated other comprehensive loss	(6,743)	(9,887)	(10,142)
	565,506	501,571	481,673
	\$ 11,831,155	\$ 11,601,440	\$ 11,228,030

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013

With comparative figures for the three and nine month periods ended September 30, 2012

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest income:				
Mortgages – Core Lending	\$ 71,633	\$ 62,442	\$ 204,123	\$ 178,205
Mortgages – Securitization Financing	49,498	54,821	153,797	163,274
Investments	1,141	2,274	4,897	7,400
Other	2,271	1,445	6,368	4,011
	124,543	120,982	369,185	352,890
Interest expense:				
Deposits	36,601	33,455	105,071	95,393
Securitization liabilities (Note 8)	41,800	45,802	131,575	138,651
Bank term loans	-	204	7	609
Debentures	1,403	878	5,175	2,615
Other	34	3	83	8
	79,838	80,342	241,911	237,276
Net interest income	44,705	40,640	127,274	115,614
Provision for credit losses (Note 7)	1,650	1,872	5,400	5,792
Net interest income after provision for credit losses	43,055	38,768	121,874	109,822
Other income:				
Fees and other income	1,654	983	4,348	2,969
Net (loss) gain on investments	(13)	389	631	692
Gains on securitization activities and income from securitization retained interests (Note 8)	1,677	857	5,589	823
	3,318	2,229	10,568	4,484
Net interest and other income	46,373	40,997	132,442	114,306
Non-interest expenses:				
Compensation and benefits	8,738	7,298	25,128	20,833
Other	6,559	5,401	17,662	16,093
	15,297	12,699	42,790	36,926
Income before income taxes	31,076	28,298	89,652	77,380
Income taxes (Note 12)				
Current	6,795	6,508	18,068	17,701
Deferred	1,055	736	4,546	(1,388)
	7,850	7,244	22,614	16,313
Net income	\$ 23,226	\$ 21,054	\$ 67,038	\$ 61,067
Earnings per share (Note 18)				
Basic	\$ 1.46	\$ 1.34	\$ 4.22	\$ 3.88
Diluted	\$ 1.44	\$ 1.33	\$ 4.17	\$ 3.85

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013

With comparative figures for the three and nine month periods ended September 30, 2012

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	\$ 23,226	\$ 21,054	\$ 67,038	\$ 61,067
Other comprehensive income – items that may be reclassified subsequently to income:				
Available for sale investments:				
Net unrealized (losses) gains from change in fair value	(2,456)	1,387	(2,748)	1,438
Reclassification of net losses (gains) to income	15	(449)	(844)	(1,587)
	(2,441)	938	(3,592)	(149)
Income tax recovery (expense)	643	(245)	946	39
	(1,798)	693	(2,646)	(110)
Cash flow hedges (Note 9)				
Net unrealized gains (losses) from change in fair value	172	(952)	6,067	(1,311)
Reclassification of net losses to income	512	602	1,792	1,741
	684	(350)	7,859	430
Income tax (expense) recovery	(180)	90	(2,069)	(113)
	504	(260)	5,790	317
Total other comprehensive (loss) income	(1,294)	433	3,144	207
Total comprehensive income	\$ 21,932	\$ 21,487	\$ 70,182	\$ 61,274

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2013

With comparative figures for the three month period ended September 30, 2012

(\$ THOUSANDS)

September 30, 2013	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	\$ 48,494	\$ 136,462	\$ 5,098	\$ 361,314	\$ (5,449)	\$ 545,919
Net income	-	-	-	23,226	-	23,226
Other comprehensive loss, net of tax	-	-	-	-	(1,294)	(1,294)
Reinvestment of dividends	-	302	-	-	-	302
Exercise of stock options	-	340	-	-	-	340
Dividends:						
Preferred shares	-	-	-	(907)	-	(907)
Common shares	-	-	-	(2,296)	-	(2,296)
Stock-based compensation	-	-	216	-	-	216
Transfer relating to the exercise of stock options	-	72	(72)	-	-	-
Balance, end of period	\$ 48,494	\$ 137,176	\$ 5,242	\$ 381,337	\$ (6,743)	\$ 565,506

September 30, 2012	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	\$ 48,494	\$ 131,045	\$ 4,913	\$ 288,596	\$ (10,575)	\$ 462,473
Net income	-	-	-	21,054	-	21,054
Other comprehensive income, net of tax	-	-	-	-	433	433
Reinvestment of dividends	-	199	-	-	-	199
Exercise of stock options	-	306	-	-	-	306
Dividends:						
Preferred shares	-	-	-	(907)	-	(907)
Common shares	-	-	-	(2,114)	-	(2,114)
Stock-based compensation	-	-	229	-	-	229
Transfer relating to the exercise of stock options	-	48	(48)	-	-	-
Balance, end of period	\$ 48,494	\$ 131,598	\$ 5,094	\$ 306,629	\$ (10,142)	\$ 481,673

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

With comparative figures for the nine month period ended September 30, 2012

(\$ THOUSANDS)

September 30, 2013	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	\$ 48,494	\$ 134,224	\$ 5,003	\$ 323,737	\$ (9,887)	\$ 501,571
Net income	-	-	-	67,038	-	67,038
Other comprehensive income, net of tax	-	-	-	-	3,144	3,144
Reinvestment of dividends	-	840	-	-	-	840
Exercise of stock options	-	1,744	-	-	-	1,744
Dividends:						
Preferred shares	-	-	-	(2,719)	-	(2,719)
Common shares	-	-	-	(6,719)	-	(6,719)
Stock-based compensation	-	-	607	-	-	607
Transfer relating to the exercise of stock options	-	368	(368)	-	-	-
Balance, end of period	\$ 48,494	\$ 137,176	\$ 5,242	\$ 381,337	\$ (6,743)	\$ 565,506

September 30, 2012	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	\$ 48,494	\$ 129,771	\$ 4,718	\$ 254,006	\$ (10,349)	\$ 426,640
Net income	-	-	-	61,067	-	61,067
Other comprehensive income, net of tax	-	-	-	-	207	207
Reinvestment of dividends	-	577	-	-	-	577
Exercise of stock options	-	1,034	-	-	-	1,034
Dividends:						
Preferred shares	-	-	-	(2,719)	-	(2,719)
Common shares	-	-	-	(5,725)	-	(5,725)
Stock-based compensation	-	-	592	-	-	592
Transfer relating to the exercise of stock options	-	216	(216)	-	-	-
Balance, end of period	\$ 48,494	\$ 131,598	\$ 5,094	\$ 306,629	\$ (10,142)	\$ 481,673

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013

With comparative figures for the three and nine month periods ended September 30, 2012

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 23,226	\$ 21,054	\$ 67,038	\$ 61,067
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	12,320	358	10,139	14,347
Amortization of premiums/discount on investments	636	945	1,760	1,621
Depreciation of capital assets	308	249	872	718
Provision for credit losses	1,650	1,872	5,400	5,792
Securitization gains	(1,570)	(846)	(4,190)	(846)
Net loss (gain) on sale or redemption of investments	13	120	(631)	(141)
Stock-based compensation	216	229	607	592
Income taxes	7,850	7,244	22,614	16,384
Changes in operating assets and liabilities:				
Restricted cash	8,823	(33,337)	(3,460)	(16,718)
Securities purchased and sold under reverse repurchase agreements	85,525	41,524	15,743	(49,860)
Mortgages receivable	(375,153)	(411,409)	(849,636)	(817,312)
Other assets	(3,018)	961	(8,273)	1,019
Deposits	275,780	314,757	728,571	918,456
Securitization liability	(293,133)	24,649	(521,252)	51
Obligations related to investments sold under repurchase agreements	(10,130)	448	(4,311)	1,964
Other liabilities	(3,366)	(959)	(7,637)	(4,815)
Income taxes paid	(2,322)	(3,883)	(19,458)	(14,138)
Net interest income, excluding non-cash items	(56,428)	(47,197)	(143,577)	(154,521)
Interest received	126,841	121,352	375,233	352,779
Interest paid	(71,617)	(76,298)	(235,482)	(218,937)
Dividends received	1,204	2,143	3,826	20,683
Proceeds from loan securitization	201,602	165,187	469,948	165,187
Securitization retained interests	779	38	1,654	38
Cash flows (used in) from operating activities	(69,964)	129,201	(94,502)	283,410
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of bank term loan	-	-	(12,500)	-
Redemption of debentures	-	-	(25,188)	-
Dividends paid on preferred shares	(907)	(907)	(2,719)	(2,719)
Dividends paid on common shares	(1,990)	(1,915)	(5,710)	(5,148)
Proceeds from issuance of common shares	340	306	1,744	1,034
Cash flows used in financing activities	(2,557)	(2,516)	(44,373)	(6,833)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(2,500)	(112,331)	(38,053)	(179,863)
Proceeds on sale or redemption of investments	38,639	53,303	174,920	112,822
Net change in Canada Housing Trust re-investment accounts	(6,812)	(16,467)	(2,131)	(23,913)
Purchase of capital assets	(214)	(145)	(1,314)	(386)
Cash flows from (used in) investing activities	29,113	(75,640)	133,422	(91,340)
Net (decrease) increase in cash and cash equivalents	(43,408)	51,045	(5,453)	185,237
Cash and cash equivalents, beginning of period	417,402	305,037	379,447	170,845
Cash and cash equivalents, end of period	\$ 373,994	\$ 356,082	\$ 373,994	\$ 356,082

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 1 – Reporting Entity

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly-owned subsidiary, Equitable Bank. The Company is listed on the Toronto Stock Exchange and domiciled in Canada with its registered office located at 30 St. Clair Avenue West, Suite 700, Toronto, Ontario. Equitable Bank is a Schedule I Bank under the Bank Act and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Equitable Bank offers savings and mortgage lending products to retail and commercial customers across Canada.

Note 2 – Basis of Preparation

(a) Statement of compliance

These interim consolidated financial statements of the Company have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2012 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on November 13, 2013.

(b) Basis of measurement

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

(c) Functional currency

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

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

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

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments,

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 2 – Basis of Preparation (continued)

management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

(e) Consolidation

The interim consolidated financial statements as at and for the nine months ended September 30, 2013 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it has the power to directly or indirectly govern its financial and operating policies and benefit from its activities.

Note 3 – Significant Accounting Policies

Other than the changes in accounting policies set out below, all other accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2012. Refer to Note 3 of the audited consolidated financial statements found within the Company's 2012 Annual Report.

Changes in accounting policies:

Effective January 1, 2013, the Company adopted IFRS 10, *Consolidated Financial Statements*, and IFRS 13, *Fair Value Measurement* and has revised its accounting policies as below:

(a) Subsidiaries:

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees. Accordingly, the Company controls an investee when it is exposed to and has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its investees as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

(b) Fair value measurement:

As a result of adoption of IFRS 13, the Company has adopted a new definition of fair value in that fair value is 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 in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

The change had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 44 to 52 of the Company's 2012 Annual Report.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

These financial assets and financial liabilities are presented on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques. Cash and cash equivalents and restricted cash are measured at fair value, which approximates cost.

(iii) Mortgages receivable

The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates offered for mortgages with similar terms and credit risks.

(iv) Deposits

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

Deposit liabilities comprise Guaranteed Investment Certificates ("GICs") that are measured at fair value through profit or loss and are guaranteed by Canada Deposit Insurance Corporation ("CDIC"). This guarantee from CDIC is reflected in the fair value measurement of the deposit liabilities.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 5 – Financial Instruments (continued)

(v) Securitization liabilities

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

(vi) Bank term loans and debentures

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

(vii) Derivatives

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 5 – Financial Instruments (continued)

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at September 30, 2013 and December 31, 2012. The tables do not include assets and liabilities that are not considered financial instruments.

	September 30, 2013							
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value	
Financial assets:								
Cash and cash equivalents	\$ 373,994	\$ -	\$ -	\$ -	\$ -	\$ 373,994	\$ 373,994	
Restricted cash	67,061	-	-	-	-	67,061	67,061	
Securities purchased under reverse repurchase agreements	-	-	-	-	62,808	62,808	62,808	
Investments	5,718	-	56,583	237,819	-	300,120	300,120	
Mortgages receivable – Core Lending	-	50,421	-	-	5,839,602	5,890,023	5,900,737	
Mortgages receivable – Securitization Financing	-	-	-	-	5,080,200	5,080,200	5,157,649	
Securitization retained interests	-	-	-	24,069	-	24,069	24,069	
Other assets:								
Derivative financial instruments – interest rate swaps	696	-	-	-	-	696	696	
Mortgage Commitments	187	-	-	-	-	187	187	
Other	-	-	-	-	5,160	5,160	5,160	
Total financial assets	\$ 447,656	\$ 50,421	\$ 56,583	\$ 261,888	\$ 10,987,770	\$ 11,804,318	\$ 11,892,481	
Financial liabilities:								
Deposits	\$ -	\$ 454,816	\$ -	\$ -	\$ 5,925,472	\$ 6,380,288	\$ 6,387,627	
Securitization liabilities	-	-	-	-	4,740,418	4,740,418	4,831,585	
Obligations under repurchase agreements	-	-	-	-	5,570	5,570	5,570	
Other liabilities:								
Derivative financial instruments – securitization activities	567	-	-	-	-	567	567	
Other	-	-	-	-	32,218	32,218	32,218	
Debentures	-	-	-	-	92,483	92,483	92,283	
Total financial liabilities	\$ 567	\$ 454,816	\$ -	\$ -	\$ 10,796,161	\$ 11,251,544	\$ 11,349,850	

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 5 – Financial Instruments (continued)

December 31, 2012

	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	\$ 379,447	\$ -	\$ -	\$ -	\$ -	\$ 379,447	\$ 379,447
Restricted cash	63,601	-	-	-	-	63,601	63,601
Securities purchased under reverse repurchase agreements	-	-	-	-	78,551	78,551	78,551
Investments	5,912	-	54,252	379,316	-	439,480	439,480
Mortgages receivable – Core Lending	-	52,379	-	-	5,102,564	5,154,943	5,172,888
Mortgages receivable – Securitization Financing	-	-	-	-	5,454,529	5,454,529	5,632,366
Securitization retained interests	-	-	-	7,263	-	7,263	7,263
Other assets:							
Derivative financial instruments – hedges	20	-	-	-	-	20	20
Derivative financial instruments – securitization activities	323	-	-	-	-	323	323
Other	-	-	-	-	5,478	5,478	5,478
Total financial assets	\$ 449,303	\$ 52,379	\$ 54,252	\$ 386,579	\$ 10,641,122	\$ 11,583,635	\$ 11,779,417
Financial liabilities:							
Deposits	\$ -	\$ 517,079	\$ -	\$ -	\$ 5,134,638	\$ 5,651,717	\$ 5,669,486
Securitization liabilities	-	-	-	-	5,261,670	5,261,670	5,467,345
Obligations under repurchase agreements	-	-	-	-	9,882	9,882	9,882
Other liabilities:							
Derivative financial instruments – interest rate swaps	2,301	-	-	-	-	2,301	2,301
Other	-	-	-	-	38,298	38,298	38,298
Bank term loans	-	-	-	-	12,500	12,500	12,516
Debentures	-	-	-	-	117,671	117,671	118,983
Total financial liabilities	\$ 2,301	\$ 517,079	\$ -	\$ -	\$ 10,574,659	\$ 11,094,039	\$ 11,318,811

There were no non-recurring fair value measurements in the balance sheets as at September 30, 2013 and December 31, 2012.

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 5 – Financial Instruments (continued)

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

Level 3 – valuation techniques with significant unobservable market inputs.

Measurement of fair value requires the use of observable market inputs whenever such inputs exist. The objective of fair value measurement is to estimate the prices at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price). A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments that are measured at fair value on a recurring basis in the consolidated balance sheets after initial recognition, classified using the fair value hierarchy:

	September 30, 2013			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	\$ 373,994	\$ -	\$ -	\$ 373,994
Restricted cash	67,061	-	-	67,061
Investments	176,169	123,951	-	300,120
Mortgages receivable – Core Lending	-	50,421	-	50,421
Securitization retained interests	-	24,069	-	24,069
Other assets:				
Derivative financial instruments – interest rate swaps	-	696	-	696
Mortgage Commitments	-	187	-	187
Total financial assets	\$ 617,224	\$ 199,324	\$ -	\$ 816,548
Financial liabilities:				
Deposits	\$ -	\$ 454,816	\$ -	\$ 454,816
Other liabilities:				
Derivative financial instruments – securitization activities	-	567	-	567
Total financial liabilities	\$ -	\$ 455,383	\$ -	\$ 455,383

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 5 – Financial Instruments (continued)

				December 31, 2012			
				Total financial assets/ financial liabilities at fair value			
				Level 1	Level 2	Level 3	
Financial assets:							
Cash and cash equivalents	\$	379,447	\$	-	\$	-	379,447
Restricted cash		63,601		-		-	63,601
Investments		167,519		217,709		-	385,228
Mortgages receivable		-		52,379		-	52,379
Securitization retained interests		-		7,263		-	7,263
Other assets:							
Derivative financial instruments – hedges		-		20		-	20
Derivative financial instruments – securitization activities		-		323		-	323
Total financial assets	\$	610,567	\$	277,694	\$	-	\$ 888,261
Financial liabilities:							
Deposits	\$	-	\$	517,079	\$	-	517,079
Other liabilities:							
Derivative financial instruments – interest rate swaps		-		2,301		-	2,301
Total financial liabilities	\$	-	\$	519,380	\$	-	\$ 519,380

Note 6 – Investments

Carrying value:

	September 30, 2013	December 31, 2012	September 30, 2012
Debt securities issued by regulated financial institutions	\$ 123,951	\$ 217,709	\$ 215,056
Debt securities guaranteed by Government of Canada	25,474	26,519	28,116
Equity securities – preferred shares	86,272	132,896	160,612
Equity securities – common shares	7,840	7,904	4,860
Canada Housing Trust re-investment accounts ⁽¹⁾	56,583	54,452	58,464
	\$ 300,120	\$ 439,480	\$ 467,108

⁽¹⁾ Excludes reverse repurchase agreements of \$42.7 million (December 31, 2012 - \$68.3 million, September 30, 2012 - \$44.9 million) which are reclassified under Securities purchased under reverse repurchase agreements.

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

	September 30, 2013	December 31, 2012	September 30, 2012
Debt securities issued by regulated financial institutions	\$ 41	\$ 182	\$ 142
Debt securities guaranteed by Government of Canada	750	1,257	1,426
Equity securities – preferred shares	(5,751)	(2,968)	(3,040)
Equity securities – common shares	131	-	-
	\$ (4,829)	\$ (1,529)	\$ (1,472)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

September 30, 2013	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 5,898,165	\$ 4,306	\$ 26,390	\$ 30,696	\$ 5,867,469
Mortgages – Securitization Financing	5,065,663	-	-	-	5,065,663
Accrued interest	37,091	-	-	-	37,091
	\$ 11,000,919	\$ 4,306	\$ 26,390	\$ 30,696	\$ 10,970,223

December 31, 2012	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 5,160,114	\$ 4,660	\$ 21,960	\$ 26,620	\$ 5,133,494
Mortgages – Securitization Financing	5,437,783	-	-	-	5,437,783
Accrued interest	38,195	-	-	-	38,195
	\$ 10,636,092	\$ 4,660	\$ 21,960	\$ 26,620	\$ 10,609,472

September 30, 2012	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 5,010,476	\$ 3,973	\$ 20,805	\$ 24,778	\$ 4,985,698
Mortgages – Securitization Financing	5,199,364	-	-	-	5,199,364
Accrued interest	36,456	-	-	-	36,456
	\$ 10,246,296	\$ 3,973	\$ 20,805	\$ 24,778	\$ 10,221,518

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale which consist of Government of Canada insured residential mortgages of \$212,676 (December 31, 2012 – \$111,470, September 30, 2012 – \$57,656).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in interest income – mortgages. As at September 30, 2013, mortgage principal outstanding for these mortgages was \$48,427 (December 31, 2012 – \$49,135, September 30, 2012 – \$49,365) and the fair value adjustment was \$1,994 (December 31, 2012 – \$3,244, September 30, 2012 – \$3,597).

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

	September 30, 2013	September 30, 2012
Changes in fair value recognized in income	\$ (319)	\$ (530)

At September 30, 2013, the Company had commitments to fund a total of \$590,991 (December 31, 2012 – \$445,059, September 30, 2012 – \$533,420) of mortgages in the ordinary course of business.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 7 – Mortgages Receivable (continued)

(b) Impaired and past due mortgages:

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

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

	September 30, 2013			December 31, 2012	September 30, 2012
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	\$ 35,149	\$ 4,306	\$ 30,843	\$ 31,450	\$ 35,042
Mortgages – Core Lending – Insured	-	-	-	-	338
Mortgages – Securitization Financing – Insured	975	-	975	298	489
	\$ 36,124	\$ 4,306	\$ 31,818	\$ 31,748	\$ 35,869

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

	September 30, 2013			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 17,189	\$ 5,369	\$ -	\$ 22,558
Mortgages – Core Lending – Insured	202	265	-	467
Mortgages – Securitization Financing – Insured	2,193	934	12,486	15,613
	\$ 19,584	\$ 6,568	\$ 12,486	\$ 38,638

	December 31, 2012			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 19,506	\$ 10,958	\$ -	\$ 30,464
Mortgages – Core Lending – Insured	80	228	557	865
Mortgages – Securitization Financing – Insured	1,366	906	13,230	15,502
	\$ 20,952	\$ 12,092	\$ 13,787	\$ 46,831

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NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 7 – Mortgages Receivable (continued)

(c) Allowance for credit losses:

	September 30, 2013		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 4,660	\$ 21,960	\$ 26,620
Provision for credit losses	1,068	4,332	5,400
Allowance for credit losses on acquired portfolio	(98)	98	-
Realized losses	(1,469)	-	(1,469)
Recoveries	145	-	145
Balance, end of period	\$ 4,306	\$ 26,390	\$ 30,696

	September 30, 2012		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,865	\$ 15,785	\$ 19,650
Provision for credit losses	818	4,974	5,792
Allowance for credit losses on acquired portfolio	(46)	46	-
Realized losses	(780)	-	(780)
Recoveries	116	-	116
Balance, end of period	\$ 3,973	\$ 20,805	\$ 24,778

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities. For further details, refer to Note 9 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

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

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

	September 30, 2013		December 31, 2012		September 30, 2012	
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	\$ 4,866,981	\$ 5,570	\$ 5,342,881	\$ 9,882	\$ 5,157,960	\$ -
Carrying amount of associated liability	4,740,418	5,570	5,261,670	9,882	5,100,972	-
Fair value of assets	4,944,905	5,570	5,520,893	9,882	5,359,396	-
Fair value of associated liability	4,831,585	5,570	5,467,345	9,882	5,352,445	-
Fair value, net position	\$ 113,320	\$ -	\$ 53,548	\$ -	\$ 6,951	\$ -

The carrying amount of assets includes securitized assets that were not yet transferred to third parties of \$228,540 (December 31, 2012 - \$205,704, September 30, 2012 - \$192,251). The fair value of these assets are \$229,864 (December 31, 2012 - \$210,422, September 30, 2012 - \$198,052).

The carrying amount of assets excludes mortgages held for securitization of \$213,219 (December 31, 2012 - \$111,648, September 30, 2012 - \$57,745).

The Company's outstanding securitization liabilities as at September 30, 2013, December 31, 2012 and September 30, 2012 are as follows:

	September 30, 2013	December 31, 2012	September 30, 2012
Securitization principal	\$ 4,737,246	\$ 5,252,180	\$ 5,085,735
Deferred net discount and issuance costs	(20,498)	(12,016)	(9,858)
Accrued interest	23,670	21,506	25,095
Total	\$ 4,740,418	\$ 5,261,670	\$ 5,100,972

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 8 – Derecognition of Financial Assets (continued)

(b) Transfers those are derecognized in their entirety:

The following table provides quantitative information about the securitization activities during the period for transfers that are derecognized in their entirety:

	September 30, 2013	September 30, 2012
Mortgages securitized and sold	\$ 475,892	\$ 164,443
Retained interest recorded	18,751	2,226
Servicing liability recorded	5,382	477
Gains on mortgages securitized and sold	4,190	846
Gains on other securitization activities	1,399	11

Note 9 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond forward agreements to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

Fair value hedges

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

The Company has also entered into hedging transactions to manage interest rate exposures on certain GICs used to fund floating rate mortgages and applied hedge accounting to these hedging relationships.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 9 – Derivative Financial Instruments (continued)

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at September 30, 2013, December 31, 2012 and September 30, 2012 are as follows:

Derivative instrument and term (years)	September 30, 2013			
	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Bond forward agreements – hedge accounting				
1 or less	\$ 86,800	\$ -	\$ (614)	\$ (614)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	140,000	53	-	53
1 to 5	407,000	441	-	441
Interest rate swaps				
1 or less	235,000	100	-	100
1 to 5	175,000	103	-	103
Bond forward agreements				
1 or less	152,100	47	-	47
	\$ 1,195,900	\$ 744	\$ (614)	\$ 130
December 31, 2012				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
	Cash flow hedges:			
Bond forward agreements – hedge accounting				
1 or less	\$ 62,100	\$ 540	\$ -	\$ 540
Fair value hedges:				
Interest rate swaps				
1 or less	335,000	-	(128)	(128)
1 to 5	221,612	-	(2,173)	(2,173)
Bond forward agreements				
1 or less	52,600	-	(217)	(217)
Short sale and repurchase agreements:				
1 or less	13,445	20	-	20
	\$ 684,757	\$ 560	\$ (2,518)	\$ (1,958)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 9 – Derivative Financial Instruments (continued)

September 30, 2012

Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Bond forward agreements – hedge accounting				
1 or less	\$ 164,900	\$ -	\$ (956)	\$ (956)
Fair value hedges:				
Interest rate swaps				
1 or less	200,000	-	(8)	(8)
1 to 5	138,265	-	(2,158)	(2,158)
Short sale and repurchase agreements:				
1 or less	14,759	-	(1,980)	(1,980)
	\$ 517,924	\$ -	\$ (5,102)	\$ (5,102)

⁽¹⁾ Derivative financial assets are included in Other Assets (Note 10) and derivative financial liabilities are included in Other Liabilities (Note 13).

Cash flow hedges:

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

	September 30, 2013	September 30, 2012
Fair value changes recorded in Other comprehensive income	\$ 7,859	\$ 430
Fair value changes recorded in Income	1,309	(34)
Amounts reclassified from Other comprehensive income to Interest expense - securitization liabilities	(1,792)	(1,741)

Fair value hedges:

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

	September 30, 2013	September 30, 2012
Bond forward agreements	\$ 264	\$ -
Interest rate swaps	863	175
Interest rate swaps – hedge accounting	493	-
Short sale and repurchase agreements	22	(702)
Changes in fair value recognized in income	\$ 1,642	\$ (527)

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NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 10 – Other Assets

	September 30, 2013	December 31, 2012	September 30, 2012
Prepaid expenses and other	\$ 16,889	\$ 15,343	\$ 13,944
Real estate owned	7,887	227	141
Capital assets	3,989	3,547	3,430
Receivables relating to securitization activities	2,136	2,773	2,310
Accrued interest and dividends on non-mortgage assets	1,096	1,393	1,380
Derivative financial instruments – interest rate swaps	696	-	217
Mortgage commitments	187	-	-
Derivative financial instruments – securitization activities	-	323	-
Derivative financial instruments – hedges	-	20	-
	\$ 32,880	\$ 23,626	\$ 21,422

Note 11 – Deposits

	September 30, 2013	December 31, 2012	September 30, 2012
GICs – cashable, payable on demand	\$ 654,842	\$ 743,572	\$ 723,091
GICs – fixed maturity dates	5,641,689	4,823,465	4,733,374
Accrued interest	102,207	99,530	104,177
Deferred deposit agent commissions	(18,450)	(14,850)	(14,282)
	\$ 6,380,288	\$ 5,651,717	\$ 5,546,360

Included in GICs with fixed maturity dates are \$455,770 (December 31, 2012 – \$518,213, September 30, 2012 – \$298,700) of GICs designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – deposits. The fair value is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued and the fair value adjustment as at September 30, 2013 is (\$954) (December 31, 2012 – (\$1,134), September 30, 2012 – (\$761)).

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

	September 30, 2013	September 30, 2012
Changes in fair value recognized in income	\$ (180)	\$ 761

GICs with fixed maturity dates also include \$546,348 (December 31, 2012 – Nil, September 30, 2012 – Nil) of GICs designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued and the fair value adjustment as at September 30, 2013 is \$351 (December 31, 2012 – Nil, September 30, 2012 – Nil).

The impact of changes in fair value attributable to the hedged risks for GICs designated in hedging relationships is as follows:

	September 30, 2013	September 30, 2012
Changes in fair value recognized in income	\$ (351)	\$ -

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Note 12 – Income Taxes

(a) Income tax provision:

	September 30, 2013	September 30, 2012
Current tax expense:		
Current period	\$ 18,068	\$ 17,701
	18,068	17,701
Deferred tax expense:		
Reversal of temporary differences	4,549	(1,587)
Reduction in tax rate	(3)	199
	4,546	(1,388)
Total income tax expense	\$ 22,614	\$ 16,313

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

	September 30, 2013	September 30, 2012
Canadian statutory income tax rate	26.3%	26.3%
Increase (decrease) resulting from:		
Tax-exempt income	(1.0%)	(6.8%)
Non-deductible expenses and other	(0.1%)	1.6%
Effective income tax rate	25.2%	21.1%

(b) Deferred taxes:

The net deferred income tax liability is comprised of:

	September 30, 2013	December 31, 2012	September 30, 2012
Deferred income tax assets:			
Allowance for credit losses	\$ 6,957	\$ 5,788	\$ 5,464
Share issue expenses	44	176	233
Other	623	-	-
	7,624	5,964	5,697
Deferred income tax liabilities:			
Securitization activities	8,659	2,283	3,757
GIC commissions	4,859	3,910	3,760
Net mortgage fees	4,083	5,058	4,553
Other	66	211	29
	17,667	11,462	12,099
Deferred tax liabilities	\$ 10,043	\$ 5,498	\$ 6,402

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 13 – Other Liabilities

	September 30, 2013	December 31, 2012	September 30, 2012
Accounts payable and accrued liabilities	\$ 14,953	\$ 10,102	\$ 11,998
Mortgagor realty taxes	10,257	22,340	8,835
Securitized mortgage servicing liability	6,479	1,518	469
Income taxes payable	4,591	4,670	831
Derivative financial instruments – securitization activities	567	-	956
Derivative financial instruments – interest rate swaps	-	2,301	2,383
Derivative financial instruments – hedges	-	-	16
	\$ 36,847	\$ 40,931	\$ 25,488

Note 14 – Bank Facilities

During the period, the Company repaid its non-revolving term loan of \$12,500 together with all accrued and unpaid interest. For further details on bank facilities, refer to Note 15 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

Note 15 – Debentures

During the period, with the approval of OSFI, the Company redeemed its 7.1% Series 7 debentures of \$9,450 with all accrued and unpaid interest. The Series 7 debentures were redeemable at par at any time at the Company's option. In addition, with the approval of OSFI, the Company partially redeemed \$15,738 of its 6.5% Series 8 debentures with all accrued and unpaid interest. The Series 8 debentures were redeemable at par any time on or after December 18, 2014, so upon their early redemption, the Company paid a 5% prepayment penalty of \$787.

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2012	Redeemed in the period	Outstanding September 30, 2013	Outstanding September 30, 2012
Series 7	7.10%	2007	January 2017	\$ 9,450	\$ 9,450	\$ -	\$ 9,450
Series 8	6.50%	2009	December 2019	23,221	15,738	7,483	23,221
Series 9	6.09%	2010	December 2020	20,000	-	20,000	20,000
Series 10	5.40%	2012	October 2017	65,000	-	65,000	-
				\$ 117,671	\$ 25,188	\$ 92,483	\$ 52,671

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 16 – Shareholders’ Equity

Capital stock:

Authorized:

Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1

Unlimited number of non-cumulative floating rate preferred shares, Series 2

Unlimited number of common shares, no par value

Issued and outstanding shares:

	September 30, 2013			September 30, 2012		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Preferred shares, Series 1	2,000,000	\$ 48,494	\$ 1.36	2,000,000	\$ 48,494	\$ 1.36

	September 30, 2013			September 30, 2012		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Common shares:						
Balance, beginning of period	15,189,983	\$ 134,224		15,018,401	\$ 129,771	
Contributions from reinvestment of dividends	23,484	840		21,737	577	
Contributions from exercise of stock options	98,157	1,744		58,020	1,034	
Transferred from contributed surplus relating to the exercise of stock options	-	368		-	216	
Balance, end of period	15,311,624	\$ 137,176	\$ 0.44	15,098,158	\$ 131,598	\$ 0.38

⁽¹⁾ Dividends per share represent dividends declared by the Company during the period.

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NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

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Note 17 – Stock-Based Compensation

(a) Stock option plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As of September 30, 2013, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to August 2020. A summary of the Company's stock option activity and related information for the periods ended September 30, 2013 and September 30, 2012 is as follows:

	September 30, 2013		September 30, 2012	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	518,817	\$ 22.96	733,950	\$ 24.36
Granted	138,537	36.61	137,927	29.17
Exercised	(98,157)	18.20	(58,020)	17.83
Forfeited/cancelled	-	-	(190,000)	33.37
Outstanding, end of period	559,197	\$ 27.21	623,857	\$ 23.22
Exercisable, end of period	122,212	\$ 21.14	159,830	\$ 21.90

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$607 (September 30, 2012 – \$592) related to grants of options under the stock option plan. This amount has been credited to Contributed Surplus. The fair value of options granted during the period ended September 30, 2013 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	September 30, 2013	September 30, 2012
Risk-free rate	1.5%	1.5%
Expected option life (years)	4.8	4.8
Expected volatility	24.4%	30.5%
Expected dividends	1.7%	1.9%
Weighted average fair value of each option granted	\$ 6.84	\$ 6.14

(b) Employee share purchase ("ESP") plan:

The Company has an ESP plan for eligible employees. Under the plan, eligible employees can contribute between 1% and 10% of their annual base salary towards the purchase of common shares of the Company. For each eligible contribution, the Company contributes 50% of the employee's contribution to purchase common shares of the Company.

During the period ended September 30, 2013, the Company expensed \$202 (September 30, 2012 – nil) under this plan.

(c) Deferred share unit ("DSU") plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. For further details, refer to Note 18 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 17 – Stock-Based Compensation (continued)

During the period ended September 30, 2013, 6,679 DSUs (September 30, 2012 – 9,181) had been granted by the Company. In May 2013, 7,522 DSUs were exercised for a total value of \$282 (September 30, 2012 – nil). DSUs outstanding as at September 30, 2013 amounted to 32,644 (September 30, 2012 – 32,951) and the recorded liability was \$1,475 (September 30, 2012 – \$1,052). Compensation expense recorded in the period of 2013, relating to DSUs outstanding during the period amounted to \$680 (September 30, 2012 – \$462).

(d) Restricted share unit ("RSU") plan:

The Company has a RSU plan for eligible employees. Under the plan, RSUs are awarded to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). For further details, refer to Note 18 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

During the period ended September 30, 2013, RSUs granted totaled 24,723 (September 30, 2012 – 20,940) and the compensation expense recorded relating to RSUs outstanding during the period amounted to \$546 (September 30, 2012 – \$135). As at September 30, 2013, RSUs outstanding amounted to 44,618 (September 30, 2012 – 20,767) and the recorded liability was \$733 (September 30, 2012 – \$135).

Note 18 – Earnings Per Share

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

	September 30, 2013	September 30, 2012
Earnings per common share – basic:		
Net income	\$ 67,038	\$ 61,067
Dividends on preferred shares	2,719	2,719
Net income available to common shareholders	\$ 64,319	\$ 58,348
Weighted average basic number of common shares outstanding	15,254,407	15,056,301
Earnings per common share – basic	\$ 4.22	\$ 3.88
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 64,319	\$ 58,348
Weighted average basic number of common shares outstanding	15,254,407	15,056,301
Adjustment to weighted average number of common shares outstanding:		
Stock options	168,458	101,467
Weighted average diluted number of common shares outstanding	15,422,865	15,157,768
Earnings per common share – diluted	\$ 4.17	\$ 3.85

For the period ended September 30, 2013, the calculation of the diluted earnings per share excluded 85,807 (September 30, 2012 – 261,789) average options outstanding with a weighted average exercise price of \$38.89 (September 30, 2012 – \$28.52) as the exercise price of these options was greater than the average price of the Company's common shares.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 19 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision. For further details refer to the page 18 of the MD&A.

Equitable Bank maintains capital management policies to govern the quality and quantity of capital utilized in its operations. During the period, Equitable Bank complied with all internal and external capital requirements.

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

(\$ THOUSANDS)	September 30, 2013 Basel III	December 31, 2012 Basel II
Common Equity Tier 1 ("CET1") Capital:		
Common shares	\$ 139,414	\$ 137,303
Contributed surplus	4,828	4,589
Retained earnings	375,819	317,754
Accumulated other comprehensive loss ⁽¹⁾	(3,254)	(1,767)
Less: Regulatory Adjustments	(935)	-
Net Common Equity Tier 1 Capital	\$ 515,872	\$ 457,879
Additional Tier 1 Capital ⁽²⁾	45,000	50,000
Net Tier 1 Capital	\$ 560,872	\$ 507,879
Tier 2 capital:		
Collective allowance (Tier 2A)	26,390	21,960
Subordinated debentures (Tier 2B)	92,483	125,781
Total	\$ 118,873	\$ 147,741
Total regulatory capital	\$ 679,745	\$ 655,620

⁽¹⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of the CET1 in its entirety, however the amount of cash flow hedge reserves that relate to the hedging of items that are not fair valued are derecognized.

⁽²⁾ Effective January 1, 2013, Equitable Bank's non-cumulative preferred shares are subject to phase-out at the rate of 10% per year.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)

Note 20 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at September 30, 2013:

	September 30, 2013							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Total assets	\$ 1,798,352	\$ 977,629	\$ 2,840,275	\$ 5,616,256	\$ 4,859,939	\$ 1,235,323	\$ 119,637	\$ 11,831,155
Total liabilities and equity ⁽²⁾	(155)	(1,625,542)	(3,231,105)	(4,856,802)	(5,088,846)	(1,235,275)	(650,232)	(11,831,155)
Off-balance sheet items ⁽³⁾	-	(988,905)	261,730	(727,175)	785,442	(58,267)	-	-
Interest rate sensitive gap	\$ 1,798,197	\$ (1,636,818)	\$ (129,100)	\$ 32,279	\$ 556,535	\$ (58,219)	\$ (530,595)	\$ -
Cumulative gap ⁽²⁾	\$ 1,798,197	\$ 161,379	\$ 32,279	\$ 32,279	\$ 588,814	\$ 530,595	\$ -	\$ -
Cumulative gap as a percentage of total assets	15.20%	1.36%	0.27%	0.27%	4.98%	4.48%	0.00%	0.00%

	December 31, 2012							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾	\$ 1,648,208	\$ 491,930	\$ 364,907	\$ 364,907	\$ 511,945	\$ 482,481	\$ -	\$ -
Cumulative gap as a percentage of total assets	14.21%	4.24%	3.15%	3.15%	4.41%	4.16%	0.00%	0.00%

	September 30, 2012							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾	\$ 1,715,525	\$ 358,953	\$ 168,375	\$ 168,375	\$ 487,326	\$ 466,477	\$ -	\$ -
Cumulative gap as a percentage of total assets	15.28%	3.20%	1.50%	1.50%	4.34%	4.15%	0.00%	0.00%

⁽¹⁾ Accrued interest is excluded in calculating interest sensitive assets and liabilities.

⁽²⁾ Cashable GICs are included within the 0 to 3 months liabilities as these are cashable by the depositor upon demand. In previous periods, the Company had disclosed cashable GICs as floating rate liabilities.

⁽³⁾ Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged.

DIRECTORS

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Eric Beutel

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

Joseph Dickstein

Corporate Director

Eric Kirzner

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

David LeGresley

Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Bank

Katherine Rethy

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

Rowan Saunders

President and Chief Executive Officer, Royal & Sun Alliance Insurance Company of Canada

Vincenza Sera

Corporate Director

Morris Shohet

Principal, The Dorchester Corporation, a real estate investment company

OFFICERS

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William Edmunds

Senior Vice-President and Chief Risk Officer of Equitable Bank

Tim Wilson

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

Drew Berman

Vice-President, General Counsel and Corporate Secretary of the Company and Equitable Bank

David Downie

Vice-President, Commercial Origination of Equitable Bank

Scott Fryer

Vice-President, Deposit Services of Equitable Bank

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Vice-President and Chief Compliance Officer of Equitable Bank

David Soni

Vice-President, Risk Policy of Equitable Bank

Jody Sperling

Vice-President, Human Resources of Equitable Bank

Nicolas Strube

Vice-President and Treasurer of Equitable Bank

Ron Tratch

Vice-President, Commercial Credit of Equitable Bank

Rajesh Raut

Controller of Equitable Bank

John Simoes

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Dividend Reinvestment Plan

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