



SECOND QUARTER 2014
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 six months ended June 30, 2014

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 six months ended June 30, 2014. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2014, 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, 2013, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at August 14, 2014. 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", "Q2 2014 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Derivative Financial Instruments", "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

OVERVIEW

Equitable Group Inc. (TSX: EQB, EQB.PR.A and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total assets under management of approximately \$13 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products. Measured by assets, Equitable Bank was the ninth largest independent Schedule I Bank in Canada at December 31, 2013.

VISION AND STRATEGY

Our Bank provides mortgage loans to a wide range of customers that include business-for-self borrowers, newcomers to Canada, and both small and large corporate real estate investors. Equitable Bank also provides savers with Guaranteed Investment Certificates (“GIC”s) and High Interest Savings Accounts (“HISA”s) that provide security and competitive interest rates. We serve these customers through our extensive partnerships with Canada’s mortgage brokers, mortgage bankers, deposit agents, investment dealers and financial planners who provide independent professional advice to our customers.

For further information on Equitable’s strategy, capabilities, key performance indicators, and business lines please refer to our 2013 Annual Report.

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended					Six months ended		
	Jun 30, 2014	Mar 31, 2014	% Change	Jun 30, 2013	% Change	Jun 30, 2014	Jun 30, 2013	% Change
RESULTS OF OPERATIONS								
Net income	\$ 26,778	\$ 25,291	6%	\$ 22,898	17%	\$ 52,069	\$ 43,812	19%
Net income available to common shareholders	25,872	24,385	6%	21,992	18%	50,257	42,000	20%
EPS – basic	\$ 1.68	\$ 1.59	6%	\$ 1.44	17%	\$ 3.27	\$ 2.76	18%
EPS – diluted	\$ 1.65	\$ 1.56	6%	\$ 1.43	15%	\$ 3.22	\$ 2.73	18%
ROE ⁽¹⁾	18.0%	17.9%	0.1%	18.2%	(0.2%)	18.0%	17.8%	0.2%
Return on average assets ⁽¹⁾	1.0%	0.8%	0.2%	0.8%	0.2%	0.9%	0.8%	0.1%
NIM – TEB – total assets ⁽¹⁾	1.69%	1.67%	0.02%	1.46%	0.23%	1.68%	1.44%	0.24%
Efficiency ratio – TEB ⁽¹⁾⁽²⁾	31.3%	31.9%	(0.6%)	30.3%	1.0%	31.6%	30.3%	1.3%
BALANCE SHEET								
Total assets	11,785,388	11,886,479	(1%)	11,837,872	(0%)			
Assets under management ⁽¹⁾	12,965,379	12,971,390	(0%)	12,431,235	4%			
Mortgages receivable	11,128,395	11,204,349	(1%)	10,806,401	3%			
Mortgages under management ⁽¹⁾	12,287,267	12,265,257	0%	11,360,724	8%			
Shareholders' equity	636,376	611,456	4%	545,919	17%			
CREDIT QUALITY								
Impairment provision (recovery) ⁽³⁾	332	(42)	N/A	4	N/A	290	536	46%
Net impaired mortgages as a % of total mortgage assets ⁽⁴⁾	0.31%	0.35%	(0.04%)	0.22%	0.09%			
Allowance for credit losses as a % of total mortgage assets	0.29%	0.28%	0.01%	0.27%	0.02%			
COMMON SHARE INFORMATION								
Shares outstanding	15,406,247	15,388,866	0%	15,280,854	1%			
Book value per share ⁽¹⁾	\$ 38.16	\$ 36.58	4%	\$ 32.55	17%			
Share price – close	\$ 61.01	\$ 57.84	5%	\$ 35.92	70%			
Market capitalization	939,935	890,092	6%	548,888	71%			
EQUITABLE BANK CAPITAL RATIOS⁽¹⁾								
Common Equity Tier 1 capital ratio	13.4%	12.9%	0.5%	12.4%	1.0%			
Tier 1 capital ratio	14.3%	13.8%	0.5%	13.5%	0.8%			
Total capital ratio	17.0%	16.6%	0.4%	16.5%	0.5%			

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

⁽⁴⁾ 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.

Q2 2014 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record Q2 earnings and successfully delivered on our strategic priorities in the second quarter of 2014:

Strategic Objectives	Accomplishments
<p>Grow by providing effective service, competitive products and cost-effective operations</p>	<ul style="list-style-type: none"> Increased Mortgages under Management⁽¹⁾ by 8% over Q2 2013 Originated a second quarter record of \$501 million of Single Family Lending mortgages, which represented a 25% increase over Q2 of the prior year Grew our Single Family Lending portfolio by 23% since Q2 2013; adjusting for securitizations, this growth rate was 27%
<p>Build our capabilities and brand</p>	<ul style="list-style-type: none"> Grew our <i>Equitable Bank High Interest Savings Account</i> balances by \$68 million in the quarter to \$159 million, further broadening our portfolio of safe and secure savings solutions Launched a Deposit Note program and closed a successful \$150 million three-year fixed rate offering, at a spread of 135 bps over benchmark yields Expanded our Corporate offices by approximately 7,500 square feet to accommodate the increase in full-time employees driving our growth Closed a \$75 million preferred share offering on August 8, at a coupon of 6.35% and with strong investor demand. Announced the redemption of our existing \$50 million of preferred shares (7.25% coupon) on September 30th.
<p>Consistently create shareholder value</p>	<ul style="list-style-type: none"> Delivered record net income of \$26.8 million, which was up by 17% over Q2 2013 and 6% over Q1 Produced an ROE of 18.0% (above our five-year quarterly average of 17.5%) Declared common share dividends that were 13% higher than in Q2 2013
<p>Maintain a low risk profile</p>	<ul style="list-style-type: none"> Maintained a loan-to-value ratio of 68% on our residential mortgage portfolio Recorded an impairment provision of only \$0.3 million in the quarter Reported a Common Equity Tier 1 (“CET1”) capital ratio⁽¹⁾ of 13.4%, which was well ahead of regulatory minimums and most industry benchmarks

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

ITEMS OF NOTE

There were no items of note in our financial results for Q2 2014.

Our Q1 2014 financial results were impacted by the following item:

- \$0.6 million of incremental compensation and benefits costs due to the appreciation of our stock price and severance costs during the quarter, resulting in four cents lower EPS.

Our Q2 2013 financial results were impacted by the following item:

- \$1.2 million of fair value gains on derivative financial instruments related to securitization activities. The after-tax impact of this was an eight cent increase in Q2 2013 EPS.

DIVIDENDS

On August 14, 2014, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.17 per common share, payable on October 4, 2014, to common shareholders of record at the close of business on September 15, 2014. This dividend represents a 13% increase over dividends declared in August 2013.

In addition, on August 14, 2014, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.453125 per preferred share, payable on September 30, 2014, to preferred shareholders of record at the close of business on September 15, 2014.

BUSINESS OUTLOOK

In the second quarter of 2014, Equitable 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 throughout the remainder of 2014.

Core Lending

In Q2 2014, our Single Family mortgage business benefitted from seasonal strength in housing market activity and from our superior levels of customer service, delivering record Q2 originations and strong renewals in the quarter. We maintain our outlook for a high rate of growth in our Single Family portfolio for the remainder of 2014, with that growth aided by our continued product diversification and geographic expansion.

Management also expects the commercial portfolio to grow modestly throughout the last two quarters of 2014 despite competitive pressures, owing to the continued strengthening of relationships with our key distribution partners.

Securitization Financing

In each quarter of 2014, we have the opportunity to renew approximately \$300 million of the mortgages in our Securitization Financing portfolio. We plan to supplement our renewals with targeted levels of originations, such that we utilize the full amount of our CMB capacity each quarter. Our CMB allocations have been approximately \$350 million in recent quarters. As a result, total Mortgages under Management ("MUM" – the sum of mortgage assets reported on-balance sheet and derecognized) should remain about constant in the latter half of 2014. In contrast, the Securitization Financing assets reported on our consolidated balance sheet will likely decline at a rate in the mid to high single digits over the remainder of the year because a significant portion of the assets being securitized will be derecognized.

Credit Quality

We expect our single family arrears rates and impairment provisions to remain low in 2014, assuming that Canadian unemployment and interest rates stay within the range of broad market expectations. Loss and arrears rates may, however, return to more normal levels from the exceptionally low rates experienced over the past several quarters. 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.

Net Interest Margin

Management believes that the total Net Interest Margin ("NIM") will be stable during the remainder of 2014, though quarterly NIM may experience some fluctuations due to mortgage prepayment charge income and other factors. More specifically, relative to Q2 2014 levels we expect that:

- Total NIM will be approximately constant, as the continued shift in asset mix towards the Company's higher margin Core Lending book is offset by lower expected levels of prepayment income

- Core Lending NIM will also remain relatively consistent, as the effect of improved renewal pricing is offset by lower prepayment income and the impact of a continued shift toward lower spread, but higher return on equity, Single Family assets.
- Securitization Financing NIM will compress as existing mortgages that were originated at higher spreads during 2009 renew or are replaced by new mortgages at narrower spreads that are typical of the current market, and also due to lower levels of prepayment income.

Non-Interest Expenses

Equitable will continue investing in the growth of the Bank's franchise and support our high level of customer service in 2014. Even with that investment, the Bank 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 our efficiency ratio in the latter half of 2014 to be marginally higher than in Q2 2014 due to upfront investments made in our key strategic initiatives, including prime single family, ahead of the associated revenue. Management will continue to prudently manage other hiring and spending to keep those expense increases consistent with the growth of the business.

Strategic Initiatives

Our key strategic initiatives for 2014 are focused on diversifying our product offerings. We believe that Equitable is well positioned to launch new products targeted at market niches not well-served by Canada's larger financial institutions. These initiatives align well with the overall policy direction from the Department of Finance – specifically a commitment in both the 2013 and 2014 federal budgets to promote the competitiveness of smaller financial institutions. We support this policy objective and are actively providing input to the Government on potential legislative actions.

Due to regulatory developments related to the allocation of National Housing Act ("NHA") – Mortgage-Backed Securities ("MBS") and portfolio insurance capacity, we expect to launch a prime single family mortgage business in the current quarter. We believe that a prime product will complement our existing Single Family business well by allowing us to extend our reach within the broker channel. While we are confident that there is significant long-term strategic and financial value in this business, we do not expect it to have a material EPS impact in 2014 as any revenues generated will likely be offset by the investment required to build a new business line.

Management intends to build in-house capabilities to originate \$1 to \$2 billion of prime loans annually and build a prime portfolio that is material to our overall business. We plan to fund the majority of our prime loans through an MBS securitization program, for which we have defined volumes allocated to us each quarter by the Canada Mortgage and Housing Corporation ("CMHC"). Over the near term, as we develop our prime mortgage origination capabilities and systems, we will supplement our own originations with mortgages originated through partners, in order to use our available MBS capacity to the extent possible.

Likewise, we intend to broaden our range of products for savers which will further diversify our sources of funding. Our primary focus will be on growing the recently launched *Equitable Bank High Interest Savings Account*, a product that has been well received by Canadian savers and investment advisors over the past several quarters. These and other initiatives aimed at broadening our services for Canadian savers may result in a modestly higher level of expenses in 2014 but reinforce our diversification strategy and provide important risk management benefits.

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					Six months ended		
	Jun 30, 2014	Mar 31, 2014	% Change	Jun 30, 2013	% Change	Jun 30, 2014	Jun 30, 2013	% Change
Net income	\$ 26,778	\$ 25,291	6%	\$ 22,898	17%	\$ 52,069	\$ 43,812	19%
EPS – diluted	\$ 1.65	\$ 1.56	6%	\$ 1.43	15%	\$ 3.22	\$ 2.73	18%
Net interest income ⁽¹⁾	49,902	48,684	3%	42,406	18%	98,586	82,569	19%
Provision for credit losses	545	507	8%	1,650	(67%)	1,052	3,750	(72%)
Non-interest expenses	16,880	16,445	3%	14,257	18%	33,325	27,493	21%
Income taxes	9,195	8,790	5%	7,868	17%	17,985	14,764	22%

⁽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 details the Company's net interest income and NIM by product and business:

Table 3: Net interest income

(\$ THOUSANDS)	Three months ended						Six months ended			
	Jun 30, 2014		Mar 31, 2014		Jun 30, 2013		Jun 30, 2014		Jun 30, 2013	
	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	\$ 78,826	4.97%	\$ 77,271	4.99%	\$ 67,838	5.03%	\$ 156,097	4.99%	\$ 132,489	5.02%
Liquidity investments	1,388	1.37%	1,272	1.40%	2,131	1.39%	2,660	1.40%	4,102	1.37%
Equity securities – TEB ⁽²⁾	1,761	5.93%	1,596	5.77%	1,237	5.06%	3,357	5.87%	2,951	5.45%
	81,975	4.78%	80,139	4.81%	71,206	4.66%	162,114	4.80%	139,542	4.66%
<i>Expenses related to:</i>										
Deposits	35,891	2.35%	34,897	2.35%	32,866	2.42%	70,650	2.35%	64,528	2.43%
Debentures and bank facilities	1,399	6.07%	1,414	5.77%	1,425	5.50%	2,813	5.88%	3,828	6.86%
	37,290	2.41%	36,311	2.41%	34,291	2.47%	73,463	2.41%	68,356	2.52%
Net interest income – TEB ⁽²⁾⁽³⁾	44,685	2.57%	43,828	2.60%	36,915	2.39%	88,651	2.60%	71,186	2.35%
Taxable Equivalent Basis – adjustment ⁽²⁾	(468)		(532)		(401)		(1,000)		(919)	
Core Lending	\$ 44,217		\$ 43,296		\$ 36,514		\$ 87,651		\$ 70,267	
Securitization Financing:										
<i>Revenues derived from:</i>										
Mortgages	\$ 43,968	3.66%	\$ 43,703	3.61%	\$ 51,313	3.88%	\$ 87,671	3.62%	\$ 104,299	3.92%
Liquidity investments	781	2.16%	728	1.92%	995	1.55%	1,509	1.92%	1,720	1.55%
	44,749	3.61%	44,431	3.56%	52,308	3.77%	89,180	3.57%	106,019	3.83%
<i>Expenses related to:</i>										
Securitization liabilities	36,622	3.27%	36,623	3.25%	44,526	3.44%	73,245	3.25%	89,776	3.48%
Deposits and secured funding facility	2,442	2.32%	2,420	2.29%	1,890	2.42%	5,000	2.29%	3,941	2.43%
	39,064	3.19%	39,043	3.17%	46,416	3.39%	78,245	3.17%	93,717	3.42%
Securitization Financing	\$ 5,685	0.46%	\$ 5,388	0.43%	\$ 5,892	0.42%	\$ 10,935	0.44%	\$ 12,302	0.44%
Total – TEB ⁽²⁾⁽³⁾	\$ 50,370	1.69%	\$ 49,216	1.67%	\$ 42,807	1.46%	\$ 99,586	1.68%	\$ 83,488	1.44%

⁽¹⁾ Average rates are calculated based on the average of the month-end 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.

Q2 2014 v Q2 2013

Net interest income was up \$7.5 million due to an increase in our average asset balances of \$181 million or 2% and a widening of our NIM. NIM increased 23 bps to 1.69% from 1.46% in Q2 2013, as our asset mix continued to shift towards our higher margin Core Lending business and we achieved higher margins within Core Lending.

NIM earned on Core Lending assets increased 18 bps to 2.57% due mainly to more efficient management of our lower margin liquidity portfolio and our efforts to optimize renewal pricing on single family mortgages.

Securitization Financing NIM was up four bps mainly because of higher mortgage prepayment income and a decrease in the level of low margin liquidity assets held in the current quarter, offset in part by margin compression within the portfolio as higher yielding mortgages originated during 2009 matured and were replaced with new or renewed mortgages at lower margins.

Q2 2014 v Q1 2014

Net interest income was up 3% sequentially, benefitting from a two bp increase in NIM.

Core Lending NIM was down three bps primarily due to the number of days in the quarter, offset in part by higher mortgage prepayment income.

Securitization Financing NIM was up three bps mainly due to higher levels of mortgage prepayment income, offset in part by margin compression within the portfolio.

YTD 2014 v YTD 2013

Net interest income was up \$16.0 million due to an increase in our average asset balances of \$245 million or 2% and a widening of our NIM. Total NIM increased 24 bps to 1.68% from 1.44% a year ago, as our asset mix continued to shift towards our higher margin Core Lending business and we achieved higher margins within Core Lending.

NIM earned on Core Lending assets increased 25 bps to 2.60% due to more efficient management of our lower margin liquidity portfolio and our efforts to optimize renewal pricing in Single Family. NIM growth was also helped by a non-recurring debt redemption charge recorded in the prior year and by gains on interest rate swaps related to our GIC book.

Securitization Financing NIM remained the same as a year ago at 0.44%, as rate compression within the book was offset by reduced levels of low margin liquid assets.

The drivers of the changes in NIM from period to period are provided in more details in Table 4 below:

Table 4: Factors affecting NIM

(IN BASIS POINTS)	Q2 2014 vs. Q1 2014	Q2 2014 vs. Q2 2013	YTD 2014 vs. YTD 2013
Core Lending NIM:			
Mortgage prepayment income	6	(3)	(2)
Size and rate of liquidity investments	(2)	15	16
Size and rate of equity securities holdings	-	1	1
Q1 2013 debt redemption charge	-	-	3
Number of days	(4)	-	-
Other, including changes in spreads within the mortgage portfolio ⁽¹⁾	(3)	5	7
Total change in NIM	(3)	18	25
Securitization Financing NIM:			
Mortgage prepayment income	7	5	-
Size and rate of liquidity investments	1	5	3
Other ⁽¹⁾	(5)	(6)	(3)
Total change in NIM	3	4	-

⁽¹⁾ Other may include the effects of various factors such as the shift in mix of the mortgage portfolio, pricing refinements, the timing of new originations and renewals, gains or losses on interest rate swaps, and the timing of securitizations.

PROVISION FOR CREDIT LOSSES

The credit quality of our mortgage portfolio continues to be strong. Our provision for credit losses was \$0.5 million in the quarter, \$1.1 million lower than in the same quarter last year and consistent with Q1 2014. After our normal extensive review of our collective allowance, management determined that the allowance was sufficient and as a result we recorded a provision that was lower than our historical average.

Management uses the term impairment provision to refer to the provision that we have taken during the quarter on loans that we identified as impaired, each of which is individually assessed for potential loss. We view the impairment provision metric as the most important indicator of the credit quality of our portfolio. During Q2 2014, the Company recorded an impairment provision of \$0.3 million, compared to an impairment recovery of \$42 thousand in Q1 2014 and an impairment provision of \$4 thousand in Q2 2013. The low level of impairment provision in the quarter reflects the health of our mortgage portfolio and low loss estimates for newly impaired loans. The impairment provision recorded for the first six months of 2014 decreased to \$0.3 million from \$0.5 million for the same period last year.

OTHER INCOME

Table 5: Other income

(\$ THOUSANDS)	Three months ended					Six months ended		
	Jun 30, 2014	Mar 31, 2014	% Change	Jun 30, 2013	% Change	Jun 30, 2014	Jun 30, 2013	% Change
Fees and other income	\$ 2,168	\$ 1,466	48%	\$ 1,237	75%	\$ 3,634	\$ 2,694	35%
Net gain (loss) on investments	591	17	3,376%	(1)	N/A	608	644	(6%)
Securitization activities:								
Gains on securitization and income from retained interests	888	920	(3%)	1,831	(52%)	1,808	2,895	(38%)
Fair value (losses) gains on derivative financial instruments	(151)	(54)	(180%)	1,200	(113%)	(205)	1,017	(120%)
Total	\$ 3,496	\$ 2,349	49%	\$ 4,267	(18%)	\$ 5,845	\$ 7,250	(19%)

Q2 2014 v Q2 2013

Other income decreased \$0.8 million or 18% compared with Q2 2013. The decrease is mainly attributable to:

- \$1.4 million decrease in fair value gains on derivative financial instruments related to securitization activities, related to an unusually high level of gains in the prior year; and
- \$0.9 million lower gains on securitization, as a lower proportion of loans qualified for derecognition during the quarter; offset by
- \$0.6 million higher investment gains due to the sale of certain debt and equity securities in the quarter;
- \$0.6 million increase in fees related to mortgage administration and to our portfolio of construction loans; and
- \$0.3 million of rental income from foreclosed assets recorded in Fees and other income.

Q2 2014 v Q1 2014

Other income increased by \$1.1 million or 49% sequentially mainly due to:

- \$0.6 million higher investment gains recorded in Q2; and
- \$0.3 million of rental income from foreclosed assets and a \$0.3 million increase in mortgage administration and construction loan related fees; offset by
- \$0.1 million lower gains on securitization activities.

YTD 2014 v YTD 2013

Other income decreased \$1.4 million or 19% to \$5.8 million compared with the same period of the prior year. The decrease is mainly attributable to:

- \$1.2 million decrease in fair value gains on securitization related derivative financial instruments;
- \$1.1 million lower gains on securitization and income from retained interests driven by reduced securitization transactions that qualify for derecognition and a lower gain on sale percentage; and
- \$0.3 million of HST refunds recorded as Fees and other income in Q1 2013; offset by
- \$0.9 million increase in fees for mortgage administration and on our construction portfolio; and
- \$0.3 million rental income from foreclosed assets.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and efficiency ratio

(\$ THOUSANDS, EXCEPT FTE)	Three months ended					Six months ended		
	Jun 30, 2014	Mar 31, 2014	% Change	Jun 30, 2013	% Change	Jun 30, 2014	Jun 30, 2013	% Change
Compensation and benefits	\$ 10,224	\$ 10,136	1%	\$ 8,663	18%	\$ 20,360	\$ 16,390	24%
Premises, equipment and system costs	1,666	1,630	2%	1,008	65%	3,296	2,261	46%
Other	1,271	1,210	5%	1,113	14%	2,481	2,028	22%
Mortgage servicing	993	904	10%	1,031	(4%)	1,897	2,131	(11%)
Licenses, regulatory fees and insurance	847	786	8%	843	0%	1,633	1,709	(4%)
Amortization	764	763	0%	508	51%	1,527	928	65%
Marketing, travel and communications	750	660	13%	657	14%	1,410	1,129	25%
Legal, audit and related services	365	356	3%	434	(16%)	721	917	(21%)
Total	\$ 16,880	\$ 16,445	3%	\$ 14,257	18%	\$ 33,325	\$ 27,493	21%
Efficiency ratio – TEB	31.3%	31.9%	(0.6%)	30.3%	1.0%	31.6%	30.3%	1.3%
Full-time employee ("FTE") – period average	333	308	8%	279	19%	320	272	18%

Q2 2014 v Q2 2013

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our efficiency ratio was 31.3%, up one percentage point and reflecting a \$2.6 million increase in non-interest expenses. The majority of the net increase in our expenses was driven by:

- \$2.2 million increase in compensation and related costs (such as premises, equipment, and systems) primarily due to growth in our FTE of 19% and stock price appreciation during the quarter; and
- \$0.3 million in Home Equity Line of Credit ("HELOC") related deferred product development cost amortization (amortization began after the product was launched in late 2013 and is recorded in amortization, ahead of the majority of the associated future revenues).

Q2 2014 v Q1 2014

Our efficiency ratio improved by 0.6 percentage points during Q2 2014 compared to Q1, as 4% growth in our revenue outpaced the 3% increase in our non-interest expenses. The increase in expenses was mainly due to growth of the overall business. Compensation and benefits increased by 1% as costs associated with FTE growth were offset by a reduction in stock price appreciation and severance related expenses during the quarter.

FTE increased by 25 or 8% in the quarter as the Company continued to invest in its key strategic initiatives, including prime single family and deposit diversification. We expect that our FTE levels will continue to grow in future quarters to appropriately support our growth strategy.

YTD 2014 v YTD 2013

Our efficiency ratio was 31.6%, up 1.3 percentage points reflecting a \$5.8 million increase in non-interest expenses.

The majority of the net increase in our expenses was driven by:

- \$5.0 million increase in compensation and related costs (such as premises, equipment, and systems), which is primarily the result of 18% growth in our FTE, as well as stock price appreciation and severance during 2014; and

- \$0.6 million in HELOC related deferred product development cost amortization reflecting our investment in future growth. We have experienced strong growth in our HELOC portfolio over the past two quarters and are optimistic about its future earnings potential.

INCOME TAXES

Q2 2014 v Q2 2013

The Company's statutory tax rate is 26.4% for 2014, as compared to 26.3% in 2013. Our effective income tax rate for the quarter remained the same as a year ago at 25.6%.

Q2 2014 v Q1 2014

Our effective income tax rate for the quarter was 25.6%, 0.2 percentage points lower than Q1 2014. The decrease was mainly due to higher tax exempt income in Q2 2014.

YTD 2014 v YTD 2013

Our year-to-date effective income tax rate increased to 25.7% from 25.2% in the same period of 2013, as a result of a higher statutory tax rate, lower tax exempt income recorded in 2014, and other adjustments booked in 2013.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

(\$ THOUSANDS)	Jun 30, 2014	Mar 31, 2014	% Change	Dec 31, 2013	% Change	Jun 30, 2013	% Change
Total assets	\$ 11,785,388	\$ 11,886,479	(1%)	\$ 11,816,453	(0%)	\$ 11,837,872	(0%)
Mortgage principal – Core Lending	6,417,346	6,440,186	(0%)	6,196,930	4%	5,573,741	15%
Mortgage principal – Securitization Financing	4,689,930	4,740,160	(1%)	4,910,118	(4%)	5,193,620	(10%)
Deposit principal	6,411,549	6,455,503	(1%)	6,377,987	1%	6,019,828	7%
Securitization liability principal	4,383,814	4,473,080	(2%)	4,596,941	(5%)	5,025,938	(13%)
Total liquid assets ⁽¹⁾ as a % of total assets	6.0%	6.0%	-%	6.0%	-%	7.1%	(1.1%)

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

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize 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 Q2 2014 and Q2 2013:

Table 8: Mortgage principal continuity schedule

(\$ THOUSANDS)	Three months ended June 30, 2014						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q1 2014 closing balance	\$ 4,052,115	\$ 2,388,071	\$ 6,440,186	\$ 4,740,160	\$ 11,180,346	\$ 1,084,911	\$ 5,825,071
Originations	501,434	187,036	688,470	237,522	925,992	-	237,522
Core Lending securitized ⁽³⁾	(212,848)	-	(212,848)	212,848	-	-	212,848
Securitized and derecognized	-	-	-	(105,254)	(105,254)	105,254	-
Net repayments	(181,523)	(316,939)	(498,462)	(395,346)	(893,808)	(10,174)	(405,520)
Q2 2014 closing balance	\$ 4,159,178	\$ 2,258,168	\$ 6,417,346	\$ 4,689,930	\$ 11,107,276	\$ 1,179,991	\$ 5,869,921
% Change from Q1 2014	3%	(5%)	(0%)	(1%)	(1%)	9%	1%
% Change from Q2 2013	23%	3%	15%	(10%)	3%	99%	1%
Net repayments percentage ⁽⁴⁾	4.5%	13.3%	7.7%	8.3%	8.0%	0.9%	7.0%

(\$ THOUSANDS)	Three months ended June 30, 2013						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q1 2013 closing balance	\$ 3,176,939	\$ 2,178,510	\$ 5,355,449	\$ 5,352,584	\$ 10,708,033	\$ 447,998	\$ 5,800,582
Originations	400,403	210,694	611,097	280,932	892,029	-	280,932
Core Lending securitized ⁽³⁾	(18,411)	-	(18,411)	18,411	-	-	18,411
Securitized and derecognized	-	-	-	(151,257)	(151,257)	151,257	-
Net repayments	(172,600)	(201,794)	(374,394)	(307,050)	(681,444)	(5,892)	(312,942)
Q2 2013 closing balance	\$ 3,386,331	\$ 2,187,410	\$ 5,573,741	\$ 5,193,620	\$ 10,767,361	\$ 593,363	\$ 5,786,983
% Change from Q1 2013	7%	0%	4%	(3%)	1%	32%	(0%)
Net repayments percentage ⁽⁴⁾	5.4%	9.3%	7.0%	5.7%	6.4%	1.3%	5.4%

⁽¹⁾ Derecognized Mortgage Principal represents mortgages under administration that are not reported on Equitable's consolidated balance sheets. These mortgages were securitized using transaction structures that transferred substantially all of the risks and rewards or control associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages.

⁽²⁾ Securitization Financing MUM includes Securitization Financing and Derecognized Mortgage Principal.

⁽³⁾ 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).

⁽⁴⁾ Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.

Q2 2014 v Q2 2013

Core Lending balances increased 15% or \$844 million, led by growth in Single Family Lending of 23%. Despite continued challenging market conditions, our Commercial portfolio grew 3% over Q2 2013, reflecting the strength and breadth of our distribution partnerships.

Securitization Financing Mortgages under Management (“Securitization Financing MUM”), which includes \$1.2 billion of derecognized mortgage principal, is more reflective of the performance of the underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM increased 1% or \$82.9 million, as our recent levels of CMB capacity (the effective limit on our Securitization activity) have been approximately equal to the volumes of CMB maturities each quarter. Total mortgage principal increased \$340 million while total mortgage MUM increased \$927 million or 8%.

Q2 2014 v Q1 2014

Our Core Lending portfolio was consistent with the prior quarter. The result reflected a 3% or \$107 million increase in Single Family Lending driven by strong mortgage originations, offset by a decrease in Commercial Lending of \$130 million. The decrease in Commercial Lending balances reflects our disciplined approach to pricing and risk management in a highly competitive market, the resolution of a few significant problem accounts, and the maturity of several construction financing facilities.

Total mortgage principal was down slightly over Q1 2014 while total mortgage MUM remained stable.

Please refer to the Supplemental Information report available on our website for additional quantitative disclosures related to our mortgage portfolio.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending Services, and as such we do not focus on quarter over quarter origination comparisons. The table below provides our mortgage originations for 2014 and the comparable periods in 2013:

Table 9: Mortgage origination – by lending business

(\$ THOUSANDS)	Three months ended						Six months ended					
	Jun 30, 2014			Jun 30, 2013			Jun 30, 2014			Jun 30, 2013		
	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change
Single Family Lending Services	\$ 501,434	54.1%		\$ 400,403	44.9%	25%	\$ 905,144	52.3%		\$ 685,121	45.2%	32%
Commercial Lending Services	187,036	20.2%		210,694	23.6%	(11%)	312,700	18.0%		383,686	25.3%	(19%)
Core Lending	688,470	74.3%		611,097	68.5%	13%	1,217,844	70.3%		1,068,807	70.5%	14%
Securitization Financing	237,522	25.7%		280,932	31.5%	(15%)	515,282	29.7%		447,308	29.5%	15%
Total mortgage origination	\$ 925,992	100.0%		\$ 892,029	100.0%	4%	\$ 1,733,126	100.0%		\$ 1,516,115	100.0%	14%

Q2 2014 v Q2 2013

The Company delivered record Q2 quarterly mortgage origination volumes of \$926 million, up 4% compared to the same period of the prior year.

The Company's Core Lending origination volumes grew 13% or \$77.4 million as a result of over \$501 million in Single Family originations during the quarter. This performance reflects the strength of the Canadian housing market and our continuously high levels of service quality.

Commercial Lending originated \$187 million in mortgages during Q2 2014, benefitting from our long-term business relationships and new partnerships established during 2013. Compared to the same quarter of the prior year, volumes were down by \$23.7 million or 11%, as we chose to maintain our pricing discipline and risk parameters in a highly competitive market.

Securitization Financing originations were \$238 million for the quarter, down \$43.4 million from Q2 2013. Originations in this business line fluctuate from quarter to quarter as we aim to utilize the full amount of our CMB allocations. Our capacity for new originations is equal to our current quarterly CMB allocation less our renewal volumes, subject to some volatility due to the timing of mortgage closings. Our originations were also lower in Q2 because we had effectively reserved some of our CMB capacity for a single \$107 million loan, which ultimately did not close.

YTD 2014 v YTD 2013

Total mortgage originations increased \$217 million or 14%. Growth was driven by a 32% increase in Single Family Lending originations and a 15% increase in Securitization Financing volumes. This growth was offset slightly by a decrease of \$71.0 million of new business in Commercial Lending.

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 and year-to-date, as well as the associated retained interests and gain on sale amounts.

Table 10: Securitization and derecognition activity

(\$ THOUSANDS)				Three months ended		Six months ended		
	Jun 30, 2014	Mar 31, 2014	% Change	Jun 30, 2013	% Change	Jun 30, 2014	Jun 30, 2013	% Change
Securitized and derecognized ⁽¹⁾	\$ 105,254	\$ 94,852	11%	\$ 151,257	(30%)	\$ 200,106	\$ 269,693	(26%)
Retained interests recorded	3,374	3,936	(14%)	6,272	(46%)	7,310	11,237	(35%)
Gains on sale	764	751	2%	1,494	(49%)	1,515	2,620	(42%)
Gains on sale – percentage ⁽²⁾	0.73%	0.79%	(0.06%)	0.99%	(0.26%)	0.76%	0.97%	(0.21%)

⁽¹⁾ Securitized and derecognized reflects mortgages which were sold, removed from the Company's balance sheet and a retained interest recorded.

⁽²⁾ Gains on sale – percentage represents the gains on sale as a percentage of total principal derecognized.

Q2 2014 v Q2 2013

We securitized and derecognized \$105.3 million of non-prepayable mortgages during the second quarter of 2014 and recorded gains on sale of \$0.8 million on these transactions. Gains on sale were \$0.7 million or 49% lower than in Q2 2013, as volumes derecognized were down 30% due to lower demand for non-prepayable mortgage products (those which generally qualify for derecognition).

The 73 bp gain recognized in the quarter relative to the principal derecognized was 26 bps lower than in Q2 2013, even though the spreads on the underlying mortgages remained relatively consistent period over period. This change was largely due to differences in the assumptions used to calculate the gains, such as the cash flow discount rates.

Q2 2014 v Q1 2014

Gains on sale recorded in the second quarter were consistent with gains recorded in Q1 as the increase in mortgages securitized and derecognized was offset by a slightly lower gain on sale percentage. The volume of mortgages securitized and derecognized increased by 11% sequentially.

YTD 2014 v YTD 2013

Year-over-year, gains on sale decreased by 42% as a result of lower demand for non-prepayable mortgage products (those that qualify for derecognition). Mortgages derecognized were down 26% and represented only 23% of mortgages securitized as compared to 49% in the prior year.

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 below. We believe 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)	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
Impairment provision (recovery) ⁽¹⁾	\$ 331	\$ (42)	\$ 4
Impairment provision (recovery) – rate ⁽¹⁾	0.01%	(0.00%)	0.00%
Gross impaired mortgage assets ⁽²⁾	38,040	42,437	28,004
Net impaired mortgage assets ⁽²⁾⁽³⁾	34,646	39,223	23,705
Net impaired mortgage assets as a % of total mortgage assets ⁽²⁾⁽³⁾	0.31%	0.35%	0.22%
Allowance for credit losses	32,252	31,859	29,473
Allowance for credit losses as a % of total mortgage assets	0.29%	0.28%	0.27%
Allowances for credit losses as a % of gross impaired mortgage assets	85%	75%	105%
Mortgage principal in arrears 30 to 89 days ⁽⁴⁾	38,684	33,413	27,424
Mortgage principal in arrears 30 to 89 days as a % of total mortgage principal ⁽⁴⁾	0.35%	0.30%	0.25%
Mortgage principal in arrears 90 days or more ⁽⁵⁾	34,142	38,312	25,193
Mortgage principal in arrears 90 days or more as a % of total mortgage principal ⁽⁵⁾	0.31%	0.34%	0.23%

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

⁽²⁾ 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.

⁽³⁾ Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.

⁽⁴⁾ Mortgage principal in arrears 30 to 89 days does not include insured mortgages less than 365 days in arrears.

⁽⁵⁾ Mortgage principal in arrears 90 days or more does not include insured mortgages that are less than 365 days in arrears.

Q2 2014 v Q2 2013

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q2 2014. Compared to exceptionally low rates experienced a year ago, the impairment provision and arrears rates are higher but remain within historically normal levels.

- The rate of mortgage principal in arrears 90 days or more increased from 0.23% to 0.31%. On a net basis, the increase was primarily due to one commercial mortgage of \$8.5 million becoming impaired in the first quarter of 2014. We do not expect to realize any loss on this mortgage.

- For the same reasons, net impaired mortgage assets as a percentage of total mortgage assets were 0.31%, nine basis points higher than a year ago but within historical norms.
- The rate of early stage delinquency (between 30 to 89 days past due) increased from 0.25% a year ago to 0.35%, and is still within historical normal levels. Early stage delinquency may be a leading indicator of credit quality in future periods.

Q2 2014 v Q1 2014

Our key credit risk metrics compared well to the prior quarter:

- Our allowance for credit losses as a percentage of gross impaired mortgage assets increased to 85% from 75% at March 31, 2014.
- Mortgage principal in arrears 90 days or more as a percentage of total mortgage principal decreased three basis points from March 31, 2014.
- Net impaired mortgage assets as a percentage of total mortgage assets decreased from 0.35% to 0.31%.
- The rate of early stage delinquency increased marginally to 0.35% from 0.30%.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

Table 12: Liquid assets⁽¹⁾

(\$ THOUSANDS)	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
Eligible deposits with regulated financial institutions ⁽²⁾	\$ 294,124	\$ 303,082	\$ 417,264
Debt securities issued by regulated financial institutions	10,003	45,136	159,214
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	9,999	20,172	10,091
Debt securities guaranteed by Government of Canada	25,749	35,156	27,681
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽³⁾	244,205	190,275	150,064
Obligations under repurchase agreements	-	-	(15,701)
Liquid assets held for regulatory purposes	584,080	593,821	748,613
Other deposits with regulated financial institutions	770	580	138
Equity securities ⁽⁴⁾	122,781	116,984	96,282
Total liquid assets ⁽¹⁾	\$ 707,631	\$ 711,385	\$ 845,033
Total assets held for regulatory purposes as a % of total Equitable Bank assets	5.0%	5.0%	6.3%
Total liquid assets as a % of total assets	6.0%	6.0%	7.1%

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

⁽²⁾ Eligible deposits with regulated financial institutions represent deposits of Equitable Bank which are held with major Canadian banks and excludes \$10.4 million (March 31, 2014 – \$15.1 million, June 30, 2013 – \$14.7 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$48.6 million (March 31, 2014 – \$42.6 million, June 30, 2013 – \$61.2 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

⁽³⁾ Mortgages held in the form of debt securities represent mortgages securitized and retained by the Company and are reported in our Mortgages receivable – Securitization Financing balances. The values reported above represent the fair market value of the associated MBS securities.

⁽⁴⁾ Equity securities include publicly traded common and preferred shares.

Q2 2014 v Q2 2013

Liquid assets held for regulatory purposes were down by \$165 million or 22% due to more efficient management of our liquid asset portfolio.

Q2 2014 v Q1 2014

Liquid assets held for regulatory purposes were consistent with levels held at March 31, 2014, as the effect of higher mortgage commitments in June compared to March was offset by lower anticipated cash needs in the weeks subsequent to quarter end. Mortgage commitments were \$643 million at June 30, 2014, compared to \$560 million at March 31, 2014.

OTHER ASSETS

Q2 2014 v Q2 2013

Other assets were \$26.3 million at the end of Q2 2014, down by 33% or \$13.2 million from Q2 2013. The decrease was mainly due:

- \$7.9 million decrease in the fair value of hedges related to our securitization activities and interest rate swaps; and
- \$5.2 million received in Q4 2013 related to an agreement Equitable entered into in September 2013 to resolve a litigation related to an alleged fraud. Subsequent to the receipt, our net outstanding receivable was \$3.2 million (June 30, 2013 – \$8.4 million). In addition to this settlement, we are pursuing an additional claim against our insurer under our Financial Institution Bond, which is intended to protect us against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions, or that such proceeds will be sufficient to recover the remaining amount of the receivable.

Offsetting these decreases were \$2.8 million of capitalized system development costs.

Q2 2014 v Q1 2014

Other assets decreased \$1.6 million or 6% from March 31, 2014, mainly due to a reduction in receivables relating to securitization activities.

DEPOSITS

Deposit balances were consistent with Q1 2014 and up 7% 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. During the quarter, there were two notable achievements that further broadened our portfolio of safe and secure savings solutions. Specifically, we:

- launched a Deposit Note program and closed a successful \$150 million three-year fixed rate offering; and
- grew our Equitable Bank High Interest Savings Account balances by \$68 million to \$159 million.

SECURITIZATION LIABILITIES

Securitization liability principal was down 13% over Q2 2013 and 2% over Q1 2014. The amount of the liability is generally consistent with the level of Securitization Financing assets reported on our Balance Sheet.

BANK FACILITIES AND DEBENTURES

The Company has a \$300 million credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. At the end of Q2 2014, the outstanding balance was \$117.9 million as compared to \$92.0 million at the end of Q1 2014.

There was no change to our debentures in the current quarter. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2013 Annual Report.

CAPITAL MANAGEMENT – EQUITABLE BANK

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"). There have been no material changes to our Capital Management Framework from that described in our 2013 Annual Report.

OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian Banks. OSFI mandated all Canadian-regulated financial institutions to meet a target CET1 ratio of 7% 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), effective the first quarter of 2013. For Tier 1 and Total capital ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively, effective the first quarter of 2014.

Equitable Bank's CET1 ratio on an "all-in" basis was 13.4% as at June 30, 2014, while our Tier 1 and Total capital ratios were 14.3% and 17.0%, respectively, exceeding the regulatory minimums on an "all-in" basis. Our Tier 1 and Total capital ratios were up compared to the prior quarter and the second quarter of last year mainly reflecting internal capital generation driven by our strategy of retaining the vast majority of our earnings. The growth in our equity outpaced the growth in our risk-weighted assets during this period, partly because our asset mix shifted towards lower risk-weighted single family assets.

Subsequent to the end of the quarter, the Company issued \$75 million of Series 3 preferred shares which will be used for general corporate purposes and to redeem the Company's existing \$50 million of Series 1 preferred shares on September 30, 2014. The incremental capital from this issuance will further strengthen Equitable Bank's Tier 1 and Total capital ratios in future periods. On a pro forma basis, had both the \$75 million of Series 3 preferred shares been issued on June 30, 2014 and the Series 1 preferred shares been redeemed prior to the end of the quarter, the Bank's Tier 1 and Total capital ratios would have been 15.1% and 17.8%, respectively.

OSFI continues to require Canadian financial institutions to meet an Assets-to-Capital Multiple ("ACM") requirement until December 31, 2014. The ACM is calculated on a Basel III "transitional basis", by dividing total assets, including specified off-balance sheet items, by total capital. OSFI recently issued a new Draft Leverage Requirements Guideline that is based on the Basel III leverage ratio framework and is intended to replace the current ACM, effective January 2015. We will begin to disclose our leverage ratio position with our Q4 2014 financial results.

Our ACM decreased to 13.9x at June 30, 2014 from 14.1x at March 31, 2014. The decrease reflected internal capital generation and a slight decrease in total assets as a result of the securitization and derecognition of mortgages, offset by the maturity of \$350 million of 'grandfathered' Securitization Financing assets that were previously exempt from inclusion in our ACM calculation. We expect a similar reduction in the amount of 'grandfathered' assets in each of the next several quarters, causing our ACM to increase. 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 impact, management believes that the Bank's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth.

As part of our capital management process, we stress test the mortgage portfolio on a regular basis, 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⁽¹⁾

(\$ THOUSANDS, EXCEPT ACM)	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
Total risk-weighted assets ("RWA")	\$ 4,399,956	\$ 4,369,407	\$ 4,002,275
Common Equity Tier 1 capital ("CET1"):			
Common shares	142,240	141,868	139,002
Contributed surplus	5,128	4,970	4,683
Retained earnings	443,977	420,557	355,664
Accumulated other comprehensive (loss) income ("AOCI") ⁽²⁾	(2,016)	(3,422)	(1,455)
Less: Regulatory adjustments	(1,160)	(1,167)	(1,046)
Common Equity Tier 1 capital	588,169	562,806	496,848
Additional Tier 1 capital:			
Non-cumulative preferred shares ⁽³⁾	40,000	40,000	45,000
Tier 1 capital	628,169	602,806	541,848
Tier 2 capital:			
Collective allowance	28,858	28,645	25,174
Subordinated debentures	92,483	92,483	92,483
Tier 2 capital	121,341	121,128	117,657
Total capital	\$ 749,510	\$ 723,934	\$ 659,505
Capital ratios and multiples:			
Common Equity Tier 1 capital ratio	13.4%	12.9%	12.4%
Tier 1 capital ratio	14.3%	13.8%	13.5%
Total capital ratio	17.0%	16.6%	16.5%
Assets-to-capital multiple ("ACM")	13.9	14.1	13.7

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

⁽²⁾ 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.

⁽³⁾ Under Basel III rules, Equitable Bank's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.

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.

Table 14: Summary of quarterly results

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
RESULTS OF OPERATIONS								
Net income	\$ 26,778	\$ 25,291	\$ 26,492	\$ 23,226	\$ 22,898	\$ 20,914	\$ 20,140	\$ 21,054
Net income available to common shareholders	25,872	24,385	25,586	22,319	21,992	20,008	19,234	20,147
EPS – basic	\$ 1.68	\$ 1.59	\$ 1.67	\$ 1.46	\$ 1.44	\$ 1.32	\$ 1.27	\$ 1.34
EPS – diluted	\$ 1.65	\$ 1.56	\$ 1.65	\$ 1.44	\$ 1.43	\$ 1.30	\$ 1.26	\$ 1.33
Net interest income ⁽¹⁾	49,902	48,684	47,264	44,705	42,406	40,162	40,555	40,640
NIM – TEB: ⁽²⁾⁽³⁾								
Total Assets	1.69%	1.67%	1.60%	1.50%	1.46%	1.42%	1.44%	1.49%
Core Lending	2.57%	2.60%	2.49%	2.38%	2.39%	2.32%	2.30%	2.38%
Securitization Financing	0.46%	0.43%	0.47%	0.44%	0.42%	0.47%	0.52%	0.57%
Total revenues ⁽¹⁾	129,752	126,387	128,813	127,861	127,380	124,511	125,824	123,211
ROE ⁽³⁾	18.0%	17.9%	19.2%	17.5%	18.2%	17.5%	17.3%	18.9%
Return on average assets ⁽³⁾	1.0%	0.8%	0.9%	0.8%	0.8%	0.7%	0.7%	0.8%
Efficiency ratio – TEB ⁽³⁾	31.3%	31.9%	28.4%	31.8%	30.3%	30.3%	30.3%	29.1%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	501,434	403,710	506,244	463,961	400,403	284,718	393,486	428,423
Commercial Lending Services	187,036	125,664	183,008	265,383	210,694	172,992	185,623	207,969
Core Lending	688,470	529,374	689,252	729,344	611,097	457,710	579,109	636,392
Securitization Financing	237,522	277,760	365,771	190,537	280,932	166,376	475,146	288,442
BALANCE SHEET								
Total assets	11,785,388	11,886,479	11,816,453	11,831,155	11,837,872	11,602,293	11,601,440	11,228,030
Mortgages receivable	11,128,395	11,204,349	11,129,867	10,970,223	10,806,401	10,737,609	10,609,472	10,221,518
Total liquid assets ⁽³⁾	707,631	711,385	704,012	858,349	845,033	770,516	965,969	971,477
Shareholders' equity	636,376	611,456	588,318	565,506	545,919	521,829	501,571	481,673
SHARE CAPITAL								
Dividends declared per:								
Common share	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.14
Preferred share	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45
Common shares outstanding:								
Weighted average basic	15,398,461	15,371,973	15,326,042	15,294,743	15,262,648	15,204,757	15,261,497	15,086,513
Weighted average diluted	15,644,288	15,588,303	15,526,253	15,480,627	15,417,784	15,368,873	15,263,800	15,198,472
Book value per common share	\$ 38.16	\$ 36.58	\$ 35.14	\$ 33.77	\$ 32.55	\$ 31.07	\$ 29.83	\$ 28.69

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

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

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

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 as at and for the year ended December 31, 2013. Refer to Note 3 of the audited consolidated financial statements in the Company's 2013 Annual Report.

Effective January 1, 2014, the Company has adopted the following standards:

Levies (IFRIC 21)

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The adoption did not have a material effect on the Company's financial statements.

Offsetting Financial Assets and Liabilities – Amendments to IAS 32

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The adoption did not have any material effect on the Company's financial statements.

FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments (IFRS 9)

IFRS 9 (2014) addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss account. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in process of evaluating the impact of IFRS 9 on the Company's financial statements.

Revenue from Contracts with Customers (IFRS 15)

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* which is effective for fiscal years ending on or after December 31, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine

whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017 and is currently analyzing the impact on the Company's financial statements.

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 mortgages receivable, 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 market 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 engages in certain financial transactions that, for accounting purposes, are not recorded on our consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements in the Company's 2013 Annual Report) and letters of credit issued in the normal course of business.

Securitization of financial assets

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$1.2 billion at June 30, 2014 (March 31, 2014 – \$1.1 billion; June 30, 2013 – \$593 million). The securitization retained interests recorded with respect to certain securitization transactions was \$35.5 million (March 31, 2014 – \$33.4 million; June 30, 2013 – \$17.4 million) and the associated servicing liability was \$9.1 million at June 30, 2014 (March 31, 2014 – \$8.5 million; June 30, 2013 – \$4.4 million).

Commitments and letters of credit

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$643 million of mortgages in the ordinary course of business at June 30, 2014 (March 31, 2014 – \$560 million; June 30, 2013 – \$541 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of \$2.2 million were outstanding at June 30, 2014 (March 31, 2014 – \$2.7 million; June 30, 2013 – \$1.9 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in GIC deposits, subordinated debentures and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 22 to the consolidated financial statements in the Company's 2013 Annual Report for further details.

RISK MANAGEMENT

Through its wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those faced by other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect its business, financial condition and operating results. These factors may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board of Directors (the "Board") plays an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, liquidity and funding risk, and interest rate risk. For a detailed discussion of the risks that affect the Company, please refer to pages 51 to 60 of the Company's 2013 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

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

The Company's primary focus is on providing first mortgages on real estate. 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 preferred share securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 48.2% or \$53.5 million of the preferred share equity securities portfolio at June 30, 2014, compared to 43.3% or \$41.7 million a year earlier.

LIQUIDITY AND FUNDING RISK MANAGEMENT

Liquidity and Funding risk is defined as the possibility that the Company will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet its financial obligations as they come due. These financial obligations mainly arise from the maturity of deposits, commitments to extend credit and the maturity of mortgage backed securities and Canada Mortgage Bonds. The objective of liquidity risk management is to protect the Company's ability to meet all payment obligations as 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 \$584 million at June 30, 2014 and \$749 million at June 30, 2013.

INTEREST RATE RISK MANAGEMENT

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at June 30, 2014, see Note 19 to the interim consolidated financial statements.

Management utilizes simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity and on net interest income. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect the Company's net interest income and its economic value of equity ("EVE") beyond approved thresholds.

The table below illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on net interest income during the 12-month period following June 30, 2014. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 15: Interest rate sensitivity

(\$ THOUSANDS)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
<i>Impact on net interest income</i>	\$ 5,681	\$ (2,028)
<i>Impact on EVE</i>	\$ (651)	\$ 4,124
<i>EVE impact as a % of common shareholders' equity</i>	(0.11%)	0.71%
200 basis point shift		
<i>Impact on net interest income</i>	\$ 11,500	\$ (1,831)
<i>Impact on EVE</i>	\$ (1,375)	\$ 5,039
<i>EVE impact as a % of common shareholders' equity</i>	(0.24%)	0.86%

⁽¹⁾ Interest rate is not allowed to decrease beyond a floor of 0% and is therefore not allowed to be negative.

UPDATED SHARE INFORMATION

At August 14, 2014, the Company had 15,407,103 common shares and 5,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 567,002 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$18.5 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

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2014 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:

- **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.
- **Assets-to-capital multiple ("ACM"):** is measured by dividing Equitable Bank's gross adjusted assets by total regulatory capital. The ACM is calculated on the "transitional" basis in accordance with OSFI's CAR Guideline.
- **Assets under management:** is the sum of total assets reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.
- **Book value per common share:** is calculated by dividing common shareholder's equity by the number of common shares outstanding.
- **Capital Ratios:**
 - **Common Equity Tier 1 Capital ("CET1") ratio:** this key measure of capital strength is defined as CET1 as a percentage of total risk-weighted assets. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI. CET1 is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income.
 - **Tier 1, Tier 2 and Total capital ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1, Tier 2 or Total capital by total risk-weighted assets.
 - The capital ratios are calculated on the "all-in" basis in accordance with OSFI's CAR Guideline.
- **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 is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.
- **Efficiency 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 revenue. A lower efficiency ratio reflects a more efficient cost structure.
- **Impairment provision (recovery):** is the portion of the total provision for credit losses recorded during the year that relates to loans that have been individually assessed as impaired by management.
- **Impairment provision (recovery) rate:** this credit quality metric is calculated on an annualized basis and is defined as the impairment provision (recovery) as a percentage of average loan portfolio outstanding during the period.

- **Liquid assets:** is a measure of the Company's liquid resources, held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.
- **Mortgages under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.
- **Net Interest Margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets for the period.
- **Net revenue:** is calculated as the sum of net interest income; other income; and the TEB adjustment.
- **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.
- **Return on Shareholders' Equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- **Risk-weighted assets:** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company.
- **Taxable Equivalent Basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions 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 efficiency ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the three months ended June 30, 2014, the TEB adjustment was \$0.5 million as compared to \$0.4 million for the same period in 2013 and \$0.5 million for Q1 2014. For the six months ended June 30, 2014, the TEB adjustment was \$1.0 million as compared to \$0.9 million for the same period in 2013.

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

In addition to GAAP and non-GAAP financial measures, management also uses additional GAAP financial 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 understand 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:** is defined as total interest income plus other income.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT JUNE 30, 2014

With comparative figures as at December 31, 2013 and June 30, 2013

(\$ THOUSANDS)

	June 30, 2014	December 31, 2013	June 30, 2013
Assets			
Cash and cash equivalents	\$ 294,894	\$ 243,645	\$ 417,402
Restricted cash	59,061	87,319	75,884
Securities purchased under reverse repurchase agreements	9,999	54,860	148,333
Investments (Note 6)	231,249	240,614	332,948
Mortgages receivable – Core Lending (Note 7)	6,407,815	6,188,278	5,567,766
Mortgages receivable – Securitization Financing (Notes 7 & 8)	4,720,580	4,941,589	5,238,635
Securitization retained interests (Note 8)	35,471	30,455	17,359
Other assets (Note 10)	26,319	29,693	39,545
	\$ 11,785,388	\$ 11,816,453	\$ 11,837,872
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits (Note 11)	\$ 6,510,114	\$ 6,470,029	\$ 6,104,508
Securitization liabilities (Note 8)	4,374,999	4,591,404	5,033,551
Obligations under repurchase agreements	-	8,143	15,701
Deferred tax liabilities (Note 12)	12,122	10,826	8,988
Other liabilities (Note 13)	41,353	55,250	36,722
Bank facilities (Note 14)	117,941	-	-
Debentures	92,483	92,483	92,483
	11,149,012	11,228,135	11,291,953
Shareholders' equity:			
Preferred shares (Note 15)	48,494	48,494	48,494
Common shares (Note 15)	139,784	137,969	136,462
Contributed surplus (Note 16)	5,542	5,326	5,098
Retained earnings	449,644	404,467	361,314
Accumulated other comprehensive loss	(7,088)	(7,938)	(5,449)
	636,376	588,318	545,919
	\$ 11,785,388	\$ 11,816,453	\$ 11,837,872

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014

With comparative figures for the three and six month periods ended June 30, 2013

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest income:				
Mortgages – Core Lending	\$ 78,826	\$ 67,838	\$ 156,097	\$ 132,489
Mortgages – Securitization Financing	43,968	51,313	87,671	104,299
Investments	1,515	1,720	2,994	3,756
Other	1,947	2,242	3,532	4,098
	126,256	123,113	250,294	244,642
Interest expense:				
Deposits	37,634	34,756	74,437	68,469
Securitization liabilities	36,622	44,526	73,245	89,776
Debentures	1,399	1,399	2,793	3,772
Bank facilities	699	-	1,212	7
Other	-	26	21	49
	76,354	80,707	151,708	162,073
Net interest income	49,902	42,406	98,586	82,569
Provision for credit losses (Note 7)	545	1,650	1,052	3,750
Net interest income after provision for credit losses	49,357	40,756	97,534	78,819
Other income:				
Fees and other income	2,168	1,237	3,634	2,694
Net gain (loss) on investments	591	(1)	608	644
Gains on securitization activities and income from securitization retained interests (Note 8)	737	3,031	1,603	3,912
	3,496	4,267	5,845	7,250
Net interest and other income	52,853	45,023	103,379	86,069
Non-interest expenses:				
Compensation and benefits	10,224	8,663	20,360	16,390
Other	6,656	5,594	12,965	11,103
	16,880	14,257	33,325	27,493
Income before income taxes	35,973	30,766	70,054	58,576
Income taxes (Note 12):				
Current	8,480	3,948	16,689	11,273
Deferred	715	3,920	1,296	3,491
	9,195	7,868	17,985	14,764
Net income	\$ 26,778	\$ 22,898	\$ 52,069	\$ 43,812
Earnings per share (Note 17):				
Basic	\$ 1.68	\$ 1.44	\$ 3.27	\$ 2.76
Diluted	\$ 1.65	\$ 1.43	\$ 3.22	\$ 2.73

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014

With comparative figures for the three and six month periods ended June 30, 2013

(\$ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income	\$ 26,778	\$ 22,898	\$ 52,069	\$ 43,812
Other comprehensive income – items that may be reclassified subsequently to income:				
Available for sale investments:				
Net unrealized gains (losses) from change in fair value	2,258	(2,848)	3,831	(291)
Reclassification of net gains to income	(348)	(12)	(357)	(859)
	1,910	(2,860)	3,474	(1,150)
Income tax (expense) recovery	(504)	753	(917)	303
	1,406	(2,107)	2,557	(847)
Cash flow hedges (Note 9):				
Net unrealized (losses) gains from change in fair value	(1,326)	6,661	(3,384)	5,894
Reclassification of net losses to income	548	633	1,065	1,280
	(778)	7,294	(2,319)	7,174
Income tax recovery (expense)	205	(1,921)	612	(1,889)
	(573)	5,373	(1,707)	5,285
Total other comprehensive income	833	3,266	850	4,438
Total comprehensive income	\$ 27,611	\$ 26,164	\$ 52,919	\$ 48,250

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2014

With comparative figures for the three month period ended June 30, 2013

(\$ THOUSANDS)

	Accumulated other comprehensive income (loss)							Total	Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
June 30, 2014									
Balance, beginning of period	\$ 48,494	\$ 139,107	\$ 5,385	\$ 426,391	\$ (4,498)	\$ (3,423)	\$ (7,921)	\$ 611,456	
Net income	-	-	-	26,778	-	-	-	26,778	
Other comprehensive income (loss), net of tax	-	-	-	-	(573)	1,406	833	833	
Reinvestment of dividends	-	262	-	-	-	-	-	262	
Exercise of stock options	-	342	-	-	-	-	-	342	
Dividends:									
Preferred shares	-	-	-	(906)	-	-	-	(906)	
Common shares	-	-	-	(2,619)	-	-	-	(2,619)	
Stock-based compensation	-	-	230	-	-	-	-	230	
Transfer relating to the exercise of stock options	-	73	(73)	-	-	-	-	-	
Balance, end of period	\$ 48,494	\$ 139,784	\$ 5,542	\$ 449,644	\$ (5,071)	\$ (2,017)	\$ (7,088)	\$ 636,376	

	Accumulated other comprehensive income (loss)							Total	Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
June 30, 2013									
Balance, beginning of period	\$ 48,494	\$ 135,408	\$ 5,028	\$ 341,614	\$ (9,367)	\$ 652	\$ (8,715)	\$ 521,829	
Net income	-	-	-	22,898	-	-	-	22,898	
Other comprehensive income (loss), net of tax	-	-	-	-	5,373	(2,107)	3,266	3,266	
Reinvestment of dividends	-	286	-	-	-	-	-	286	
Exercise of stock options	-	648	-	-	-	-	-	648	
Dividends:									
Preferred shares	-	-	-	(906)	-	-	-	(906)	
Common shares	-	-	-	(2,292)	-	-	-	(2,292)	
Stock-based compensation	-	-	190	-	-	-	-	190	
Transfer relating to the exercise of stock options	-	120	(120)	-	-	-	-	-	
Balance, end of period	\$ 48,494	\$ 136,462	\$ 5,098	\$ 361,314	\$ (3,994)	\$ (1,455)	\$ (5,449)	\$ 545,919	

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2014

With comparative figures for the six month period ended June 30, 2013

(\$ THOUSANDS)

June 30, 2014	Accumulated other comprehensive income (loss)							Total	Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
Balance, beginning of period	\$ 48,494	\$ 137,969	\$ 5,326	\$ 404,467	\$ (3,364)	\$ (4,574)	\$ (7,938)	\$ 588,318	
Net income	-	-	-	52,069	-	-	-	52,069	
Other comprehensive income (loss), net of tax	-	-	-	-	(1,707)	2,557	850	850	
Reinvestment of dividends	-	528	-	-	-	-	-	528	
Exercise of stock options	-	1,054	-	-	-	-	-	1,054	
Dividends:									
Preferred shares	-	-	-	(1,812)	-	-	-	(1,812)	
Common shares	-	-	-	(5,080)	-	-	-	(5,080)	
Stock-based compensation	-	-	449	-	-	-	-	449	
Transfer relating to the exercise of stock options	-	233	(233)	-	-	-	-	-	
Balance, end of period	\$ 48,494	\$ 139,784	\$ 5,542	\$ 449,644	\$ (5,071)	\$ (2,017)	\$ (7,088)	\$ 636,376	

June 30, 2013	Accumulated other comprehensive income (loss)							Total	Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
Balance, beginning of period	\$ 48,494	\$ 134,224	\$ 5,003	\$ 323,737	\$ (9,279)	\$ (608)	\$ (9,887)	\$ 501,571	
Net income	-	-	-	43,812	-	-	-	43,812	
Other comprehensive income (loss), net of tax	-	-	-	-	5,285	(847)	4,438	4,438	
Reinvestment of dividends	-	538	-	-	-	-	-	538	
Exercise of stock options	-	1,404	-	-	-	-	-	1,404	
Dividends:									
Preferred shares	-	-	-	(1,812)	-	-	-	(1,812)	
Common shares	-	-	-	(4,423)	-	-	-	(4,423)	
Stock-based compensation	-	-	391	-	-	-	-	391	
Transfer relating to the exercise of stock options	-	296	(296)	-	-	-	-	-	
Balance, end of period	\$ 48,494	\$ 136,462	\$ 5,098	\$ 361,314	\$ (3,994)	\$ (1,455)	\$ (5,449)	\$ 545,919	

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014

With comparative figures for the three and six month periods ended June 30, 2014

(\$ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 26,778	\$ 22,898	\$ 52,069	\$ 43,812
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	(432)	(3,622)	(899)	(2,181)
Amortization of premium/discount on investments	492	615	1,077	1,124
Amortization of capital assets	319	322	622	564
Amortization of deferred costs	541	282	1,097	566
Provision for credit losses	545	1,650	1,052	3,750
Securitization gains	(764)	(1,494)	(1,515)	(2,620)
Net gain on sale or redemption of investments	(591)	(113)	(608)	(644)
Stock-based compensation	230	190	449	391
Income taxes	9,195	7,868	17,985	14,764
Changes in operating assets and liabilities:				
Restricted cash	(1,374)	21,602	28,258	(12,283)
Securities purchased under reverse repurchase agreements	10,173	(63,652)	44,861	(69,782)
Mortgages receivable	(32,425)	(223,105)	(205,851)	(474,483)
Other assets	798	(5,701)	1,933	(5,821)
Deposits	(52,795)	455,829	39,113	452,791
Securitization liabilities	(96,955)	(255,623)	(216,405)	(228,119)
Obligations under repurchase agreements	-	8,709	(8,143)	5,819
Bank facilities	25,947	-	117,941	-
Other liabilities	(4,144)	322	(7,188)	(4,271)
Income taxes paid	(8,082)	(6,269)	(24,508)	(17,136)
Proceeds from loan securitizations	105,412	149,803	200,577	268,346
Securitization retained interests	1,490	543	2,829	875
Cash flows (used in) from operating activities	(15,642)	111,054	44,746	(24,538)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of bank term loan	-	-	-	(12,500)
Redemption of debentures	-	-	-	(25,188)
Dividends paid on preferred shares	(906)	(906)	(1,812)	(1,812)
Dividends paid on common shares	(2,199)	(1,846)	(4,389)	(3,720)
Proceeds from issuance of common shares	342	648	1,054	1,404
Cash flows used in financing activities	(2,763)	(2,104)	(5,147)	(41,816)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(56,347)	(33,133)	(95,743)	(35,553)
Proceeds on sale or redemption of investments	96,898	72,143	142,087	136,281
Net change in Canada Housing Trust re-investment accounts	(30,688)	5,110	(34,321)	4,681
Purchase of capital assets	(226)	(799)	(373)	(1,100)
Cash flows from investing activities	9,637	43,321	11,650	104,309
Net (decrease) increase in cash and cash equivalents	(8,768)	152,271	51,249	37,955
Cash and cash equivalents, beginning of period	303,662	265,131	243,645	379,447
Cash and cash equivalents, end of period	\$ 294,894	\$ 417,402	\$ 294,894	\$ 417,402
Cash flows from operating activities include:				
Interest received	127,756	126,183	251,544	248,374
Interest paid	(87,745)	(85,045)	(136,056)	(148,135)
Dividends received	1,327	1,147	2,836	2,622

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED JUNE 30, 2014

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 ("TSX") 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 (Canada) 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 Equitable Group Inc. 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 2013 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on Aug 14, 2014.

(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, financial assets and liabilities that are classified or designated as at fair value through income and available for sale financial assets.

(c) Functional currency:

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

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

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

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgages receivable, 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 uses external information and observable market 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 or events 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED JUNE 30, 2014

(e) Consolidation:

The interim consolidated financial statements as at and for the six months ended June 30, 2014 and June 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 is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

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, 2013. Refer to Note 3 of the audited consolidated financial statements in the Company's 2013 Annual Report.

Changes in accounting policies:

(a) Liabilities for Levies (IFRIC 21)

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The Company adopted IFRIC 21 effective January 1, 2014 and the adoption did not have a material effect on the Company's financial statements.

(b) Offsetting Financial Assets and Liabilities – Amendments to IAS 32

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Company adopted the amendments to IAS 32 effective January 1, 2014 and the adoption did not have any material effect on the Company's financial statements.

Future accounting policy changes:

(a) Financial Instruments (IFRS 9)

IFRS 9 (2014) addresses classification and measurement of financial assets and liabilities, including impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss account. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in process of evaluating the impact of IFRS 9 on the Company's financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED JUNE 30, 2014

(b) Revenue from Contracts with Customers (IFRS 15)

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* which is effective for fiscal years ending on or after December 31, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017 and is currently analyzing the impact on the Company's financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 51 to 60 of the Company's 2013 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

The fair value of Cash and cash equivalents and restricted cash approximate their cost due to their short term nature.

Securities 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.

Bank facilities are short term obligations and are carried at cost, which approximates its fair value.

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

These financial assets and financial liabilities are measured on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value that are not traded in an active market, fair value estimates are determined using valuation methods which maximize the use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

(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 risk.

(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 include GICs that are measured at fair value through income and are guaranteed by Canada Deposit Insurance Corporation ("CDIC"). This guarantee from CDIC is reflected in the fair value measurement of the deposit liabilities.

(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) Debentures

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

(vii) Derivatives

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at June 30, 2014 and December 31, 2013. The tables do not include assets and liabilities that are not considered financial instruments.

	June 30, 2014							
	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	\$ 294,894	\$ -	\$ -	\$ -	\$ -	\$ 294,894	\$ 294,894	
Restricted cash	59,061	-	-	-	-	59,061	59,061	
Securities purchased under reverse repurchase agreements	-	-	-	-	9,999	9,999	9,999	
Investments	5,702	-	72,717	152,830	-	231,249	231,249	
Mortgages receivable – Core Lending	-	49,906	-	-	6,357,909	6,407,815	6,423,347	
Mortgages receivable – Securitization Financing	36,334	-	-	-	4,684,246	4,720,580	4,823,940	
Securitization retained interests	-	-	-	35,471	-	35,471	35,471	
Other assets:								
Derivative financial instruments – interest rate swaps	2,258	-	-	-	-	2,258	2,258	
Other	-	-	-	-	2,953	2,953	2,953	
Total financial assets	\$ 398,249	\$ 49,906	\$ 72,717	\$ 188,301	\$ 11,055,107	\$ 11,764,280	\$ 11,883,172	
Financial liabilities:								
Deposits	\$ -	\$ 270,542	\$ -	\$ -	\$ 6,239,572	\$ 6,510,114	\$ 6,522,060	
Securitization liabilities	-	-	-	-	4,374,999	4,374,999	4,484,879	
Other liabilities:								
Derivative financial instruments – bond forwards	612	-	-	-	-	612	612	
Other	-	-	-	-	40,306	40,306	40,306	
Bank facilities	-	-	-	-	117,941	117,941	117,941	
Debentures	-	-	-	-	92,483	92,483	92,941	
Total financial liabilities	\$ 612	\$ 270,542	\$ -	\$ -	\$ 10,865,301	\$ 11,136,455	\$ 11,258,739	

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

December 31, 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	\$ 243,645	\$ -	\$ -	\$ -	\$ -	\$ 243,645	\$ 243,645
Restricted cash	87,319	-	-	-	-	87,319	87,319
Securities purchased under reverse repurchase agreements	-	-	-	-	54,860	54,860	54,860
Investments	5,702	-	38,396	196,516	-	240,614	240,614
Mortgages receivable – Core Lending	-	50,503	-	-	6,137,775	6,188,278	6,202,270
Mortgages receivable – Securitization Financing	17,698	-	-	-	4,923,891	4,941,589	4,995,574
Securitization retained interests	-	-	-	30,455	-	30,455	30,455
Other assets:							
Derivative financial instruments – interest rate swaps	1,650	-	-	-	-	1,650	1,650
Derivative financial instruments – bond forwards	705	-	-	-	-	705	705
Other	-	-	-	-	5,002	5,002	5,002
Total financial assets	\$ 356,719	\$ 50,503	\$ 38,396	\$ 226,971	\$ 11,121,528	\$ 11,794,117	\$ 11,862,094
Financial liabilities:							
Deposits	\$ -	\$ 320,557	\$ -	\$ -	\$ 6,149,472	\$ 6,470,029	\$ 6,479,621
Securitization liabilities	-	-	-	-	4,591,404	4,591,404	4,674,097
Obligations under repurchase agreements	-	-	-	-	8,143	8,143	8,143
Other liabilities:							
Mortgage commitments	19	-	-	-	-	19	19
Other	-	-	-	-	54,816	54,816	54,816
Debentures	-	-	-	-	92,483	92,483	92,483
Total financial liabilities	\$ 19	\$ 320,557	\$ -	\$ -	\$ 10,896,318	\$ 11,216,894	\$ 11,309,179

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Level 3: valuation techniques with significant unobservable market inputs.

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

The following table presents the fair values of the financial instruments classified using the fair value hierarchy:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments	\$ 148,529	\$ 82,720	\$ -	231,249
Mortgages receivable – Core Lending	-	49,906	6,373,441	6,423,347
Mortgages receivable – Securitization Financing	-	36,334	4,787,606	4,823,940
Securitization retained interests	-	35,471	-	35,471
Other assets:				
Derivative financial instruments – interest rate swaps	-	2,258	-	2,258
Total financial assets	\$ 148,529	\$ 206,689	\$ 11,161,047	\$ 11,516,265
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 6,522,060	6,522,060
Securitization liabilities	-	2,424,856	2,060,023	4,484,879
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	612	-	612
Debentures	-	92,941	-	92,941
Total financial liabilities	\$ -	\$ 2,518,409	\$ 8,582,083	\$ 11,100,492

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments	\$ 131,632	\$ 108,982	\$ -	240,614
Mortgages receivable – Core Lending	-	50,503	6,151,767	6,202,270
Mortgages receivable – Securitization Financing	-	17,698	4,977,876	4,995,574
Securitization retained interests	-	30,455	-	30,455
Other assets:				
Derivative financial instruments – interest rate swaps	-	1,650	-	1,650
Derivative financial instruments – bond forwards	-	705	-	705
Total financial assets	\$ 131,632	\$ 209,993	\$ 11,129,643	\$ 11,471,268
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 6,479,621	6,479,621
Securitization liabilities	-	3,127,854	1,546,243	4,674,097
Other liabilities:				
Mortgage commitments	-	-	19	19
Debentures	-	92,483	-	92,483
Total financial liabilities	\$ -	\$ 3,220,337	\$ 8,025,883	\$ 11,246,220

Note 6 – Investments

Carrying value:

	June 30, 2014	December 31, 2013	June 30, 2013
Debt securities issued by regulated financial institutions	\$ 10,003	\$ 70,586	\$ 159,214
Debt securities guaranteed by Government of Canada	25,749	25,227	27,681
Equity securities – preferred shares	110,926	92,879	88,291
Equity securities – common shares	11,854	13,526	7,991
Canada Housing Trust re-investment accounts ⁽¹⁾⁽²⁾	72,717	38,396	49,771
	\$ 231,249	\$ 240,614	\$ 332,948

⁽¹⁾ Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB program.

⁽²⁾ Excludes reverse repurchase agreements of nil (December 31, 2013 – \$34.8 million, June 30, 2013 – \$138.2 million) which are reclassified to 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:

	June 30, 2014	December 31, 2013	June 30, 2013
Debt securities issued by regulated financial institutions	\$ 3	\$ 9	\$ 51
Debt securities guaranteed by Government of Canada	985	660	778
Equity securities – preferred shares	(5,354)	(7,347)	(3,087)
Equity securities – common shares	906	88	(124)
	\$ (3,460)	\$ (6,590)	\$ (2,382)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

June 30, 2014	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 6,416,534	\$ 3,394	\$ 28,858	\$ 32,252	\$ 6,384,282
Mortgages – Securitization Financing	4,707,772	-	-	-	4,707,772
Accrued interest	36,341	-	-	-	36,341
	\$ 11,160,647	\$ 3,394	\$ 28,858	\$ 32,252	\$ 11,128,395

December 31, 2013	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 6,196,540	\$ 3,381	\$ 28,096	\$ 31,477	\$ 6,165,063
Mortgages – Securitization Financing	4,927,763	-	-	-	4,927,763
Accrued interest	37,041	-	-	-	37,041
	\$ 11,161,344	\$ 3,381	\$ 28,096	\$ 31,477	\$ 11,129,867

June 30, 2013	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 5,575,473	\$ 4,299	\$ 25,174	\$ 29,473	\$ 5,546,000
Mortgages – Securitization Financing	5,223,542	-	-	-	5,223,542
Accrued interest	36,859	-	-	-	36,859
	\$ 10,835,874	\$ 4,299	\$ 25,174	\$ 29,473	\$ 10,806,401

Included in Mortgages – Securitization Financing are mortgages held for securitization which consist of Government of Canada insured residential mortgages of \$167,440 (December 31, 2013 – \$198,432, June 30, 2013 – \$257,271), of which mortgages of \$36,334 (December 31, 2013 – \$17,698, June 30, 2013 – \$93,189) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment for these mortgages as at June 30, 2014 is \$114 (December 31, 2013 – (\$107), June 30, 2013 – (\$2,809)).

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 – Core Lending. As at June 30, 2014, mortgage principal outstanding for these mortgages was \$47,689 (December 31, 2013 – \$48,184, June 30, 2013 – \$48,666) and the fair value adjustment was \$2,217 (December 31, 2013 – \$2,319, June 30, 2013 – \$2,314).

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

	June 30, 2014	June 30, 2013
Changes in fair value included in Gains on securitization activities and income from securitization retained interests	\$ 221	(2,910)
Changes in fair value included in Interest income – Mortgages – Core Lending	(102)	(943)

At June 30, 2014, the Company had commitments to fund a total of \$642,783 (December 31, 2013 – \$486,432, June 30, 2013 – \$540,656) of mortgages in the ordinary course of business.

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

(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, a conventional mortgage is deemed to be impaired at the earlier of the date it has been individually provided for or when contractual payments are past due 90 days. Mortgages guaranteed by the Government of Canada are considered impaired when they are contractually past due 365 days; however, management does not anticipate credit losses on such mortgages as they are insured.

As at June 30, 2014, accrued interest on impaired mortgages amounted to \$1,655 (December 31, 2013 – \$1,387, June 30, 2013 – \$2,840).

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

	June 30, 2014			December 31, 2013	June 30, 2013
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	\$ 36,426	\$ 3,394	\$ 33,032	\$ 25,568	\$ 23,469
Mortgages – Securitization Financing – Insured	1,614	-	1,614	1,006	236
	\$ 38,040	\$ 3,394	\$ 34,646	\$ 26,574	\$ 23,705

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

	June 30, 2014			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 27,955	\$ 10,729	\$ -	\$ 38,684
Mortgages – Core Lending – Insured	493	363	181	1,037
Mortgages – Securitization Financing – Insured	1,365	374	780	2,519
	\$ 29,813	\$ 11,466	\$ 961	\$ 42,240

	December 31, 2013			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 29,972	\$ 15,310	\$ -	\$ 45,282
Mortgages – Core Lending – Insured	720	-	265	985
Mortgages – Securitization Financing – Insured	1,294	2,152	12,926	16,372
	\$ 31,986	\$ 17,462	\$ 13,191	\$ 62,639

(c) Allowance for credit losses:

	June 30, 2014		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,381	\$ 28,096	\$ 31,477
Provision for credit losses	290	762	1,052
Realized losses	(290)	-	(290)
Recoveries	13	-	13
Balance, end of period	\$ 3,394	\$ 28,858	\$ 32,252

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

	June 30, 2013		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 4,660	\$ 21,960	\$ 26,620
Provision for credit losses	536	3,214	3,750
Realized losses	(1,025)	-	(1,025)
Recoveries	128	-	128
Balance, end of period	\$ 4,299	\$ 25,174	\$ 29,473

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 in the Company's 2013 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:

	June 30, 2014		December 31, 2013		June 30, 2013	
	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	\$ 4,553,140	\$ -	\$ 4,742,851	\$ 8,143	\$ 4,980,847	\$ 15,701
Carrying amount of associated liability	4,374,999	-	4,591,404	8,143	5,033,551	15,701
Carrying amount, net position	\$ 178,141	\$ -	\$ 151,447	\$ -	\$ (52,704)	\$ -
Fair value of assets	\$ 4,656,464	\$ -	\$ 4,797,412	\$ 8,143	\$ 5,074,341	\$ 15,701
Fair value of associated liability	4,484,879	-	4,674,097	8,143	5,153,645	15,701
Fair value, net position	\$ 171,585	\$ -	\$ 123,315	\$ -	\$ (79,304)	\$ -

The carrying amount of assets include securitized assets that were not transferred to third parties of \$224,744 (December 31, 2013 – \$247,514, June 30, 2013 – \$152,302). The fair value of these assets are \$225,892 (December 31, 2013 – \$248,670, June 30, 2013 – \$153,857).

The carrying amount of assets exclude mortgages held for securitization of \$167,326 (December 31, 2013 – \$198,845, June 30, 2013 – \$257,788).

The Company's outstanding securitization liabilities are as follows:

	June 30, 2014	December 31, 2013	June 30, 2013
Securitization principal	\$ 4,383,815	\$ 4,596,940	\$ 5,025,938
Deferred net discount and issuance costs	(22,504)	(21,259)	(12,511)
Accrued interest	13,688	15,723	20,124
Total	\$ 4,374,999	\$ 4,591,404	\$ 5,033,551

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

(b) Transferred financial assets that are derecognized in their entirety:

The following table provides information on the Company's securitization activities during the period for transfers that are derecognized in their entirety:

	June 30, 2014	June 30, 2013
Mortgages securitized and sold	\$ 200,106	\$ 269,693
Retained interests recorded	7,310	11,237
Servicing liability recorded	1,907	3,066
Gains on mortgages securitized and sold	1,515	2,620
Gains on other securitization activities	88	1,292

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 forwards to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

Fair value hedges

The Company also enters into hedging transactions to manage interest rate exposure on certain mortgages designated as at fair value through income, mortgage commitments and GICs. The hedging instruments used to manage these exposures are interest rate swaps, bond forwards 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 and institutional deposit notes, and applies hedge accounting to these relationships.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding are as follows:

Derivative instrument and term (years)	June 30, 2014			
	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Hedging bond forwards				
1 or less	\$ 35,825	\$ -	\$ (478)	(478)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	175,000	278	-	278
1 to 5	362,000	1,898	-	1,898
Interest rate swaps				
1 or less	225,000	82	-	82
Bond forwards				
1 or less	36,600	-	(134)	(134)
	\$ 834,425	\$ 2,258	\$ (612)	1,646

December 31, 2013

Derivative instrument and term (years)	December 31, 2013			
	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Hedging bond forwards				
1 or less	\$ 54,200	\$ 572	\$ -	572
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	140,000	55	-	55
1 to 5	407,000	1,334	-	1,334
Interest rate swaps				
1 or less	185,000	120	-	120
1 to 5	90,000	141	-	141
Bond forwards				
1 or less	24,000	133	-	133
	\$ 900,200	\$ 2,355	\$ -	2,355

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

					June 30, 2013
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾	
		Assets	Liabilities		
Cash flow hedges:					
Hedging bond forwards					
1 or less	\$ 324,000	\$ 5,465	\$ -	\$ 5,465	
Fair value hedges:					
Interest rate swaps – hedge accounting					
1 or less	110,000	2	-	2	
1 to 5	185,000	-	(151)	(151)	
Interest rate swaps					
1 or less	285,000	98	-	98	
1 to 5	263,265	-	(1,533)	(1,533)	
Bond forwards					
1 or less	176,100	4,737	-	4,737	
	\$ 1,343,365	\$ 10,302	\$ (1,684)	\$ 8,618	

⁽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:

	June 30, 2014	June 30, 2013
Fair value changes recorded in Other comprehensive income	\$ (2,319)	\$ 7,174
Fair value changes recorded in Income	(205)	1,017
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(1,065)	(1,280)

Fair value hedges:

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

	June 30, 2014	June 30, 2013
Interest rate swaps – hedge accounting	\$ 787	\$ (148)
Interest rate swaps	(179)	545
Bond forwards	(267)	4,954
Short sale and repurchase agreement	-	22
Changes in fair value recognized in income	\$ 341	\$ 5,373

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 10 – Other Assets

	June 30, 2014	December 31, 2013	June 30, 2013
Prepaid expenses and other	\$ 11,697	\$ 12,472	\$ 14,811
Real estate owned	7,144	7,703	7,144
Capital assets	3,772	4,021	4,083
Derivative financial instruments – interest rate swaps	2,258	1,650	-
Receivables relating to securitization activities	1,088	2,512	2,726
Accrued interest and dividends on non-mortgage assets	360	630	579
Derivative financial instruments – securitization activities	-	-	10,202
Derivative financial instruments – bond forwards	-	705	-
	\$ 26,319	\$ 29,693	\$ 39,545

Note 11 – Deposits

	June 30, 2014	December 31, 2013	June 30, 2013
Term and other deposits	\$ 6,411,549	\$ 6,377,987	\$ 6,019,828
Accrued interest	116,925	110,347	101,655
Deferred deposit agent commissions	(18,360)	(18,305)	(16,975)
	\$ 6,510,114	\$ 6,470,029	\$ 6,104,508

Term and other deposits include \$150,000 of institutional deposit notes which were issued in April 2014 and mature on April 7, 2017.

Term and other deposits also include \$270,496 (December 31, 2013 – \$320,727, June 30, 2013 – \$507,840) 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. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued, and the fair value adjustment as at June 30, 2014 is \$45 (December 31, 2013 – (\$170), June 30, 2013 – (\$465)).

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

	June 30, 2014	June 30, 2013
Changes in fair value recognized in income	\$ (215)	\$ (669)

Term and other deposits also include \$532,868 (December 31, 2013 – \$545,713, June 30, 2013 – 295,000) of GICs and institutional deposit notes 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 June 30, 2014 is \$2,004 (December 31, 2013 – \$1,246, June 30, 2013 – (\$163)).

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

	June 30, 2014	June 30, 2013
Changes in fair value recognized in income	\$ (758)	\$ 163

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

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Note 12 – Income Taxes

(a) Income tax provision:

	June 30, 2014	June 30, 2013
Current tax expense:		
Current period	\$ 17,518	\$ 11,273
Adjustments for prior years	(829)	-
	16,689	11,273
Deferred tax expense:		
Origination and reversal of temporary differences	1,268	3,494
Effect of change in tax rates	28	(3)
	1,296	3,491
Total income tax expense	\$ 17,985	\$ 14,764

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 reasons:

	June 30, 2014	June 30, 2013
Canadian statutory income tax rate	\$ 26.4%	\$ 26.3%
Increase (decrease) resulting from:		
Tax-exempt income	(1.1%)	(1.1%)
Future tax rate changes	0.1%	-
Non-deductible expenses and other	0.3%	-
Effective income tax rate	\$ 25.7%	\$ 25.2%

(b) Deferred tax liabilities:

Net deferred tax liabilities is comprised of:

	June 30, 2014	December 31, 2013	June 30, 2013
Deferred income tax assets:			
Allowance for credit losses	\$ 7,664	\$ 7,384	\$ 6,633
Share issue expenses	-	-	88
Other	169	577	390
	7,833	7,961	7,111
Deferred income tax liabilities:			
Securitization activities	11,506	10,060	7,170
GIC commissions	4,712	4,821	4,470
Net mortgage fees	3,551	3,836	4,408
Other	186	70	51
	19,955	18,787	16,099
Net deferred income tax liabilities	\$ 12,122	\$ 10,826	\$ 8,988

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

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Note 13 – Other Liabilities

	June 30, 2014		December 31, 2013		June 30, 2013	
Mortgagor realty taxes	\$	17,973	\$	26,335	\$	15,813
Accounts payable and accrued liabilities		12,192		12,092		12,598
Securitized mortgage servicing liability		9,084		7,921		4,373
Income taxes payable		1,492		8,883		562
Derivative financial instruments – bond forwards		612		-		-
Derivative financial instruments – interest rate swaps		-		-		1,584
Mortgage commitments		-		19		1,792
	\$	41,353	\$	55,250	\$	36,722

Note 14 – Bank Facilities

The Company has a \$300,000 credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. The balance outstanding on this facility as at June 30, 2014 is \$117,941 (December 31, 2013 – Nil, June 30, 2013 – Nil). For further details on bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2013 Annual Report.

Note 15 – Shareholders' Equity

Capital stock:

Authorized:

Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1, par value \$25.00 per share

Unlimited number of non-cumulative floating rate preferred shares, Series 2, par value \$25.00 per share

Unlimited number of common shares, no par value

Issued and outstanding shares:

	June 30, 2014			June 30, 2013		
	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	\$ 0.91	2,000,000	\$ 48,494	\$ 0.91

	June 30, 2014			June 30, 2013		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Common shares:						
Balance, beginning of period	15,355,405	\$ 137,969		15,189,983	\$ 134,224	
Contributions from reinvestment of dividends	9,831	528		15,083	538	
Contributions from exercise of stock options	41,011	1,054		75,788	1,404	
Transferred from contributed surplus relating to the exercise of stock options	-	233		-	296	
Balance, end of period	15,406,247	\$ 139,784	\$ 0.33	15,280,854	\$ 136,462	\$ 0.29

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

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 16 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As at June 30, 2014, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2021. A summary of the Company's stock option activity and related information for the periods ended June 30, 2014 and June 30, 2013 is as follows:

	June 30, 2014		June 30, 2013	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	521,631 \$	28.54	518,817 \$	22.96
Granted	100,430	52.90	131,037	36.18
Exercised	(41,011)	25.70	(75,788)	19.09
Forfeited/cancelled	(8,100)	42.83	-	-
Outstanding, end of period	572,950 \$	32.81	574,066 \$	26.50
Exercisable, end of period	198,211 \$	26.53	144,579 \$	22.76

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$449 (June 30, 2013 – \$391) 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 June 30, 2014 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	June 30, 2014	June 30, 2013
Risk-free rate	1.6%	1.4%
Expected option life (years)	4.8	4.8
Expected volatility	23.3%	23.8%
Expected dividends	1.5%	1.7%
Weighted average fair value of each option granted	\$ 9.04	\$ 6.51

(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 June 30, 2014, the Company expensed \$198 (June 30, 2013 – \$136) 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 19 to the audited consolidated financial statements in the Company's 2013 Annual Report.

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

A summary of the Company's DSU activity for the periods ended June 30, 2014 and June 30, 2013 is as follows:

	June 30, 2014	June 30, 2013
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	32,754	33,095
Granted	5,090	6,679
Dividends reinvested	195	262
Exercised	(13,464)	(7,522)
Outstanding, end of period	24,575	32,514

The liability associated with DSUs outstanding as at June 30, 2014 was \$1,501 (June 30, 2013 – \$1,158). Compensation expense recorded during the period ended June 30, 2014, relating to DSUs outstanding during the period amounted to \$769 (June 30, 2013 – \$366).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). For further details, refer to Note 19 to the audited consolidated financial statements in the Company's 2013 Annual Report.

A summary of the Company's RSU activity for the periods ended June 30, 2014 and June 30, 2013 is as follows:

	June 30, 2014	June 30, 2013
	Number of RSUs	Number of RSUs
Outstanding, beginning of year	44,376	19,577
Granted	21,455	24,723
Dividends reinvested	157	177
Forfeited/cancelled	(657)	-
Outstanding, end of year	65,331	44,477

Compensation expense recorded relating to RSUs outstanding during the period ended June 30, 2014 amounted to \$873 (June 30, 2013 – \$246). The liability recorded associated with RSUs outstanding as at June 30, 2014 was \$1,848 (June 30, 2013 – \$434).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 17 – Earnings Per Share

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

	June 30, 2014	June 30, 2013
Earnings per common share – basic:		
Net income	\$ 52,069	\$ 43,812
Dividends on preferred shares	1,812	1,812
Net income available to common shareholders	\$ 50,257	\$ 42,000
Weighted average basic number of common shares outstanding	15,385,290	15,233,906
Earnings per common share – basic	\$ 3.27	\$ 2.76
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 50,257	\$ 42,000
Weighted average basic number of common shares outstanding	15,385,290	15,233,906
Adjustment to weighted average number of common shares outstanding:		
Stock options	231,160	159,601
Weighted average diluted number of common shares outstanding	15,616,450	15,393,507
Earnings per common share – diluted	\$ 3.22	\$ 2.73

For the period ended June 30, 2014, the calculation of the diluted earnings per share excluded 15,190 (June 30, 2013 – 127,805) average options outstanding with a weighted average exercise price of \$51.67 (June 30, 2013 – \$36.14) 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)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 18 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the page 19 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)	June 30, 2014	December 31, 2013	June 30, 2013
Common Equity Tier 1 capital ("CET1"):			
Common shares	\$ 142,240	\$ 140,997	\$ 139,002
Contributed surplus	5,128	4,911	4,683
Retained earnings	443,977	398,493	355,664
Accumulated other comprehensive income (loss) ("AOCI") ⁽¹⁾	(2,016)	(4,574)	(1,455)
Less: Regulatory adjustments	(1,160)	(1,188)	(1,046)
Common Equity Tier 1 capital	588,169	538,639	496,848
Additional Tier 1 capital:			
Non-cumulative preferred shares ⁽²⁾	40,000	45,000	45,000
Net Tier 1 capital:	628,169	583,639	541,848
Tier 2 capital:			
Collective allowance	28,858	28,097	25,174
Subordinated debentures	92,483	92,483	92,483
Tier 2 capital	121,341	120,580	117,657
Total capital	\$ 749,510	\$ 704,219	\$ 659,505

⁽¹⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of CET1 in its entirety, however, the amount of cash flow hedge reserves in AOCI corresponding to the hedged items that are not recognized in the balance sheet are excluded.

⁽²⁾ Under Basel III rules, Equitable Bank's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 19 – 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 June 30, 2014:

	June 30, 2014							
	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	\$ 1,724,647	\$ 1,038,314	\$ 2,549,620	\$ 5,312,581	\$ 4,909,880	\$ 1,444,261	\$ 118,666	\$ 11,785,388
Total liabilities and equity ⁽²⁾⁽³⁾	(158,584)	(1,591,154)	(2,718,790)	(4,468,528)	(5,170,382)	(1,413,319)	(733,159)	(11,785,388)
Off-balance sheet items ⁽⁴⁾	-	(855,033)	346,987	(508,046)	583,185	(75,139)	-	-
Interest rate sensitive gap	\$ 1,566,063	\$ (1,407,873)	\$ 177,817	\$ 336,007	\$ 322,683	\$ (44,197)	\$ (614,493)	\$ -
Cumulative gap ⁽²⁾	\$ 1,566,063	\$ 158,190	\$ 336,007	\$ 336,007	\$ 658,690	\$ 614,493	\$ -	\$ -
Cumulative gap as a percentage of total assets	13.29%	1.34%	2.85%	2.85%	5.59%	5.21%	-	-

	December 31, 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⁾
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 1,638,249	\$ 399,167	\$ 184,949	\$ 184,949	\$ 633,812	\$ 573,414	\$ -	\$ -
Cumulative gap as a percentage of total assets	13.86%	3.38%	1.57%	1.57%	5.36%	4.85%	-	-

	June 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
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 977,504	\$ 116,789	\$ 141,393	\$ 141,393	\$ 583,388	\$ 503,695	\$ -	\$ -
Cumulative gap as a percentage of total assets	8.26%	0.99%	1.19%	1.19%	4.93%	4.25%	-	-

⁽¹⁾ Accrued interest is included in "Non-interest sensitive" assets and liabilities.

⁽²⁾ Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.

⁽³⁾ Any prepayments of debentures, contractual or otherwise, have not been estimated as these would require Equitable Bank to receive regulatory pre-approval.

⁽⁴⁾ Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED JUNE 30, 2014

Note 20 – Subsequent events

On August 8, 2014, the Company issued \$75,000 of perpetual, non-cumulative 5 year reset Series 3 preferred shares. Holders of Series 3 preferred shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid quarterly at a 6.35% annual dividend rate for an initial period ending September 30, 2019. Thereafter, the dividend rate will reset every five years at a level of 4.78% over the five-year Government of Canada bond yield. Series 3 preferred shares are redeemable in cash at the Company's option, subject to Equitable Bank receiving prior regulatory approval, on September 30, 2019 and on September 30 every five years thereafter, in whole or in part, at a price of \$25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 3 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 4, subject to certain conditions, on September 30, 2024 and on September 30 every five years thereafter.

DIRECTORS

- Eric Beutel**
Vice-President, Oakwest Corporation Limited, an investment holding company
- Michael Emory**
President and Chief Executive Officer, Allied Properties REIT
- Eric Kirzner**
Professor of Finance, Rotman School of Management, University of Toronto
- David LeGresley**
Chair of the Board of the Company and Equitable Bank, and a 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
- Michael Stramaglia**
Corporate Director and President and Founder of Matrisc Advisory Group Inc., a risk management consulting firm

OFFICERS

- Andrew Moor**
President and Chief Executive Officer of the Company and Equitable Bank
- 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
- Michelle Cole**
Vice-President, Commercial Lending of Equitable Bank
- Dan Dickinson**
Vice-President, Digital Banking of Equitable Bank
- David Downie**
Vice-President, Commercial Mortgage Origination of Equitable Bank
- Isabelle Farella**
Vice-President, Internal Audit of Equitable Bank
- Scott Fryer**
Vice-President, Deposit Services of Equitable Bank
- Kimberly Kukulowicz**
Vice-President, Residential Sales and Partner Relations of Equitable Bank
- Brian Leland**
Vice-President, Residential Credit of Equitable Bank
- Tamara Malozewski**
Vice-President, Finance of Equitable Bank
- Dan Ruch**
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
- Nicholas Strube**
Vice-President and Treasurer of Equitable Bank
- Ron Tratch**
Vice-President, Commercial Credit of Equitable Bank
- David Yu**
Vice-President, Information Technology of Equitable Bank
- Rajesh Raut**
Controller of Equitable Bank
- John Simoes**
Senior Director, Financial Planning and Reporting of Equitable Bank

SHAREHOLDER AND CORPORATE INFORMATION

- Corporate Office**
30 St. Clair Avenue West, Suite 700
Toronto, Ontario, Canada, M4V 3A1
- Quebec Office**
3333 Graham Boulevard, Suite 604
Town of Mount-Royal, Quebec, Canada, H3R 3L5
- Western Region Office**
600 - 1333 8th Street S.W, Suite 600
Calgary, Alberta, Canada, T2R 1M6
- Website**
www.equitablebank.ca
- Transfer Agent And Registrar**
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada, M5J 2Y1
1.800.564.6253
- Stock Listings**
TSX: EQB, EQB.PR.A and EQB.PR.C
- Investor Relations**
Tim Wilson
Vice-President and Chief Financial Officer
416.515.7000
investor@equitablegroupinc.com
- 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.