

# EQUITABLE

**THIRD QUARTER 2015**

**INTERIM FINANCIAL  
STATEMENTS**



# EQUITABLE GROUP INC.

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

For the three and nine months ended September 30, 2015

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and nine months ended September 30, 2015. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2015, 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, 2014, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at November 12, 2015. 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](http://www.equitablebank.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q3 2015 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](http://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 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 \$17 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

### **VISION AND STRATEGY**

Equitable operates with a branchless banking model and competes in niche lending and savings markets not well served by the larger Canadian banks or in which we have a unique advantage. Our strategy is to continue growing and diversifying the Bank over time by delivering superior service to our customers and business partners across Canada. With this approach, we aim to produce a high Return on Equity (“ROE”) for our shareholders and to maintain strong regulatory capital ratios.

Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadian savers with savings accounts and Guaranteed Investment Certificates (“GIC”s) that offer 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 Equitable’s customers.

For further information on Equitable’s strategy, capabilities, key performance indicators, and business lines please refer to our 2014 annual Management’s Discussion and Analysis.

## FINANCIAL OVERVIEW

**Table 1: Selected financial information**

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended					Nine months ended		
	Sep 30, 2015	Jun 30, 2015	% Change	Sep 30, 2014	% Change	Sep 30, 2015	Sep 30, 2014	% Change
<b>RESULTS OF OPERATIONS</b>								
Net income	\$ 31,448	\$ 33,520	(6%)	\$ 27,764	13%	\$ 94,429	\$ 79,833	18%
Net income available to common shareholders	30,257	32,330	(6%)	26,857	13%	90,857	77,114	18%
Total revenue <sup>(1)</sup>	147,625	145,597	1%	131,950	12%	430,499	388,039	11%
EPS – basic	\$ 1.96	\$ 2.09	(6%)	\$ 1.74	13%	\$ 5.88	\$ 5.01	17%
EPS – diluted	\$ 1.93	\$ 2.06	(6%)	\$ 1.71	13%	\$ 5.80	\$ 4.93	18%
ROE <sup>(2)</sup>	17.5%	19.8%	(2.3%)	17.8%	(0.3%)	18.4%	17.9%	0.5%
Return on average assets <sup>(2)</sup>	0.9%	1.0%	(0.1%)	0.9%	-%	0.9%	0.9%	-%
NIM – TEB – total assets <sup>(2)</sup>	1.73%	1.79%	(0.06%)	1.76%	(0.03%)	1.75%	1.70%	0.05%
Efficiency ratio – TEB <sup>(2)(3)</sup>	33.4%	32.8%	0.6%	31.5%	1.9%	32.9%	31.6%	1.3%
<b>BALANCE SHEET</b>								
Total assets	14,827,610	14,329,824	3%	12,193,335	22%			
Assets under management <sup>(2)</sup>	16,839,263	16,214,123	4%	13,557,782	24%			
Mortgages receivable	13,959,432	13,216,267	6%	11,555,700	21%			
Mortgages under management <sup>(2)</sup>	15,917,079	15,059,846	6%	12,897,244	23%			
Shareholders' equity	764,679	750,149	2%	682,863	12%			
<b>CREDIT QUALITY</b>								
Impairment provision <sup>(2)</sup>	461	85	442%	280	65%	792	570	39%
Net impaired mortgages as a % of total mortgage assets <sup>(4)</sup>	0.21%	0.18%	0.03%	0.32%	(0.11%)			
Allowance for credit losses as a % of total mortgage assets	0.25%	0.26%	(0.01%)	0.28%	(0.03%)			
<b>COMMON SHARE INFORMATION</b>								
Shares outstanding	15,476,687	15,469,787	0%	15,412,206	0%			
Book value per share <sup>(2)</sup>	\$ 44.72	\$ 43.80	2%	\$ 39.61	13%			
Share price – close	\$ 56.25	\$ 61.27	(8%)	\$ 62.51	(10%)			
Market capitalization	870,564	947,834	(8%)	963,417	(10%)			
<b>EQUITABLE BANK CAPITAL RATIOS<sup>(2)</sup></b>								
Common Equity Tier 1 Capital Ratio	13.4%	13.5%	(0.1%)	13.3%	0.1%			
Total Capital Ratio	17.1%	17.2%	(0.1%)	17.5%	(0.4%)			
Leverage Ratio	5.2%	5.3%	(0.1%)	N/A	N/A			

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

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

<sup>(3)</sup> Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

<sup>(4)</sup> Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.

## Q3 2015 HIGHLIGHTS

### PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record third quarter earnings and continued to successfully deliver on several of our strategic priorities during Q3 2015:

Strategic Objectives	Accomplishments
<b>Grow by providing effective service, competitive products and cost-effective operations</b>	<ul style="list-style-type: none"> <li>Increased Mortgages under Management (“MUM”) by over 20% from Q3 2014</li> <li>Originated a record \$1.8 billion of mortgages, which represented more than 30% increase over Q3 of the prior year</li> <li>Successfully funded \$523 million of Prime Single Family mortgages, further diversifying our asset base</li> <li>Grew our portfolio of alternative Single Family assets by 27% compared with last year</li> </ul>
<b>Build our capabilities and brand</b>	<ul style="list-style-type: none"> <li>Tripled our <i>Equitable Bank High Interest Savings Account</i> balances compared with Q3 2014 to \$791 million, providing Canadians with a more competitive rate on their savings</li> <li>Continued to grow our Home Equity Line of Credit (“HELOC”) portfolio within our Single Family business, with a balance of almost \$17 million at quarter end</li> <li>Demonstrated continued progress with our prime single family offering</li> </ul>
<b>Consistently create shareholder value</b>	<ul style="list-style-type: none"> <li>Delivered record Q3 EPS of \$1.93, up by 13% over Q3 2014</li> <li>Produced an ROE of 17.5%, consistent with our five-year average</li> <li>Declared a common share dividend that was 12% higher than in Q3 2014</li> </ul>
<b>Maintain a low risk profile</b>	<ul style="list-style-type: none"> <li>Maintained a loan-to-value ratio of 70.0% on our residential mortgage portfolio</li> <li>Sustained low loss levels, recording an impairment provision of \$0.5 million or 1 bp of loan balances</li> <li>Reported a Common Equity Tier 1 (“CET1”) Capital Ratio of 13.4%, which was well ahead of regulatory minimums and most industry benchmarks</li> </ul>

### ITEMS OF NOTE

There were no items of note in our financial results for Q3 2015 or Q3 2014.

Our Q2 2015 financial results were impacted by the following item:

- an investment gain from a securities transaction that increased net income by \$1.5 million and diluted EPS by \$0.10. The transaction resulted in a lower tax provision in the quarter.

## **DIVIDENDS**

On November 12, 2015, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.20 per common share, payable on January 7, 2016, to common shareholders of record at the close of business on December 15, 2015. This dividend represents an 11% increase over dividends declared in November 2014.

In addition, on November 12, 2015, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on December 31, 2015, to preferred shareholders of record at the close of business on December 15, 2015.

## **BUSINESS OUTLOOK**

In the third quarter of 2015, our performance demonstrated the strength of our franchise and the benefits of our relentless focus on service excellence. We expect that our strategy, including our disciplined approach to capital allocation, will continue to deliver high returns on our shareholders' equity through the end of our 2016 fiscal year.

### ***Core Lending***

In Q3, our Single Family mortgage business set a new record for third quarter originations, driven by our superior levels of customer service. At the end of the quarter, the portfolio climbed to a record level of \$6.2 billion, an increase of \$1.3 billion or 27% from Q3 of last year. We expect that the year-over-year growth rate of the Single Family portfolio will remain around this level in Q4 2015 and just below this level throughout 2016. Management underscores that there is some uncertainty with the 2016 outlook given recent competitive dynamics.

We anticipate that the Commercial portfolio may contract slightly in the final quarter of 2015 and stay flat throughout 2016. Based on recent trends, we expect our business of lending to small and medium size enterprises to remain steady. The large commercial market will continue to be challenging as a result of competitive conditions and the economic slowdown in Alberta. Our focus for the next year will be on deepening our existing distribution partnerships and increasing operating efficiencies.

### ***Securitization Financing***

Our Securitization Financing business is comprised of two distinct portfolios: Multi-unit residential mortgages ("Multi") and Prime Single Family residential mortgages ("Prime"). When discussing this business, we refer to Mortgages Under Management ("MUM") rather than balance sheet assets because some of our securitized mortgages have been derecognized. In the opinion of management, MUM is a better indicator of the performance of our franchise.

We believe that year-over-year growth in Multi MUM will remain in the high single-digit range in Q4 and in 2016. The growth of our Multi business is dependent on the level of CMHC's CMB allocations, however, and those allocations may change from period-to-period.

In addition, we plan to continue originating and securitizing a significant volume of Prime mortgages. We believe that the level of origination and securitization activity will continue to increase through the end of 2016, subject to the seasonality of the business, as we successfully expand our broker relationships and geographic coverage. As a result, Prime mortgages will be the key driver of growth in our overall Securitization Financing MUM.

As in prior periods, a portion of our securitized mortgages will be derecognized each quarter, creating up-front gains on sale. Based on current activity, we believe that approximately one-half of Multis securitized will be non-prepayable mortgages, therefore will be derecognized upon securitization. Additional Multis or Prime mortgages may be derecognized if we choose to execute transactions (for example sales of residual interests) that transfer substantially all of the risks and rewards associated with these mortgages to third parties. Our intention is to execute these transactions regularly in the future and it is likely that volumes will be significant beginning in the first half of 2016. We had previously expected to execute some transactions in Q3 2015, but chose to defer these transactions as we evaluate alternative structures that have superior economics for the Bank.



### ***Credit Quality***

The Bank consistently manages credit risk through the application of our traditional prudent lending practices. Accordingly, we expect our Single Family arrears rates and impairment provisions to remain low throughout 2015 at a national level, assuming that Canadian economic conditions stay within the range of broad market expectations. Our loan-by-loan and overall analysis of our Commercial portfolio indicates that potential losses within that book should also stay low. Loss and arrears rates may, however, return to more normal levels from the exceptionally low rates experienced over the past several quarters.

Given recent oil price declines and the expected economic impact thereof, we anticipate that our overall arrears rates in Alberta and Saskatchewan will rise in the final quarter of this year or early next year, though the timing of that increase is uncertain. Due to our conservative underwriting approach, our robust workout process, and our focus on lending in the larger urban centres within these provinces, such as Calgary and Edmonton, we do not expect to incur significant losses. Management will continue to monitor economic developments closely and will adjust our risk management approach in both provinces if warranted. We have provided further details of our Alberta and Saskatchewan portfolios in Table 9 of our Q3 2015 Supplemental Information and Regulatory Disclosures Report found on the Company's website at [www.equitablebank.ca](http://www.equitablebank.ca). Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

### ***Net Interest Margin***

Management believes that in the fourth quarter of 2015 and throughout 2016 Net Interest Income ("NII") should increase at year-over-year growth rates in the mid-teens, due to continued growth of our assets. NIM should decrease slightly over this period, mainly as a result of changes in our asset mix. More specifically, we expect that:

- Sustained growth of our Single Family business will cause Core Lending NIM to decrease slightly, as the portfolio mix shifts more toward these lower spread, but higher return on equity ("ROE"), Single Family assets. Within Core Lending, Commercial NIM will decrease slightly while Single Family NIM will remain stable. The effects of lower prepayment income in the next quarter should be offset by a seasonal reduction in the size of our low yielding liquidity portfolio.
- NIM of the Securitization Financing portfolio should decrease slightly, as the spread on new and renewed mortgages will be slightly lower than the average of the portfolio. Margins on Single Family Prime mortgages have become narrower in recent months as a result of higher funding costs, specifically because of widening spreads on NHA-MBS. Our outlook assumes that Prime margins will stay low for the next several quarters.
- Growth rates of the Company's Core Lending and Securitization Financing portfolios will converge this year and throughout 2016, and we will benefit to a lesser extent than in previous quarters from the mix shift towards our higher margin Core Lending business. As a result of this convergence and the trends within each portfolio, total NIM should decrease slightly quarter-to-quarter throughout the year.

Quarterly NIM may fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors.



## ***Non-Interest Expenses***

We continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. Management intends to make marketing expenditures of approximately \$3-5 million in early 2016 in order to broaden consumer brand awareness of the Bank and support our longer-term product diversification strategy (see Strategic Initiatives below). This investment was recently deferred by one quarter and we may adjust the timing and level further as our business plans evolve. Marketing investments will then continue throughout the year at levels in between what we expect to spend in Q4 2015 and in Q1 2016. We also plan to continue expanding our team and investing in our systems to support our key initiatives. For example, we plan to invest approximately \$1 million in systems development and consulting to support our Advanced Internal Ratings Based ("AIRB") program. Over time, the cost of these strategic initiatives should be largely offset by the incremental gain on sale revenue generated from securitized mortgages, and as a result the net impact on earnings will be minimal.

Beyond the impact of the initiatives, we anticipate that over the next five quarters all other non-interest expenses will increase at rates in line with the growth of the overall business, as the Bank invests to support its expanding lending and savings portfolios.

We expect that our efficiency ratio will increase slightly in Q4 and further in 2016 as a result of our strategic investments. Even with this increase, the Bank will continue to operate efficiently on both an absolute and relative basis compared to other financial institutions by virtue of our branchless business model, and particularly taking into account the relative scale of our operations.

## ***Strategic Initiatives***

Our key strategic initiatives are focused on diversifying the products and services with which we serve our customers. We believe that the Bank is well positioned to develop new products targeted at market niches not well-served by Canada's larger financial institutions or in which we have a unique advantage.

Management launched a Prime mortgage business in August 2014 and intends to build in-house capabilities to originate \$1 to \$2 billion of prime loans annually within the next three to five years. We are satisfied with the progress of our in-house offering to date; we closed \$98.8 million of mortgages in Q3 and our pipeline continues to build well. Over the near term, as we further develop our capabilities and systems, we will supplement our internal originations with Prime mortgages sourced through business partners in order to optimize use of our available MBS capacity.

We are also focused on broadening the range of products we offer to savers, including continuing to grow our *Equitable Bank High Interest Savings Account*, a product that has been well received by Canadian savers and investment advisors. We are also preparing ourselves for the consumer launch of a digital banking platform. These and other initiatives to deliver differentiated solutions for Canadian savers will strengthen our brand, reinforce our diversification strategy, and provide important risk management benefits.

Lastly, we have been exploring a migration to the AIRB approach for improving the sophistication of our capital management and made progress during the quarter. We believe that this approach could benefit Equitable in many respects, such as providing us with enhanced risk management models, matching appropriate levels of capital to our risks, and introducing a methodology that better allocates capital across a broader range of asset types. Given the progress to date, management intends to continue advancing the initiative.

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

### FINANCIAL REVIEW - EARNINGS

**Table 2: Income statement highlights**

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended						Nine months ended		
	Sep 30, 2015	Jun 30, 2015	% Change	Sep 30, 2014	% Change	Sep 30, 2015	Sep 30, 2014	% Change	
Net income	\$ 31,448	\$ 33,520	(6%)	\$ 27,764	13%	\$ 94,429	\$ 79,833	18%	
EPS – diluted	1.93	2.06	(6%)	1.71	13%	5.80	4.93	18%	
Net interest income <sup>(1)</sup>	61,437	60,995	1%	51,716	19%	178,769	150,302	19%	
Provision for credit losses	930	830	12%	733	27%	2,574	1,785	44%	
Non-interest expenses	22,123	21,710	2%	17,767	25%	63,533	51,092	24%	
Income taxes	11,099	9,491	17%	9,701	14%	30,758	27,686	11%	

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

### NET INTEREST INCOME

NII is the main driver of profitability for the Company. Table 3 details the Company's NII and NIM by product and business:

**Table 3: Net interest income**

(\$ THOUSANDS)	Three months ended						Nine months ended			
	Sep 30, 2015		Jun 30, 2015		Sep 30, 2014		Sep 30, 2015		Sep 30, 2014	
	Revenue/ Expense	Average rate <sup>(1)</sup>	Revenue/ Expense	Average rate <sup>(1)</sup>	Revenue/ Expense	Average rate <sup>(1)</sup>	Revenue/ Expense	Average rate <sup>(1)</sup>	Revenue/ Expense	Average rate <sup>(1)</sup>
<b>Core Lending:</b>										
<i>Revenues derived from:</i>										
Mortgages	\$ 99,135	4.77%	\$ 98,146	4.84%	\$ 86,342	4.95%	\$ 290,614	4.81%	\$ 249,733	4.92%
Liquidity investments	1,713	1.18%	1,700	1.28%	1,301	1.68%	4,489	1.28%	3,961	1.49%
Equity securities – TEB <sup>(2)</sup>	2,031	6.07%	2,595	7.00%	1,573	4.88%	6,673	6.17%	4,929	5.51%
	<b>102,879</b>	<b>4.56%</b>	<b>102,441</b>	<b>4.66%</b>	<b>89,216</b>	<b>4.81%</b>	<b>301,776</b>	<b>4.64%</b>	<b>258,623</b>	<b>4.76%</b>
<i>Expenses related to:</i>										
Deposits and bank facilities	41,576	2.13%	41,819	2.18%	37,716	2.33%	123,572	2.18%	110,247	2.34%
Debentures	1,274	5.94%	1,269	5.99%	1,403	6.02%	3,820	6.01%	4,196	6.07%
Securitization liabilities	1,810	1.73%	1,112	1.73%	953	2.27%	3,706	1.84%	3,000	2.47%
	<b>44,660</b>	<b>2.14%</b>	<b>44,200</b>	<b>2.21%</b>	<b>40,072</b>	<b>2.38%</b>	<b>131,098</b>	<b>2.21%</b>	<b>117,443</b>	<b>2.40%</b>
Net interest income – TEB <sup>(2)(3)</sup>	58,219	2.59%	58,241	2.65%	49,144	2.66%	170,678	2.62%	141,180	2.59%
Taxable Equivalent Basis – adjustment <sup>(2)</sup>	(589)		(660)		(433)		(1,873)		(1,433)	
Core Lending	\$ 57,630		\$ 57,581		\$ 48,711		\$ 168,805		\$ 139,747	
<b>Securitization Financing:</b>										
<i>Revenues derived from:</i>										
Mortgages	\$ 40,907	3.09%	\$ 39,066	3.21%	\$ 38,291	3.50%	\$ 117,269	3.15%	\$ 118,668	3.26%
Liquidity investments	265	1.06%	193	0.93%	577	1.56%	802	1.22%	2,087	1.77%
	<b>41,172</b>	<b>3.06%</b>	<b>39,259</b>	<b>3.22%</b>	<b>38,868</b>	<b>3.44%</b>	<b>118,071</b>	<b>3.12%</b>	<b>120,755</b>	<b>3.20%</b>
<i>Expenses related to:</i>										
Securitization liabilities	33,656	2.90%	33,008	3.02%	33,906	3.26%	98,882	2.98%	105,104	3.26%
Deposits and secured funding facility	3,709	2.14%	2,837	2.21%	1,957	2.41%	9,225	2.15%	5,096	2.31%
	<b>37,365</b>	<b>2.80%</b>	<b>35,845</b>	<b>2.94%</b>	<b>35,863</b>	<b>3.20%</b>	<b>108,107</b>	<b>2.89%</b>	<b>110,200</b>	<b>3.20%</b>
Securitization Financing	\$ 3,807	0.28%	\$ 3,414	0.28%	\$ 3,005	0.27%	\$ 9,964	0.26%	\$ 10,555	0.30%
Total – TEB <sup>(2)</sup>	\$ 62,026	1.73%	\$ 61,655	1.79%	\$ 52,149	1.76%	\$ 180,642	1.75%	\$ 151,735	1.70%

<sup>(1)</sup> Average rates are calculated based on the average of the month-end balances outstanding during the period.

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

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

### **Q3 2015 v Q3 2014**

Net interest income was up 19% due to growth in average asset balances in both our Core Lending and Securitization Financing businesses. Total NIM declined by 3 bps as a result of a decline in Core Lending NIM, offset in part by a shift in our asset mix towards our higher margin Core Lending business.

NIM earned on Core Lending assets decreased by 7 bps, mainly due to an increase in the size of our lower yielding liquidity portfolio. Our efforts to optimize renewal pricing in Single Family and new cost efficient funding sources continued to help NIM, but those effects were partially offset by a mix shift within Core Lending towards lower spread but higher ROE single family assets.

Securitization Financing NIM was up by 1 bp as higher mortgage prepayment income was partly offset by expected spread compression within the book.

### **Q3 2015 v Q2 2015**

Net interest income grew by \$0.4 million sequentially due to 5% growth in our average assets and despite a 6 bps drop in NIM. The decrease in our overall NIM was mainly the result of a decline in Core Lending NIM.

Core Lending NIM was down primarily due to an increase in the size of our lower yielding liquidity portfolio and the timing of dividend income received on certain equity securities.

Securitization Financing NIM was unchanged despite lower prepayment income.

### **YTD 2015 v YTD 2014**

Net interest income was up 19% due to an increase in average assets balances and a widening of our NIM. Total NIM increased as we shifted our asset mix towards our higher margin Core Lending business and achieved higher margins within Core Lending itself.

NIM earned on Core Lending assets increased largely due to higher mortgage prepayment income in the current year and despite growth of our lower yielding liquidity portfolio. Our efforts to optimize renewal pricing in Single Family and new cost efficient funding sources continued to help NIM, but those effects were partially offset by a mix shift within Core Lending towards lower spread but higher ROE single family assets.

Securitization Financing NIM was down due to lower mortgage prepayment income and expected rate compression within the portfolio.

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

**Table 4: Factors affecting NIM**

(IN BASIS POINTS)	Q3 2015 vs. Q2 2015	Q3 2015 vs. Q3 2014	YTD 2015 vs. YTD 2014
<b>Core Lending NIM:</b>			
Mortgage prepayment income	(1)	(1)	2
Size and rate of liquidity investments	(2)	(12)	(3)
Size and rate of equity securities holdings	(2)	2	1
Other, including changes in spreads within the mortgage portfolio <sup>(1)</sup>	(1)	4	3
Total change in NIM	(6)	(7)	3
<b>Securitization Financing NIM:</b>			
Mortgage prepayment income	(2)	3	(1)
Size and rate of liquidity investments	-	2	2
Other <sup>(1)</sup>	2	(4)	(5)
Total change in NIM	-	1	(4)

<sup>(1)</sup> 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 \$0.9 million in the quarter, \$0.2 million higher than in the same quarter last year and \$0.1 million higher than in Q2 2015.

With respect to the composition of the provision, \$0.4 million represented additions to our collective allowance. After our normal extensive review of our mortgage assets and credit allowance, management determined that this amount of provision in the quarter would maintain our collective allowance at an appropriate level.

Management uses the term impairment provision to refer to the provision that we have taken during the quarter on loans that we specifically 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. The Q3 2015 impairment provision of \$0.5 million compares to impairment provisions of \$0.1 million and \$0.3 million in Q2 2015 and Q3 2014, respectively. On a year-to-date basis, the Company recorded an impairment provision of \$0.8 million, \$0.2 million higher than the \$0.6 million recorded in the prior year.

## OTHER INCOME

**Table 5: Other income**

(\$ THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2015	Jun 30, 2015	% Change	Sep 30, 2014	% Change	Sep 30, 2015	Sep 30, 2014	% Change
Fees and other income	\$ 3,117	\$ 2,534	23%	\$ 2,231	40%	\$ 7,959	\$ 5,865	36%
Net (loss) gain on investments	-	(246)	100%	426	N/A	(450)	1,034	(144%)
Securitization activities:								
Gains on securitization and income from retained interests	1,424	1,973	(28%)	1,560	(9%)	5,202	3,368	54%
Fair value (losses) gains on derivative financial instruments	(378)	295	(228%)	32	(1,281%)	(186)	(173)	(8%)
Total	\$ 4,163	\$ 4,556	(9%)	\$ 4,249	(2%)	\$ 12,525	\$ 10,094	24%

Q3 Other Income decreased relative to earlier periods mainly due to:

- lower gains recorded on securitization and income from retained interests, primarily driven by a reduced level of securitization transactions executed during the quarter that qualify for derecognition. This number is volatile and we discuss it in more detail in the Securitization section of the MD&A below; and
- a loss on the fair value of derivative financial instruments;

offset by:

- an increase in fees income, which reflects growth of our mortgage portfolio.

## NON-INTEREST EXPENSES

**Table 6: Non-interest expenses and efficiency ratio**

(\$ THOUSANDS, EXCEPT FTE)	Three months ended					Nine months ended		
	Sep 30, 2015	Jun 30, 2015	% Change	Sep 30, 2014	% Change	Sep 30, 2015	Sep 30, 2014	% Change
Compensation and benefits	\$ 12,474	\$ 12,804	(3%)	\$ 10,742	16%	\$ 36,664	\$ 31,102	18%
Premises, equipment and system costs	2,842	2,749	3%	2,143	33%	7,999	5,439	47%
Other	1,726	1,515	14%	1,039	66%	4,478	2,944	52%
Licenses, regulatory fees and insurance	1,366	1,181	16%	1,123	22%	3,557	2,756	29%
Mortgage servicing	1,039	1,018	2%	976	6%	3,056	2,874	6%
Marketing, travel and communications	1,285	897	43%	704	83%	2,863	2,114	35%
Amortization	771	823	(6%)	683	13%	2,251	2,210	2%
Professional Services	620	723	(14%)	357	74%	2,665	1,653	61%
<b>Total</b>	<b>\$ 22,123</b>	<b>\$ 21,710</b>	<b>2%</b>	<b>\$ 17,767</b>	<b>25%</b>	<b>\$ 63,533</b>	<b>\$ 51,092</b>	<b>24%</b>
Efficiency ratio – TEB <sup>(1)</sup>	<b>33.4%</b>	32.8%	0.6%	31.5%	1.9%	<b>32.9%</b>	31.6%	1.3%
Full-time employee ("FTE") – period average	<b>452</b>	430	5%	360	26%	<b>432</b>	333	30%

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

### Q3 2015 v Q3 2014

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 33.4% in the quarter, up 1.9 percentage points, as expense growth outpaced revenue growth during the period. The increase in non-interest expenses reflects the successful expansion our business, as well as continued strategic investments made to enable future growth and maintain the high level of service that we provide to mortgage brokers, borrowers and savers. In most cases, these investments were made ahead of associated benefits, and as such reduced our net income and elevated our efficiency ratio in the current period. These investments will improve our future growth and operational efficiency.

Key drivers of the \$4.4 million net increase in our expenses were:

#### **Growth of Our Franchise: \$3.3 million or 74% of the net increase**

- Compensation and related costs such as premises and equipment were up \$1.5 million mainly due to 18% growth in our FTE.

#### **Investments in Our Future: \$1.1 million or 26% of the net increase**

- Marketing expenses increased by \$0.5 million as a result of activity to support our digital banking platform launch, one of our strategic initiatives for 2016; and
- System costs increased by \$0.4 million due to investments in our digital banking platform.

### **Q3 2015 v Q2 2015**

The majority of the \$0.4 million sequential increase in our expenses resulted from a \$0.3 million of marketing investments to prepare for the launch of our new digital banking platform.

Expenses to support our existing franchise were relatively flat quarter over quarter as volume driven growth was offset by:

- a decrease in compensation expenses of \$0.5 million, which related to an annual grant of Deferred Share Units (“DSU”) that occurred in Q2 but not in Q3; and
- a reduction of \$0.1 million in Restricted Share Unit (“RSU”) related expenses due to the successful implementation of a hedging program for the Company’s RSU and DSU plans.

### **YTD 2015 v YTD 2014**

The majority of the \$12.4 million net increase in our expenses was driven by:

#### ***Growth of Our Franchise: \$10.1 million or 81% of the net increase***

- Compensation and related costs such as premises and equipment increased \$4.7 million due to a 22% increase in FTE; and
- System costs increased \$1.8 million as a result of investments in our core banking technology platform to support the growth of our business.

#### ***Investments in Our Future: \$2.3 million or 19% of the net increase***

- Compensation benefits were higher by \$0.8 million due to the hiring of additional FTE to support our strategic initiatives;
- Professional costs related to our digital banking and other strategic initiatives, including the preliminary phases of our AIRB assessment, grew by \$0.6 million;
- Marketing expenses increased by \$0.5 million because of initiatives related to our digital banking platform; and
- System costs increased \$0.4 million due to investments in our digital banking platform.

## **INCOME TAXES**

### **Q3 2015 v Q3 2014**

The Company’s statutory tax rate is 26.5% for 2015, as compared to 26.4% in 2014. Our effective income tax rate for the quarter increased slightly to 26.1% from 25.9% a year ago.

### **Q3 2015 v Q2 2015**

Our effective income tax rate for the quarter was 4.1% percentage points higher than Q2 2015, mainly due to an investment gain from a securities transaction that occurred in Q2 2015 and which reduced our effective tax rate in that quarter. Excluding the impact of the investment, our effective tax rate for the quarter would have remained the same as the prior quarter.

### **YTD 2015 v YTD 2014**

Our year-to-date effective income tax rate decreased to 24.6% from 25.8% in the same period of 2014, largely due to the impact of the above mentioned investment transaction in Q2 2015.

## FINANCIAL REVIEW – BALANCE SHEET

**Table 7: Balance sheet highlights**

(\$ THOUSANDS)	Sep 30, 2015	Jun 30, 2015	% Change	Dec 31, 2014	% Change	Sep 30, 2014	% Change
Total assets	\$ 14,827,610	\$ 14,329,824	3%	\$ 12,854,903	15%	\$ 12,193,335	22%
Mortgage principal – Core Lending	8,465,883	8,236,323	3%	7,265,225	17%	7,192,956	18%
Mortgage principal – Securitization Financing	5,439,543	4,939,224	10%	4,975,473	9%	4,339,841	25%
Deposit principal	7,961,678	8,128,474	(2%)	7,385,456	8%	6,959,533	14%
Total liquid assets as a % of total assets <sup>(1)</sup>	5.7%	8.7%	(3.0%)	5.3%	0.4%	5.5%	0.2%

<sup>(1)</sup> 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, and to focus our strategic growth efforts on Single Family Lending Services. The following tables provide quarterly mortgage principal continuity schedules by lending business for Q3 2015 and Q3 2014:

**Table 8: Mortgage principal continuity schedule**

(\$ THOUSANDS)	Three months ended Sep 30, 2015						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal <sup>(1)</sup>	Securitization Financing MUM <sup>(2)</sup>
Q2 2015 closing balance	\$ 5,946,464	\$ 2,289,859	\$ 8,236,323	\$ 4,939,224	\$ 13,175,547	\$ 1,884,299	\$ 6,823,523
Originations	744,416	235,987	980,403	790,022	1,770,425	-	790,022
Securitized and derecognized	-	-	-	(143,742)	(143,742)	143,742	-
Net repayments	(465,471)	(285,372)	(750,843)	(145,961)	(896,804)	(16,388)	(162,349)
Q3 2015 closing balance	\$ 6,225,409	\$ 2,240,474	\$ 8,465,883	\$ 5,439,543	\$ 13,905,426	\$ 2,011,653	\$ 7,451,196
% Change from Q2 2015	5%	(2%)	3%	10%	6%	7%	9%
% Change from Q3 2014	27%	(2%)	18%	25%	21%	47%	31%
Net repayments percentage <sup>(3)</sup>	7.8%	12.5%	9.1%	3.0%	6.8%	0.9%	2.4%

  

(\$ THOUSANDS)	Three months ended Sep 30, 2014						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal <sup>(1)</sup>	Securitization Financing MUM <sup>(2)</sup>
Q2 2014 closing balance	\$ 4,573,340	\$ 2,258,168	\$ 6,831,508	\$ 4,275,769	\$ 11,107,277	\$ 1,179,991	\$ 5,455,760
Originations	645,842	193,668	839,510	479,104	1,318,614	-	479,104
Securitized and derecognized	-	-	-	(197,927)	(197,927)	197,927	-
Net repayments	(310,051)	(168,011)	(478,062)	(217,105)	(695,167)	(13,471)	(230,576)
Q3 2014 closing balance	\$ 4,909,131	\$ 2,283,825	\$ 7,192,956	\$ 4,339,841	\$ 11,532,797	\$ 1,364,447	\$ 5,704,288
% Change from Q2 2014	7%	1%	5%	1%	4%	16%	5%
Net repayments percentage <sup>(3)</sup>	6.8%	7.4%	7.0%	5.1%	6.3%	1.1%	4.2%

<sup>(1)</sup> 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.

<sup>(2)</sup> Securitization Financing MUM includes Securitization Financing and Derecognized Mortgage Principal.

<sup>(3)</sup> Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.



### Q3 2015 v Q3 2014

Total Mortgages under Management increased 23% from a year ago, due to 18% growth in Core Lending balances and 31% growth in Securitization Financing MUM.

The increase in Core Lending was attributable to Single Family Lending, the growth of which was driven by a high level of originations over the past four quarters. Commercial Lending balances were down slightly from a year ago despite the strength of our distribution partnerships, as we continue to adhere to our disciplined pricing approach and prudent risk parameters in a highly competitive market.

Securitization Financing MUM, which includes \$2.0 billion of derecognized mortgage principal, is more reflective of the performance of our underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM grew from 2014 levels largely due to our successful entry into the Prime Single Family business. Our continued investment in this business has contributed to the rapid growth of our Prime assets to almost \$1.6 billion at the end of Q3 2015.

### Q3 2015 v Q2 2015

The Single Family Lending portfolio increased again in the quarter and was the main driver of growth in Core Lending. The growth in Single Family assets was attributable to a high level of mortgage originations in the quarter.

Securitization Financing was the largest contributor to our sequential MUM growth. Securitization Financing MUM increased due to strong levels of origination activity in both the Multi and Prime Single Family markets, combined with a low level of Multi maturities during the quarter.

Please refer to the Supplemental Information and Regulatory Disclosures 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 sequential origination comparisons. The table below provides our mortgage originations for Q3 2015, YTD 2015, and the comparable periods in 2014:

**Table 9: Mortgage origination – by lending business**

(\$ THOUSANDS)	Three months ended						Nine months ended			
	Sep 30, 2015		Sep 30, 2014			Sep 30, 2015		Sep 30, 2014		
	Mortgage principal funded	% of total	Mortgage principal funded	% of total	% Change	Mortgage principal funded	% of total	Mortgage principal funded	% of total	% Change
Core Lending:										
Single Family Lending	\$ 744,416	42%	\$ 645,842	49%	15%	\$ 1,953,789	44%	\$ 1,550,986	51%	26%
Commercial Lending	235,987	13%	193,668	15%	22%	643,731	15%	506,368	17%	27%
	980,403	55%	839,510	64%	17%	2,597,520	59%	2,057,354	68%	26%
Securitization Financing:										
Multi-unit residential	267,103	15%	321,845	24%	(17%)	719,996	16%	837,127	27%	(14%)
Prime single family residential	522,919	30%	157,259	12%	233%	1,094,020	25%	157,259	5%	596%
	790,022	45%	479,104	36%	65%	1,814,016	41%	994,386	32%	82%
Total mortgage origination	\$ 1,770,425	100%	\$ 1,318,614	100%	34%	\$ 4,411,536	100%	\$ 3,051,740	100%	45%

### Q3 2015 v Q3 2014

The Company delivered record third quarter mortgage origination volumes in Q3 2015.

The Company's Core Lending origination volumes grew as a result of an increase in both Single Family and Commercial Lending activities. This performance is attributable to the strength of the Canadian real estate market and our consistently high levels of service quality, which we achieved while maintaining our pricing discipline and risk parameters.

Securitization Financing originations were up in the quarter reflecting the success of the Prime mortgage business that we launched in Q3 2014. We originate Prime Single Family loans internally or through third-party agents and then securitize them through the CMHC's MBS program. Originations of multi-unit residential mortgages declined compared to the same period of the prior year. We aim to originate Multis such that we utilize the full amount of our CMB capacity each quarter, after considering our renewal volumes and inventory on-hand. More of our capacity this year was used to securitize renewed mortgages or inventory, which in turn left less room for new originations in the quarter.

### YTD 2015 v YTD 2014

Total mortgage originations increased as a result of stronger performance in both portfolios and most notably due to our entry into the Prime Single Family business last year.

## SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. If the securitized mortgages and the transaction structure meet specific criteria, the mortgages may qualify for balance sheet derecognition. The table below provides a summary of our securitization activity in the reporting and comparative periods.

**Table 10: Securitization and derecognition activity**

(\$ THOUSANDS)				Three months ended		Nine months ended		
	Sep 30, 2015	Jun 30, 2015	% Change	Sep 30, 2014	% Change	Sep 30, 2015	Sep 30, 2014	% Change
Securitized and derecognized <sup>(1)</sup>	\$ 143,742	\$ 214,099	(33%)	\$ 197,927	(27%)	\$ 538,594	\$ 398,033	35%
Retained interests recorded	7,389	6,962	6%	6,860	8%	23,982	14,170	69%
Gains on sale	1,259	1,703	(26%)	1,291	(2%)	4,492	2,806	60%
Gains on sale – percentage <sup>(2)</sup>	0.88%	0.79%	0.09%	0.65%	0.23%	0.83%	0.70%	0.13%

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

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

### Q3 2015 v Q3 2014

Gains on sale decreased primarily due to a decline in volumes of derecognized during the quarter. This decline was the result of lower demand for non-prepayable mortgage products (which generally qualify for derecognition). The gains on sale percentage of 88 bps realized during the quarter was 23 bps higher than in Q3 2014, largely due to a lower cash flow discount rates used to calculate the gains. The spreads on the underlying mortgages remained relatively consistent period over period.

### Q3 2015 v Q2 2015

The volume of mortgages securitized and derecognized decreased sequentially, which resulted in lower gains on sale despite a 9 bps increase in the gains on sale percentage. Volumes derecognized were down for the same reasons discussed above in the Q3 2015 to Q3 2014 comparison.

## YTD 2015 v YTD 2014

On a year-to-date basis, gains on sale increased by \$1.7 million as a result of higher derecognition volumes and gains on sale percentages. Volumes were up because of increased demand for non-prepayable mortgage products.

### 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 allowance for credit losses adequately provides for our risk of loss.

In recent quarters, management has been extensively examining and stress testing our exposure to the Alberta and Saskatchewan markets, given the economic risks associated with declining oil prices. We are comfortable that any credit losses from our current portfolios as a result of economic conditions in these provinces will be manageable. We will continue to monitor the housing markets in these provinces and review our risk management approach to maintain the risk of potential credit losses at an acceptably low level. The highlights of our investments in Alberta and Saskatchewan at September 30, 2015 include:

- \$2.6 billion or 19% of the Company's total mortgage principal is in these two provinces.
  - \$1.4 billion or 54% of those assets are insured. \$0.6 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
  - \$1.2 billion of the assets are uninsured, with \$0.9 billion of that total being single family residential and \$0.3 billion being commercial. These uninsured assets represent only 9% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, \$1.0 billion or 84% are in the cities of greater Edmonton and Calgary. Similarly, \$98.8 million or 8% are in Regina and Saskatoon. Those cities have diversified economies and real estate markets that would be more resilient in the face of economic shocks.
- The average loan to value of our uninsured single family residential mortgages in these provinces is 67.0%.

Details of our Alberta and Saskatchewan lending portfolios can be found in Table 9 of our Q3 2015 Supplemental Information and Regulatory Disclosures Report available on the Company's website at [www.equitablebank.ca](http://www.equitablebank.ca).

**Table 11: Mortgage credit metrics**

(\$ THOUSANDS)	Sep 30, 2015	Jun 30, 2015	Sep 30, 2014
Impairment provision <sup>(1)</sup>	\$ 461	\$ 85	\$ 280
Impairment provision – rate <sup>(1)</sup>	0.01%	0.00%	0.01%
Gross impaired mortgage assets <sup>(2)</sup>	33,241	27,566	40,521
Net impaired mortgage assets <sup>(2)(3)</sup>	29,622	24,382	36,904
Net impaired mortgage assets as a % of total mortgage assets <sup>(2)(3)</sup>	0.21%	0.18%	0.32%
Allowance for credit losses	34,911	34,007	32,928
Allowance for credit losses as a % of total mortgage assets	0.25%	0.26%	0.28%
Allowances for credit losses as a % of gross impaired mortgage assets	105%	123%	81%

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

<sup>(2)</sup> 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.

<sup>(3)</sup> Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.

### Q3 2015 v Q3 2014

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q3 2015:

- Net impaired mortgages decreased in both dollar terms and relative to total mortgage assets, largely because an \$8.5 million commercial loan became current in 2015. Impairment rates remained low by historical standards.
- Our Impairment Provision rate remained consistent with Q3 2014 at a level of 1 bp, a result of our prudent risk management parameters and active monitoring processes.
- The allowance for credit losses as a percentage of total assets remains sufficient in the opinion of management and is greater than gross impaired mortgage balances at quarter end. We expect that this number will continue to decline relative to total assets in future quarters as insured Prime Single Family mortgages grow to represent a greater proportion of our balance sheet.

### Q3 2015 v Q2 2015

Our key credit risk metrics remain well within historical norms and management expectations but have deteriorated slightly from the extraordinarily low levels experienced last quarter. There are no notable changes in our portfolio that caused the increase and we remain confident in the quality of our assets.

### 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 and access other sources of funding, is sufficient for us to meet our mortgage funding and deposit maturity commitments, as well as to ensure that we can collect our receivables and satisfy 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<sup>(1)</sup>**

(\$ THOUSANDS)	Sep 30, 2015	Jun 30, 2015	Sep 30, 2014
Eligible deposits with regulated financial institutions <sup>(2)</sup>	\$ 413,510	\$ 631,775	\$ 317,078
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	24,979	100,295	10,073
Debt securities guaranteed by Government of Canada	17,143	20,585	20,441
Mortgages held in the form of debt securities guaranteed by Government of Canada <sup>(3)</sup>	427,749	527,317	222,179
Obligations under repurchase agreements	(163,189)	(167,767)	(33,569)
Liquid assets held for regulatory purposes	720,192	1,112,205	536,202
Other deposits with regulated financial institutions	8	142	228
Equity securities <sup>(4)</sup>	129,149	139,346	128,233
<b>Total liquid assets<sup>(1)</sup></b>	<b>\$ 849,349</b>	<b>\$ 1,251,692</b>	<b>\$ 664,663</b>
Total assets held for regulatory purposes as a % of total Equitable Bank assets	4.9%	7.8%	4.4%
Total liquid assets as a % of total assets	5.7%	8.7%	5.5%

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

<sup>(2)</sup> Eligible deposits with regulated financial institution represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes \$22.2 million (June 30, 2015 – \$10.3 million, September 30, 2014 – \$8.3 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$94.7 million (June 30, 2015 – \$97.0 million, September 30, 2014 – \$39.4 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

<sup>(3)</sup> 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.

<sup>(4)</sup> Equity securities include publicly traded common and preferred shares.

### **Q3 2015 v Q3 2014**

Liquid assets held for regulatory purposes as a percentage of total assets were up in Q3 2015 relative to the prior year, as a result of higher mortgage fundings and GIC maturities in the current year. The size and composition of our liquidity portfolio at any point in time is influenced by several metrics and factors, most notably by our expected cash needs over the subsequent eight week period.

Effective January 1, 2015, Canadian deposit-taking institutions are required to report on OSFI's new Liquidity Coverage Ratio ("LCR") which is based on Basel III guidelines. This ratio is intended to promote short-term resilience to liquidity risk and ensure that an institution has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. At September 30, 2015, our LCR was well in excess of the regulatory minimum of 100%.

### **Q3 2015 v Q2 2015**

Liquid assets decreased \$402 million or 32% since Q2 2015 because projected cash outflows related to mortgage fundings and GIC maturities were lower in the weeks following quarter end. Mortgage funding activity tends to be seasonal and increases during the summer months.

### **OTHER ASSETS**

Please refer to Note 10 of our Q3 2015 interim consolidated financial statements for details of our Other Asset balances.

### **Q3 2015 v Q3 2014**

Other assets were \$62.9 million at the end of Q3 2015, up by 104% or \$32.0 million from a year ago. The growth was mainly due to increases in the following items:

- \$12.5 million of income tax receivable versus \$4.0 million income tax payable at the end of Q3 2014, a position which results mainly from mark-to-market losses on our preferred share portfolio;
- \$7.8 million of capitalized system development costs, the majority of which will be amortized over a 10 year period;
- \$6.5 million of capital asset investments, related mainly to our digital banking initiative and to an office expansion we have undertaken in support of our growth; and
- \$4.9 million of receivables relating to securitization activities.

Included in Prepaid expenses and other is a net receivable of \$3.2 million (September 30 and December 31, 2014 – \$3.2 million) related to an alleged fraud that was identified in 2011. The Company is currently pursuing a recovery claim under our Financial Institution Bond, which is intended to protect 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 full amount of the receivable.

### **Q3 2015 v Q2 2015**

Other assets increased by \$11.0 million or 21% from June 30, 2015. The change was primarily due to the following increases:

- \$6.0 million of income tax receivable;
- \$2.7 million of capital asset investments, related to our digital banking initiative and the leasehold improvements discussed above; and
- \$1.5 million of capitalized system development costs.

## DEPOSITS

Deposit balances were down by 2% over Q2 2015 as we began to utilize some of the alternative funding sources that we introduced this year. Balances were up by 14% over Q3 2014 and have grown in-line with our overall non-securitized assets, for which they are the primary source of funding. During the quarter, we grew our Equitable Bank High Interest Savings Account balances by 21% or \$139 million to \$791 million.

## SECURITIZATION LIABILITIES

Securitization liability principal was up \$616 million or 13% over Q2 2015 and \$1.3 billion or 31% over Q3 2014. The increase is largely due to the growth of our Prime Single Family business but also to a new funding program established in Q2 2015. This new program, which is sponsored by a major Canadian Schedule I Bank, provides Equitable with a source of matched funding for its uninsured single family mortgages. Once securitized, mortgages remain in the facility until they mature. Equitable bears no risk for the funding of the facility itself.

## BANK FACILITIES AND DEBENTURES

The Bank has two revolving credit facilities to fund insured residential mortgages prior to securitization, with an aggregate capacity of \$700 million. These facilities are with major Schedule I Canadian Banks. At the end of Q3 2015, the outstanding balances on these facilities were \$190 million, as compared to \$142 million at the end of Q2 2015. Last year, the Bank only had one such facility, and it had an outstanding balance of \$95.0 million at the end of Q3 2014. Our increase usage of these facilities is a function of our higher Prime Single Family origination levels.

There was no change to our debentures in the current quarter. The Company's \$20.0 million of Series 9 subordinated debentures are available for redemption after December 15, 2015, with the prior approval of OSFI. The Company intends to redeem the debentures in full at that time. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2014 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 2014 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 7.0% 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). For Tier 1 Capital and Total Capital Ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively.

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. Equitable Bank's CET1 Ratio on an "all-in" basis was 13.4% as at September 30, 2015, while our Tier 1 Capital and Total Capital Ratios were 14.8% and 17.1%, respectively, exceeding the regulatory minimums on an "all-in" basis. Our Tier 1 Capital and Total Capital Ratios were relatively consistent with the prior quarter and Q3 of last year mainly reflecting internal capital generation driven by our strategy of retaining the vast majority of our earnings. As in last quarter, capital levels in Q3 were impacted by \$27.2 million of after-tax mark-to-market losses on our preferred share portfolio and a \$13.2 million capital deduction for intangible assets related to our new product initiatives.

Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale investments and do not believe that the assets are impaired. The losses are a function of current market conditions, specifically reduced expectations for future yields on rate-reset preferred shares. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a risk of credit loss on our holdings.

Effective Q1 2015, Canadian Banks were required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the ACM framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. We have begun to disclose our Leverage Ratio in Q1 2015 and are fully compliant with all regulatory requirements. The Leverage Ratio is not applicable for periods prior to Q1 2015.

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<sup>(1)</sup>**

(\$ THOUSANDS)	Sep 30, 2015	Jun 30, 2015	Sep 30, 2014
Total risk-weighted assets ("RWA")	\$ 5,113,009	\$ 4,983,762	\$ 4,611,934
Common Equity Tier 1 Capital:			
Common shares	144,453	144,276	142,469
Contributed surplus	5,900	5,732	5,304
Retained earnings	572,947	545,500	468,342
Accumulated other comprehensive (loss) income ("AOCI") <sup>(2)</sup>	(25,762)	(13,023)	(786)
Less: Regulatory adjustments to Common Equity Tier 1	(13,206)	(12,088)	(1,755)
Common Equity Tier 1 Capital	684,332	670,397	613,574
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,409
Tier 1 Capital	756,886	742,951	685,983
Tier 2 Capital:			
Collective allowance	31,292	30,275	29,311
Subordinated debentures	85,000	85,000	92,483
Tier 2 Capital	116,292	115,275	121,794
Total Capital	\$ 873,178	\$ 858,226	\$ 807,777
Capital ratios: <sup>(1)</sup>			
CET1 Ratio	13.4%	13.5%	13.3%
Tier 1 Capital Ratio	14.8%	14.9%	14.9%
Total Capital Ratio	17.1%	17.2%	17.5%
Leverage Ratio <sup>(3)</sup>	5.2%	5.3%	N/A

<sup>(1)</sup> See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A. Capital Ratios are calculated on an "all-in" basis.

<sup>(2)</sup> 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 excluded.

<sup>(3)</sup> The Leverage Ratio is not applicable for prior year periods.



## 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 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)	2015			2014				2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>RESULTS OF OPERATIONS</b>								
Net income	\$ 31,448	\$ 33,520	\$ 29,461	\$ 26,885	\$ 27,764	\$ 26,778	\$ 25,291	\$ 26,492
Net income available to common shareholders	30,257	32,330	28,270	24,993	26,857	25,872	24,385	25,586
EPS – basic	\$ 1.96	\$ 2.09	\$ 1.83	\$ 1.62	\$ 1.74	\$ 1.68	\$ 1.59	\$ 1.67
EPS – diluted	\$ 1.93	\$ 2.06	\$ 1.81	\$ 1.59	\$ 1.71	\$ 1.65	\$ 1.56	\$ 1.65
Net interest income <sup>(1)</sup>	61,437	60,995	56,337	54,220	51,716	49,902	48,684	47,264
NIM – TEB: <sup>(2)(3)</sup>								
Total Assets	1.73%	1.79%	1.73%	1.76%	1.76%	1.70%	1.66%	1.63%
Core Lending	2.59%	2.65%	2.60%	2.61%	2.66%	2.57%	2.53%	2.50%
Securitization Financing	0.28%	0.28%	0.23%	0.30%	0.27%	0.31%	0.37%	0.40%
Total revenues <sup>(1)</sup>	147,625	145,593	137,279	134,928	131,900	129,752	126,387	128,813
ROE <sup>(3)</sup>	17.5%	19.8%	17.9%	16.0%	17.8%	18.0%	17.9%	19.2%
Return on average assets <sup>(3)</sup>	0.9%	1.0%	0.9%	0.8%	0.9%	1.0%	0.8%	0.9%
Efficiency ratio – TEB <sup>(3)</sup>	33.4%	32.8%	32.4%	35.4%	31.5%	31.3%	31.9%	28.4%
<b>MORTGAGE ORIGINATIONS</b>								
Single Family Lending Services	744,416	641,095	568,278	758,442	645,842	501,434	403,710	506,244
Commercial Lending Services	235,987	199,977	207,767	253,961	193,668	187,036	125,664	183,008
Core Lending	980,403	841,072	776,045	1,012,403	839,510	688,470	529,374	689,252
Securitization Financing	790,022	555,272	468,722	576,527	479,104	237,522	277,760	365,771
<b>BALANCE SHEET</b>								
Total assets	14,827,610	14,329,824	13,387,915	12,854,903	12,193,335	11,785,388	11,886,479	11,816,453
Mortgages receivable	13,959,432	13,216,267	12,785,852	12,269,945	11,555,700	11,128,395	11,204,349	11,129,867
MUM <sup>(3)</sup>	15,917,079	15,682,049	14,437,643	13,759,706	12,897,242	12,287,267	12,265,257	12,105,968
Liquid assets <sup>(3)</sup>	849,349	1,251,692	756,017	676,559	664,663	707,631	711,385	704,012
Shareholders' equity	764,679	750,149	723,606	703,694	682,863	636,376	611,456	588,318
<b>SHARE CAPITAL</b>								
Dividends declared per:								
Common share	\$ 0.19	\$ 0.19	0.18	\$ 0.18	\$ 0.17	\$ 0.17	0.16	\$ 0.16
Preferred share	\$ 0.40	\$ 0.40	0.40	\$ 0.63	\$ 0.45	\$ 0.45	0.45	\$ 0.45
Common shares outstanding:								
Weighted average basic	15,457,932	15,450,802	15,440,328	15,416,625	15,408,311	15,398,461	15,371,973	15,326,042
Weighted average diluted	15,670,443	15,674,815	15,660,067	15,683,821	15,672,253	15,644,288	15,588,303	15,526,253
Book value per common share	\$ 44.72	\$ 43.80	42.13	\$ 40.90	\$ 39.61	\$ 38.16	\$ 36.58	\$ 35.14

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

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

<sup>(3)</sup> 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. Accounting policies applied by the Company in the Q3 2015 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2014. Refer to Note 3 of the audited consolidated financial statements in the Company's 2014 Annual Report.

## FUTURE ACCOUNTING POLICIES

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 of our Q3 2015 interim consolidated financial statements for further details.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions in the process of applying its accounting policies to measure or disclose its financial results. Management is prudent in determining such estimates and assumptions, and where possible, relies on external information and observable market conditions, supplemented by internal analysis as required. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods. Refer to Note 2 to the Q3 2015 interim consolidated financial statements for further discussion.

## 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 that qualify for derecognition, 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 2014 Annual Report) and letters of credit issued in the normal course of business.

## SECURITIZATION OF FINANCIAL ASSETS

Securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$2.0 billion at September 30, 2015 (June 30, 2015 – \$1.9 billion, September 30, 2014 – \$1.2 billion). The securitization retained interests recorded with respect to these securitization transactions were \$61.5 million (June 30, 2015 – \$57.0 million, September 30, 2014 – \$40.6 million) and the associated servicing liability was \$14.4 million at September 30, 2015 (June 30, 2015 – \$13.7 million, September 30, 2014 – \$10.3 million).

## COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$895 million of mortgages in the ordinary course of business at September 30, 2015 (June 30, 2015 – \$915 million, September 30, 2014 – \$737 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 \$8.3 million were outstanding at September 30, 2015 (June 30, 2015 – \$7.3 million, September 30, 2014 – \$1.2 million), none of which have been drawn upon.

## RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in 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 23 to the consolidated financial statements in the Company's 2014 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 market risk. For a detailed discussion of the risks that affect the Company, please refer to pages 65 to 74 of the Company's 2014 Annual Report which is available on SEDAR at [www.sedar.com](http://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 honour their obligations to the Company. Credit risk arises principally from the Company's lending activities and its investments in debt and equity securities. The Company's exposure to credit risk is monitored by senior management, the Enterprise Risk Management Committee, as well as 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 lending business is providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses on page 16 of this MD&A.

The Company also invests in equity securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 49.9% or \$63.9 million of the preferred share equity securities portfolio at September 30, 2015, compared to 43.8% or \$52.5 million a year earlier.

### LIQUIDITY AND FUNDING RISK

Liquidity and Funding risk is defined as the possibility that the Company will be unable to generate 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, the maturity of mortgage backed securities and commitments to extend credit. The objective of liquidity risk management is to protect the Company's ability to meet all payment obligations as they come due.

The Company has a low tolerance for liquidity and funding risk and adheres to a Liquidity and Funding Risk Management policy that requires it to maintain a pool of high quality liquid assets. Assets held for the purpose of providing liquidity protection may consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. These assets amounted to \$720 million at September 30, 2015, \$1.1 billion at June 30, 2015, and \$536 million at September 30, 2014.

### MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other

attributes. For the interest sensitivity position of the Company as at September 30, 2015, see Note 19 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and its NII. The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following September 30, 2015. 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: Net interest income shock**

<i>(\$ THOUSANDS)</i>	Increase in interest rates	Decrease in interest rates <sup>(1)</sup>
<b>100 basis point shift</b>		
<i>Impact on net interest income</i>	\$ 8,223	\$ (3,984)
<i>Impact on EVE</i>	\$ (5,221)	\$ 7,283
<i>EVE impact as a % of common shareholders' equity</i>	(0.76%)	1.06%
<b>200 basis point shift</b>		
<i>Impact on net interest income</i>	\$ 17,952	\$ (3,984)
<i>Impact on EVE</i>	\$ (8,992)	\$ 11,655
<i>EVE impact as a % of common shareholders' equity</i>	(1.31%)	1.69%

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

Equity Price Risk is defined as the risk of loss from an adverse movement in the value of the Company's securities portfolio due to volatility in financial markets. The Company mitigates this risk by investing only in high-quality, liquid shares and actively monitoring its investment portfolio.

On a monthly basis, the Asset and Liability Committee ("ALCO") reviews the investment performance and the composition and quality of the portfolio. This information is also reviewed by the Investment Committee of the Board quarterly.

## UPDATED SHARE INFORMATION

At November 12, 2015, the Company had 15,476,687 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 596,838 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$22.8 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 third quarter of 2015 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 on the other hand believes that adjusted results as defined below can to some extent that 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 normalized 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 under management (“AUM”):** 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 shareholders’ equity by the number of common shares outstanding.
- **Capital ratios:**
  - **CET1 Ratio:** this key measure of capital strength is defined as CET1 as a percentage of total RWA. 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 and Total Capital Ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1 or Total Capital by total RWA. Tier 1 Capital is calculated by adding non-cumulative preferred shares to CET1. Total Capital equals to Tier 1 plus Tier 2 Capital that is sum of collective allowance and subordinated debentures.
  - **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.
  - 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 period that relates to loans that have been individually assessed as impaired by management. The Impairment Provision includes expected credit losses of both principal and interest, net of recoveries.
- **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 interest earning 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. For the three months ended September 30, 2015, ROE equaled 17.5% (Q2 2015 – 19.8%, Q3 2014 – 17.8%) – net income available to common shareholders of \$30,257 (Q2 2015 – \$32,330, Q3 2014 – \$26,857) divided by weighted average common equity outstanding of \$684,845 (Q2 2015 – \$654,442, Q3 2014 – \$599,152). For the nine months ended September 30, 2015, ROE equaled 18.4% (September 30, 2014 – 17.9%) – net income available to common shareholders of \$90,857 (September 30, 2014 – \$77,114) divided by weighted average common equity outstanding of \$661,771 (September 30, 2014 – \$575,452).
- **Risk-weighted assets ("RWA"):** 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 September 30, 2015 and September 30, 2014, the TEB adjustment was \$0.6 million and \$0.4 million, respectively. For the nine months ended September 30, 2015, the TEB adjustment was \$1.9 million as compared to \$1.4 million for the same period in 2014.

#### 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 measure 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 SEPTEMBER 30, 2015

With comparative figures as at December 31, 2014 and September 30, 2014

(\$ THOUSANDS)

	September 30, 2015	December 31, 2014	September 30, 2014
<b>Assets:</b>			
Cash and cash equivalents	\$ 413,518	\$ 230,063	\$ 317,306
Restricted cash	116,894	67,690	47,698
Securities purchased under reverse repurchase agreements	63,598	18,117	23,546
Investments (Note 6)	149,734	187,664	177,538
Mortgages receivable – Core Lending (Notes 7 & 8)	8,458,087	7,684,425	7,184,989
Mortgages receivable – Securitization Financing (Notes 7 & 8)	5,501,345	4,585,520	4,370,711
Securitization retained interests (Note 8)	61,524	44,983	40,645
Other assets (Note 10)	62,910	36,441	30,902
	<b>\$ 14,827,610</b>	<b>\$ 12,854,903</b>	<b>\$ 12,193,335</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits (Note 11)	\$ 8,055,591	\$ 7,489,418	\$ 7,054,617
Securitization liabilities (Note 8)	5,485,344	4,355,328	4,182,709
Obligations under repurchase agreements	163,189	52,413	33,569
Deferred tax liabilities (Note 12)	25,713	14,843	11,140
Other liabilities (Note 13)	58,094	61,971	40,967
Bank facilities (Note 14)	190,000	92,236	94,987
Debentures	85,000	85,000	92,483
	<b>14,062,931</b>	<b>12,151,209</b>	<b>11,510,472</b>
<b>Shareholders' equity:</b>			
Preferred shares (Note 15)	72,557	72,412	72,412
Common shares (Note 15)	141,971	140,657	139,985
Contributed surplus (Note 16)	4,808	4,331	4,213
Retained earnings	578,295	496,097	473,882
Accumulated other comprehensive loss	(32,952)	(9,803)	(7,629)
	<b>764,679</b>	<b>703,694</b>	<b>682,863</b>
	<b>\$ 14,827,610</b>	<b>\$ 12,854,903</b>	<b>\$ 12,193,335</b>

See accompanying notes to interim consolidated financial statements.



## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015

With comparative figures for the three and nine month periods ended September 30, 2014

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest income:				
Mortgages – Core Lending	\$ 99,135	\$ 86,342	\$ 290,614	\$ 249,733
Mortgages – Securitization Financing	40,907	38,291	117,269	118,668
Investments	1,599	1,315	5,279	4,309
Other	1,821	1,703	4,812	5,235
	<b>143,462</b>	<b>127,651</b>	<b>417,974</b>	<b>377,945</b>
Interest expense:				
Deposits	43,560	38,913	128,614	113,350
Securitization liabilities	35,466	34,859	102,588	108,104
Debentures	1,274	1,403	3,820	4,196
Bank facilities	1,407	760	2,906	1,972
Other	318	-	1,277	21
	<b>82,025</b>	<b>75,935</b>	<b>239,205</b>	<b>227,643</b>
Net interest income	61,437	51,716	178,769	150,302
Provision for credit losses (Note 7)	930	733	2,574	1,785
Net interest income after provision for credit losses	60,507	50,983	176,195	148,517
Other income:				
Fees and other income	3,117	2,231	7,959	5,865
Net (loss) gain on investments	-	426	(450)	1,034
Gains on securitization activities and income from securitization retained interests (Note 8)	1,046	1,592	5,016	3,195
	<b>4,163</b>	<b>4,249</b>	<b>12,525</b>	<b>10,094</b>
Net interest and other income	64,670	55,232	188,720	158,611
Non-interest expenses:				
Compensation and benefits	12,474	10,742	36,664	31,102
Other	9,649	7,025	26,869	19,990
	<b>22,123</b>	<b>17,767</b>	<b>63,533</b>	<b>51,092</b>
Income before income taxes	42,547	37,465	125,187	107,519
Income taxes (Note 12):				
Current	6,133	8,820	19,992	25,509
Deferred	4,966	881	10,766	2,177
	<b>11,099</b>	<b>9,701</b>	<b>30,758</b>	<b>27,686</b>
Net income	\$ 31,448	\$ 27,764	\$ 94,429	\$ 79,833
Earnings per share (Note 17):				
Basic	\$ 1.96	\$ 1.74	\$ 5.88	\$ 5.01
Diluted	\$ 1.93	\$ 1.71	\$ 5.80	\$ 4.93

See accompanying notes to interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015

With comparative figures for the three and nine month periods ended September 30, 2014

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	\$ 31,448	\$ 27,764	\$ 94,429	\$ 79,833
Other comprehensive income – items that may be reclassified subsequently to income:				
Available for sale investments:				
Net unrealized (losses) gains from change in fair value	(17,178)	(780)	(29,931)	3,051
Reclassification of net (gains) losses to income	(130)	(475)	229	(832)
	(17,308)	(1,255)	(29,702)	2,219
Income tax recovery (expense)	4,569	331	7,841	(586)
	(12,739)	(924)	(21,861)	1,633
Cash flow hedges (Note 9):				
Net unrealized losses from change in fair value	(1,636)	(54)	(4,310)	(3,438)
Reclassification of net losses to income	1,103	574	2,560	1,639
	(533)	520	(1,750)	(1,799)
Income tax recovery (expense)	141	(137)	462	475
	(392)	383	(1,288)	(1,324)
Total other comprehensive (loss) income	(13,131)	(541)	(23,149)	309
Total comprehensive income	\$ 18,317	\$ 27,223	\$ 71,280	\$ 80,142

See accompanying notes to interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2015

With comparative figures for the three month period ended September 30, 2014

(\$ THOUSANDS)

September 30, 2015					Accumulated other comprehensive income (loss)				Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
Balance, beginning of period	\$ 72,557	\$ 141,794	\$ 4,640	\$ 550,979	\$ (6,798)	\$ (13,023)	\$ (19,821)	\$ 750,149	
Net income	-	-	-	31,448	-	-	-	31,448	
Other comprehensive loss, net of tax	-	-	-	-	(392)	(12,739)	(13,131)	(13,131)	
Issuance cost	-	-	-	-	-	-	-	-	
Exercise of stock options	-	143	-	-	-	-	-	143	
Dividends:									
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)	
Common shares	-	-	-	(2,941)	-	-	-	(2,941)	
Stock-based compensation	-	-	202	-	-	-	-	202	
Transfer relating to the exercise of stock options	-	34	(34)	-	-	-	-	-	
Balance, end of period	\$ 72,557	\$ 141,971	\$ 4,808	\$ 578,295	\$ (7,190)	\$ (25,762)	\$ (32,952)	\$ 764,679	

September 30, 2014					Accumulated other comprehensive income (loss)				Total
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total		
Balance, beginning of period	\$ 48,494	\$ 139,784	\$ 5,542	\$ 449,644	\$ (5,071)	\$ (2,017)	\$ (7,088)	\$ 636,376	
Net income	-	-	-	27,764	-	-	-	27,764	
Other comprehensive income (loss), net of tax	-	-	-	-	383	(924)	(541)	(541)	
Preferred shares, net of redemption	23,918	-	(1,506)	-	-	-	-	22,412	
Reinvestment of dividends	-	14	-	-	-	-	-	14	
Exercise of stock options	-	152	-	-	-	-	-	152	
Dividends:									
Preferred shares	-	-	-	(907)	-	-	-	(907)	
Common shares	-	-	-	(2,619)	-	-	-	(2,619)	
Stock-based compensation	-	-	212	-	-	-	-	212	
Transfer relating to the exercise of stock options	-	35	(35)	-	-	-	-	-	
Balance, end of period	\$ 72,412	\$ 139,985	\$ 4,213	\$ 473,882	\$ (4,688)	\$ (2,941)	\$ (7,629)	\$ 682,863	

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

With comparative figures for the nine month period ended September 30, 2014

(\$ THOUSANDS)

September 30, 2015	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	\$ 72,412	\$ 140,657	\$ 4,331	\$ 496,097	\$ (5,902)	\$ (3,901)	\$ (9,803)	\$ 703,694	
Net income	-	-	-	94,429	-	-	-	94,429	
Other comprehensive loss, net of tax	-	-	-	-	(1,288)	(21,861)	(23,149)	(23,149)	
Issuance cost	145	-	-	-	-	-	-	145	
Exercise of stock options	-	1,082	-	-	-	-	-	1,082	
Dividends:									
Preferred shares	-	-	-	(3,572)	-	-	-	(3,572)	
Common shares	-	-	-	(8,659)	-	-	-	(8,659)	
Stock-based compensation	-	-	709	-	-	-	-	709	
Transfer relating to the exercise of stock options	-	232	(232)	-	-	-	-	-	
Balance, end of period	\$ 72,557	\$ 141,971	\$ 4,808	\$ 578,295	\$ (7,190)	\$ (25,762)	\$ (32,952)	\$ 764,679	

September 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	-	-	-	79,833	-	-	-	79,833	
Other comprehensive income (loss), net of tax	-	-	-	-	(1,324)	1,633	309	309	
Preferred shares, net of redemption	23,918	-	(1,506)	-	-	-	-	22,412	
Reinvestment of dividends	-	542	-	-	-	-	-	542	
Exercise of stock options	-	1,206	-	-	-	-	-	1,206	
Dividends:									
Preferred shares	-	-	-	(2,719)	-	-	-	(2,719)	
Common shares	-	-	-	(7,699)	-	-	-	(7,699)	
Stock-based compensation	-	-	661	-	-	-	-	661	
Transfer relating to the exercise of stock options	-	268	(268)	-	-	-	-	-	
Balance, end of period	\$ 72,412	\$ 139,985	\$ 4,213	\$ 473,882	\$ (4,688)	\$ (2,941)	\$ (7,629)	\$ 682,863	

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015

With comparative figures for the three and nine month periods ended September 30, 2014

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 31,448	\$ 27,764	\$ 94,429	\$ 79,833
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	(981)	(913)	3,661	(1,812)
Amortization of premium/discount on investments	183	203	582	1,280
Amortization of capital assets and deferred costs	859	780	2,516	2,499
Provision for credit losses	930	733	2,574	1,785
Securitization gains	(1,259)	(1,291)	(4,492)	(2,806)
Net loss on sale or redemption of investments	-	(426)	450	(1,034)
Stock-based compensation	202	212	709	661
Income taxes	11,099	9,701	30,758	27,686
Changes in operating assets and liabilities:				
Restricted cash	(9,556)	11,363	(49,204)	39,621
Securities purchased under reverse repurchase agreements	38,427	(13,547)	(45,481)	31,314
Mortgages receivable, net of securitization	(750,250)	(433,368)	(1,711,914)	(438,642)
Other assets	(404)	(4,789)	1,544	(2,856)
Deposits	(180,902)	544,991	563,116	584,104
Securitization liabilities	614,357	(192,290)	1,130,016	(408,695)
Obligations under repurchase agreements	(4,578)	33,569	110,776	25,426
Bank facilities	48,198	(22,954)	97,764	94,987
Other liabilities	1,158	(2,401)	(4,177)	(9,589)
Income taxes paid	(7,477)	(6,955)	(26,418)	(31,463)
Securitization retained interests	2,868	1,708	7,735	4,537
Cash flows (used in) from operating activities	(205,678)	(47,910)	204,944	(3,164)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid on preferred shares	(1,191)	(907)	(3,572)	(2,719)
Dividends paid on common shares	(2,938)	(2,605)	(5,718)	(6,994)
Preferred share issuance cost	-	-	145	-
Proceeds from issuance of common shares	143	152	1,082	1,206
Issue of preferred shares	-	71,479	-	71,479
Redemption of preferred shares	-	(50,000)	-	(50,000)
Cash flows (used in) from financing activities	(3,986)	18,119	(8,063)	12,972
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(9,653)	(9,069)	(25,089)	(104,812)
Proceeds on sale or redemption of investments	5,846	18,050	14,651	160,137
Net change in Canada Housing Trust re-investment accounts	16	43,853	11,811	9,532
Purchase of capital assets and system development costs	(4,944)	(631)	(14,799)	(1,004)
Cash flows (used in) from investing activities	(8,735)	52,203	(13,426)	63,853
Net (decrease) increase in cash and cash equivalents	(218,399)	22,412	183,455	73,661
Cash and cash equivalents, beginning of period	631,917	294,894	230,063	243,645
Cash and cash equivalents, end of period	\$ 413,518	\$ 317,306	\$ 413,518	\$ 317,306
Cash flows from operating activities include:				
Interest received	\$ 142,938	\$ 127,750	\$ 416,449	\$ 379,294
Interest paid	(82,410)	(68,731)	(230,378)	(204,787)
Dividends received	1,670	1,229	11,035	4,065

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)  
NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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### 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 2014 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on November 12, 2015.

#### (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)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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### (e) Consolidation:

The interim consolidated financial statements as at and for the nine months ended September 30, 2015 and September 30, 2014 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

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, 2014. Refer to Note 3 of the audited consolidated financial statements in the Company's 2014 Annual Report.

#### Future accounting policies:

##### (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 impairment model is an expected loss model as against an incurred loss model in IAS 39. 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.

##### (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 beginning on January 1, 2018 and is available for early adoption. 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.

IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2018 and the Company is in the process of evaluating the impact of IFRS 15 on its financial statements.



## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)  
NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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### 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, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 65 to 74 of the Company's 2014 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, bank facilities and certain other financial assets and liabilities are carried at cost or amortized cost, which approximates fair value.

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

These financial assets and financial liabilities are 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.

##### (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.

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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### (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, share 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)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at September 30, 2015 and December 31, 2014. The tables do not include assets and liabilities that are not considered financial instruments.

	September 30, 2015							
	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	\$ 413,518	\$ -	\$ -	\$ -	\$ -	\$ 413,518	\$ 413,518	
Restricted cash	116,894	-	-	-	-	116,894	116,894	
Securities purchased under reverse repurchase agreements	-	-	-	-	63,598	63,598	63,598	
Investments	875	-	2,443	145,416	1,000	149,734	149,734	
Mortgages receivable – Core Lending	-	48,220	-	-	8,409,867	8,458,087	8,499,457	
Mortgages receivable – Securitization Financing	35,235	-	-	-	5,466,110	5,501,345	5,702,764	
Securitization retained interests	-	-	-	61,524	-	61,524	61,524	
Other assets:								
Derivative financial instruments – interest rate swaps	1,231	-	-	-	-	1,231	1,231	
Derivative financial instruments – bond forwards	572	-	-	-	-	572	572	
Other	-	-	-	-	8,243	8,243	8,243	
<b>Total financial assets</b>	<b>\$ 568,325</b>	<b>\$ 48,220</b>	<b>\$ 2,443</b>	<b>\$ 206,940</b>	<b>\$ 13,948,818</b>	<b>\$ 14,774,746</b>	<b>\$ 15,017,535</b>	
Financial liabilities:								
Deposits	\$ -	\$ 45,566	\$ -	\$ -	\$ 8,010,025	\$ 8,055,591	\$ 8,094,563	
Securitization liabilities	-	-	-	-	5,485,344	5,485,344	5,643,088	
Obligations under repurchase agreements	-	-	-	-	163,189	163,189	163,189	
Other liabilities:								
Derivative financial instruments – total return swaps	-	-	-	-	743	743	743	
Mortgage commitments	54	-	-	-	-	54	54	
Other	-	-	-	-	57,070	57,070	57,070	
Bank facilities	-	-	-	-	190,000	190,000	190,000	
Debentures	-	-	-	-	85,000	85,000	86,231	
<b>Total financial liabilities</b>	<b>\$ 54</b>	<b>\$ 45,566</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,991,371</b>	<b>\$ 14,036,991</b>	<b>\$ 14,234,938</b>	

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

December 31, 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
<b>Financial assets:</b>							
Cash and cash equivalents	\$ 230,063	\$ -	\$ -	\$ -	\$ -	\$ 230,063	\$ 230,063
Restricted cash	67,690	-	-	-	-	67,690	67,690
Securities purchased under reverse repurchase agreements	-	-	-	-	18,117	18,117	18,117
Investments	6,399	-	14,254	166,011	1,000	187,664	187,664
Mortgages receivable – Core Lending	-	49,122	-	-	7,635,303	7,684,425	7,698,794
Mortgages receivable – Securitization Financing	41,310	-	-	-	4,544,210	4,585,520	4,713,069
Securitization retained interests	-	-	-	44,983	-	44,983	44,983
<b>Other assets:</b>							
Derivative financial instruments – interest rate swaps	1,916	-	-	-	-	1,916	1,916
Mortgage commitments	16	-	-	-	-	16	16
Other	-	-	-	-	6,330	6,330	6,330
<b>Total financial assets</b>	<b>\$ 347,394</b>	<b>\$ 49,122</b>	<b>\$ 14,254</b>	<b>\$ 210,994</b>	<b>\$ 12,204,960</b>	<b>\$ 12,826,724</b>	<b>\$ 12,968,642</b>
<b>Financial liabilities:</b>							
Deposits	\$ -	\$ 135,732	\$ -	\$ -	\$ 7,353,686	\$ 7,489,418	\$ 7,500,809
Securitization liabilities	-	-	-	-	4,355,328	4,355,328	4,496,820
Obligations under repurchase agreements	-	-	-	-	52,413	52,413	52,413
<b>Other liabilities:</b>							
Derivative financial instruments – bond forwards	908	-	-	-	-	908	908
Other	-	-	-	-	60,314	60,314	60,314
Bank Facilities	-	-	-	-	92,236	92,236	92,236
Debentures	-	-	-	-	85,000	85,000	85,474
<b>Total financial liabilities</b>	<b>\$ 908</b>	<b>\$ 135,732</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,998,977</b>	<b>\$ 12,135,617</b>	<b>\$ 12,288,974</b>

### (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.

Level 3: valuation techniques with significant unobservable market inputs.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)  
NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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 financial instruments recorded in the consolidated balance sheets, classified using the fair value hierarchy:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 146,291	\$ 2,443	\$ 1,000	\$ 149,734
Mortgages receivable – Core Lending	-	48,220	8,451,237	8,499,457
Mortgages receivable – Securitization Financing	-	35,235	5,667,529	5,702,764
Securitization retained interests	-	61,524	-	61,524
Other assets:				
Derivative financial instruments – interest rate swaps	-	1,231	-	1,231
Derivative financial instruments – bond forwards	-	572	-	572
<b>Total financial assets</b>	<b>\$ 146,291</b>	<b>\$ 149,225</b>	<b>\$ 14,119,766</b>	<b>\$ 14,415,282</b>
Financial liabilities:				
Deposits	-	-	8,094,563	8,094,563
Securitization liabilities	-	1,738,788	3,904,300	5,643,088
Other liabilities:				
Derivative financial instruments – total return swaps	743	-	-	743
Mortgage Commitments	-	-	54	54
Debentures	-	86,231	-	86,231
<b>Total financial liabilities</b>	<b>\$ 743</b>	<b>\$ 1,825,019</b>	<b>\$ 11,998,917</b>	<b>\$ 13,824,679</b>
				December 31, 2014
				Total financial assets/ financial liabilities at fair value
	Level 1	Level 2	Level 3	
Financial assets:				
Investments	\$ 172,410	\$ 14,254	\$ 1,000	\$ 187,664
Mortgages receivable – Core Lending	-	49,122	7,649,672	7,698,794
Mortgages receivable – Securitization Financing	-	41,310	4,671,759	4,713,069
Securitization retained interests	-	44,983	-	44,983
Other assets:				
Derivative financial instruments – interest rate swaps	-	1,916	-	1,916
Mortgage Commitments	-	16	-	16
<b>Total financial assets</b>	<b>\$ 172,410</b>	<b>\$ 151,601</b>	<b>\$ 12,322,431</b>	<b>\$ 12,646,442</b>
Financial liabilities:				
Deposits	-	-	7,500,809	7,500,809
Securitization liabilities	-	1,908,915	2,587,905	4,496,820
Other liabilities:				
Derivative financial instruments – bond forwards	-	908	-	908
Debentures	-	85,474	-	85,474
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 1,995,297</b>	<b>\$ 10,088,714</b>	<b>\$ 12,084,011</b>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### Note 6 – Investments

Carrying value:

	September 30, 2015	December 31, 2014	September 30, 2014
Debt securities guaranteed by Government of Canada	17,143	20,597	20,441
Debt securities – corporate debt	1,000	1,000	-
Equity securities – preferred shares	128,203	143,054	120,047
Equity securities – common shares	945	8,759	8,186
Canada Housing Trust re-investment accounts <sup>(1)(2)</sup>	2,443	14,254	28,864
	<b>\$ 149,734</b>	<b>\$ 187,664</b>	<b>\$ 177,538</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Excludes reverse repurchase agreements of \$38,619 (December 31, 2014 – \$8,119, September 30, 2014 – \$13,474) 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:

	September 30, 2015	December 31, 2014	September 30, 2014
Debt securities guaranteed by Government of Canada	1,273	1,147	857
Equity securities – preferred shares	(37,688)	(7,149)	(5,144)
Equity securities – common shares	15	(396)	(450)
	<b>\$ (36,400)</b>	<b>\$ (6,398)</b>	<b>\$ (4,737)</b>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### Note 7 – Mortgages Receivable

#### (a) Mortgages receivable:

September 30, 2015	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 8,464,519	\$ 2,182	\$ 31,292	\$ 33,474	\$ 8,431,045
Mortgages – Securitization Financing	5,489,707	-	-	-	5,489,707
Accrued interest	40,117	1,437	-	1,437	38,680
	\$ 13,994,343	\$ 3,619	\$ 31,292	\$ 34,911	\$ 13,959,432

December 31, 2014	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending <sup>(1)</sup>	\$ 7,690,252	\$ 2,433	\$ 29,510	\$ 31,943	\$ 7,658,309
Mortgages – Securitization Financing <sup>(1)</sup>	4,574,251	-	-	-	4,574,251
Accrued interest	38,889	1,504	-	1,504	37,385
	\$ 12,303,392	\$ 3,937	\$ 29,510	\$ 33,447	\$ 12,269,945

September 30, 2014	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending <sup>(1)</sup>	\$ 7,192,110	\$ 2,275	\$ 29,311	\$ 31,586	\$ 7,160,524
Mortgages – Securitization Financing <sup>(1)</sup>	4,359,219	-	-	-	4,359,219
Accrued interest	37,299	1,342	-	1,342	35,957
	\$ 11,588,628	\$ 3,617	\$ 29,311	\$ 32,928	\$ 11,555,700

<sup>(1)</sup> In prior years, alternative single family mortgages were reported under Mortgages – Core Lending before being securitized and under Mortgages – Securitization Financing after securitization. Beginning 2015, the Company is reporting all its alternative single family mortgages under Mortgages – Core Lending as it reflects a clearer picture of both our Alternative Single Family business and our Prime Single Family business. Accordingly at December 31, 2014, the Company reclassified \$425,831 (September 30, 2014 – \$355,595) of securitized alternative single family mortgages from Securitization Financing to Core Lending. The Company also reclassified \$11,204 of Interest income from Mortgages – Securitization Financing to Mortgages – Core Lending for the period ending September 30, 2014.

Included in Mortgages – Securitization Financing are insured mortgages held for securitization or for sale but not yet sold of \$371,510 (December 31, 2014 – \$356,479, September 30, 2014 – \$351,139), of which \$35,235 (December 31, 2014 – \$41,310, September 30, 2014 – \$38,999) 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 as at September 30, 2015 is (\$78) (December 31, 2014 – \$218, September 30, 2014 – \$12).

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 September 30, 2015, mortgage principal outstanding for these mortgages was \$46,390 (December 31, 2014 – \$47,180, September 30, 2014 – \$49,441) and the fair value adjustment was \$1,830 (December 31, 2014 – \$1,942, September 30, 2014 – \$2,004).

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

	September 30, 2015	September 30, 2014
Changes in fair value for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	\$ (296)	\$ 118
Changes in fair value for mortgages designated as at fair value through income and recognized in Interest income – Mortgages – Core Lending	(113)	(315)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

At September 30, 2015, the Company had commitments to fund a total of \$879,944 (December 31, 2014 – \$777,890, September 30, 2014 – \$737,214) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest. As a matter of practice, a conventional mortgage is deemed to be impaired at the earlier of the date it has been individually provided for or when contractual payments are past due 90 days. Insured mortgages 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 September 30, 2015, accrued interest on impaired mortgages amounted to \$1,551 (December 31, 2014 – \$2,153, September 30, 2014 – \$1,853).

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

	September 30, 2015			December 31, 2014	September 30, 2014
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	\$ 33,148	\$ 3,619	\$ 29,529	\$ 36,511	\$ 36,176
Mortgages – Core Lending – Insured	93	-	93	148	139
Mortgages – Securitization Financing – Insured	-	-	-	657	589
	\$ 33,241	\$ 3,619	\$ 29,622	\$ 37,316	\$ 36,904

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

	September 30, 2015			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 29,267	\$ 7,263	\$ -	\$ 36,530
Mortgages – Core Lending – Insured	994	-	2,138	3,132
Mortgages – Securitization Financing – Insured	1,356	534	1,289	3,179
	\$ 31,617	\$ 7,797	\$ 3,427	\$ 42,841

  

	December 31, 2014			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 35,522	\$ 8,679	\$ -	\$ 44,201
Mortgages – Core Lending – Insured	890	508	291	1,689
Mortgages – Securitization Financing – Insured	1,983	1,980	1,091	5,054
	\$ 38,395	\$ 11,167	\$ 1,382	\$ 50,944



## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### (c) Allowance for credit losses:

	September 30, 2015		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,937	\$ 29,510	\$ 33,447
Provision for credit losses	792	1,782	2,574
Realized losses	(1,138)	-	(1,138)
Recoveries	28	-	28
Balance, end of period	\$ 3,619	\$ 31,292	\$ 34,911

	September 30, 2014		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,381	\$ 28,096	\$ 31,477
Provision for credit losses	570	1,215	1,785
Realized losses	(350)	-	(350)
Recoveries	16	-	16
Balance, end of period	\$ 3,617	\$ 29,311	\$ 32,928

### 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 2014 Annual Report.

During the period, the Company extended its securitization activities by entering into an agreement with another Schedule I Canadian bank to sell uninsured residential mortgages into a program sponsored by that bank. Under this agreement, the Company sells the mortgages to the program and they remain in the program until maturity. The bank that sponsors the program retains all of the refinancing risks related to the program. The sale of these mortgages does not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and the proceeds received on securitization are recognized under securitization liabilities. The mortgages transferred are pledged as collateral for these securitization liabilities.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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

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

	September 30, 2015		December 31, 2014		September 30, 2014	
	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	\$ 5,613,958	\$ 163,189	\$ 4,656,651	\$ 52,413	\$ 4,375,520	\$ 33,569
Carrying amount of associated liability	5,485,344	163,189	4,355,328	52,413	4,182,709	33,569
Carrying amount, net position	\$ 128,614	\$ -	\$ 301,323	\$ -	\$ 192,811	\$ -
Fair value of assets	\$ 5,818,326	\$ 163,189	\$ 4,783,429	\$ 52,413	\$ 4,473,194	\$ 33,569
Fair value of associated liability	5,643,088	163,189	4,496,820	52,413	4,281,149	33,569
Fair value, net position	\$ 175,238	\$ -	\$ 286,609	\$ -	\$ 192,045	\$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of \$412,812 (December 31, 2014 – \$309,797, September 30, 2014 – \$221,493). The fair value of these assets are \$415,420 (December 31, 2014 – \$310,754, September 30, 2014 – \$222,499).

The carrying amount of assets exclude mortgages held for securitization of \$371,953 (December 31, 2014 – \$356,650, September 30, 2014 – \$351,714).

The Company's outstanding securitization liabilities are as follows:

	September 30, 2015	December 31, 2014	September 30, 2014
Securitization principal	\$ 5,503,688	\$ 4,368,886	\$ 4,187,034
Deferred net discount and issuance costs	(36,503)	(25,307)	(22,942)
Accrued interest	18,159	11,749	18,617
Total	\$ 5,485,344	\$ 4,355,328	\$ 4,182,709

(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:

	September 30, 2015	September 30, 2014
Mortgages securitized and sold	\$ 538,594	\$ 398,033
Carrying value of Securitization retained interests	23,982	14,170
Carrying value of Securitized mortgage servicing liability	5,186	3,580
Gains on mortgages securitized and sold	4,492	2,806
Income from securitization activities and retained interests	524	389

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

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### 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.

Effective May 2015, the Company began hedging the risk of changes in future cash flows related to its Restricted share unit plan by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price.

Effective May 2015, the Company also began hedging the risk of changes in future cash flows related to its Deferred share unit plan by entering into a total return equity swap contract with a third party. The value of this derivative financial instrument is linked to the price of the Company's common shares. Changes in fair value of the derivative offsets the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company does not apply hedge accounting to this derivative financial instrument.

#### Fair value hedges

The Company enters into hedging transactions to manage interest rate exposure on mortgage commitments and deposits used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps and bond forwards. The Company does not apply hedge accounting to these hedging relationships.

The Company also enters into hedging transactions to manage interest rate exposures on certain deposits and has applied hedge accounting to these relationships.



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NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

Derivative instrument and term (years)	September 30, 2014			
	Notional amount	Fair value		Net <sup>(1)</sup>
		Assets	Liabilities	
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	\$ 175,665	\$ 309	\$ -	309
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	185,000	264	-	264
1 to 5	322,000	1,595	-	1,595
Interest rate swaps – non-hedge accounting				
1 or less	175,000	42	-	42
Bond forwards – non-hedge accounting				
1 or less	40,950	-	(10)	(10)
	<u>\$ 898,615</u>	<u>\$ 2,210</u>	<u>\$ (10)</u>	<u>2,200</u>

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

### Cash flow hedges:

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

	September 30, 2015	September 30, 2014
Fair value changes recorded in Other comprehensive income	\$ (1,750)	\$ (1,799)
Fair value changes recorded in Income	(450)	(173)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(2,263)	(1,639)
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	(297)	-

### Fair value hedges:

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

	September 30, 2015	September 30, 2014
Interest rate swaps – hedge accounting	\$ 2,674	\$ 469
Interest rate swaps – non-hedge accounting	(6)	(218)
Bond forwards	351	(144)
Changes in fair value recognized in income	<u>\$ 3,019</u>	<u>\$ 107</u>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### Note 10 – Other Assets

	September 30, 2015	December 31, 2014	September 30, 2014
Deferred system costs	\$ 17,500	\$ 11,669	\$ 9,703
Income taxes recoverable	12,457	-	-
Capital assets	10,491	3,964	4,010
Prepaid expenses and other	8,000	6,399	6,375
Real estate owned	6,623	7,473	7,588
Receivables relating to securitization activities	5,682	4,592	781
Derivative financial instruments – interest rate swaps	1,231	1,916	1,901
Derivative financial instruments – bond forwards	572	-	299
Accrued interest and dividends on non-mortgage assets	354	412	243
Mortgage commitments	-	16	2
	\$ 62,910	\$ 36,441	\$ 30,902

### Note 11 – Deposits

	September 30, 2015	December 31, 2014	September 30, 2014
Term and other deposits	\$ 7,961,678	\$ 7,385,456	\$ 6,959,533
Accrued interest	111,944	122,670	114,082
Deferred deposit agent commissions	(18,031)	(18,708)	(18,998)
	\$ 8,055,591	\$ 7,489,418	\$ 7,054,617

Term and other deposits also include \$45,261 (December 31, 2014 – \$135,841, September 30, 2014 – \$219,938) of deposits 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 deposits were issued, and the fair value adjustment as at September 30, 2015 is \$305 (December 31, 2014 – (\$109), September 30, 2014 – (\$142)).

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

	September 30, 2015	September 30, 2014
Changes in fair value recognized in income	\$ (414)	\$ (28)

Term and other deposits also include \$100,000 (December 31, 2014 – \$502,060, September 30, 2014 – 503,066) of deposits 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 deposits were issued and the fair value adjustment as at September 30, 2015 is \$1,180 (December 31, 2014 – \$1,764, September 30, 2014 – \$1,702).

The impact of changes in fair value attributable to deposits designated in hedging relationships is as follows:

	September 30, 2015	September 30, 2014
Changes in fair value recognized in income	\$ (2,644)	\$ (456)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### Note 12 – Income Taxes

(a) Income tax provision:

	September 30, 2015	September 30, 2014
Current tax expense:		
Current period	\$ 20,045	\$ 26,338
Adjustments for prior years	(53)	(829)
	<b>19,992</b>	25,509
Deferred tax expense:		
Reversal of temporary differences	10,711	1,332
Adjustments for prior years	(59)	817
Change in tax rates	114	28
	<b>10,766</b>	2,177
Total income tax expense	\$ <b>30,758</b>	\$ 27,686

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:

	September 30, 2015	September 30, 2014
Canadian statutory income tax rate	26.5%	26.4%
Increase (decrease) resulting from:		
Tax-exempt income	(2.3%)	(1.0%)
Future tax rate changes	0.1%	0.1%
Non-deductible expenses and other	0.3%	0.3%
Effective income tax rate	<b>24.6%</b>	25.8%

(b) Deferred tax liabilities:

Net deferred tax liabilities are comprised of:

	September 30, 2015	December 31, 2014	September 30, 2014
Deferred income tax assets:			
Allowance for credit losses	\$ 8,405	\$ 7,896	\$ 7,835
Share issue expenses	1,096	1,427	1,519
Other	1,432	1,165	176
	<b>10,933</b>	10,488	9,530
Deferred income tax liabilities:			
Securitization activities	18,656	13,974	12,751
Deposit agent commissions	4,685	4,822	4,892
Net mortgage fees	8,673	3,720	3,027
Other	4,632	2,815	-
	<b>36,646</b>	25,331	20,670
Net deferred income tax liabilities	\$ <b>25,713</b>	\$ 14,843	\$ 11,140

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### Note 13 – Other Liabilities

	September 30, 2015	December 31, 2014	September 30, 2014
Accounts payable and accrued liabilities	\$ 27,968	\$ 16,075	\$ 14,913
Mortgagor realty taxes	14,916	31,512	11,604
Securitized mortgage servicing liability	14,413	11,192	10,307
Derivative financial instruments – total return swaps	743	-	-
Mortgage commitments	54	-	-
Derivative financial instruments – bond forwards	-	908	-
Income taxes payable	-	2,284	4,143
	\$ 58,094	\$ 61,971	\$ 40,967

### Note 14 – Bank Facilities

During the period, the Company secured a \$350,000 revolving facility with a group of major Schedule I Canadian banks to finance insured residential mortgages until such time as they can be securitized. The balance outstanding on this facility as at September 30, 2015 is \$190,000.

The Company also has a \$350,000 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 September 30, 2015 is Nil (December 31, 2014 – \$92,236, September 30, 2014 – \$94,987). For further details on bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2014 Annual Report.



## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### 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 non-cumulative 5-year rate reset preferred shares, Series 3, par value \$25.00 per share
- Unlimited number of non-cumulative floating rate preferred shares, Series 4, par value \$25.00 per share
- Unlimited number of common shares, no par value

Issued and outstanding shares:

	September 30, 2015			September 30, 2014		
	Number of shares	Amount	Dividends per share <sup>(1)</sup>	Number of shares	Amount	Dividends per share <sup>(1)</sup>
<b>Preferred shares:</b>						
Series 1 - Balance, beginning of period	-	\$ -	-	2,000,000	\$ 50,000	-
Redeemed during the period	-	-	-	(2,000,000)	(50,000)	-
Balance, end of period	-	\$ -	\$ -	-	\$ -	1.36
Series 3, Balance - beginning of period	3,000,000	\$ 75,000	-	-	\$ -	-
Issued during the period	-	-	-	3,000,000	75,000	-
Balance, end of period	3,000,000	\$ 75,000	\$ 1.19	3,000,000	\$ 75,000	-
Balance, end of period, before issuance cost	3,000,000	\$ 75,000	-	3,000,000	\$ 75,000	-
Issuance cost	-	(2,443)	-	-	(2,588)	-
Balance, end of period, after issuance cost	3,000,000	\$ 72,557	\$ 1.19	3,000,000	\$ 72,412	1.36
<b>Common shares:</b>						
Balance, beginning of period	15,435,356	\$ 140,657	-	15,355,405	\$ 137,969	-
Contributions from reinvestment of dividends	-	-	-	10,062	542	-
Contributions from exercise of stock options	41,331	1,082	-	46,739	1,206	-
Transferred from contributed surplus relating to the exercise of stock options	-	232	-	-	268	-
Balance, end of period	15,476,687	\$ 141,971	\$ 0.56	15,412,206	\$ 139,985	0.60

<sup>(1)</sup> Dividends per share represent dividends declared by the Company during the period.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### 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 six to seven years and vest over a four or five-year period. As at September 30, 2015, 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 2022. A summary of the Company's stock option activity and related information for the periods ended September 30, 2015 and September 30, 2014 is as follows:

	September 30, 2015		September 30, 2014	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	544,449	\$ 33.52	521,631	\$ 28.54
Granted	101,695	59.98	106,430	53.55
Exercised	(41,331)	26.18	(46,739)	25.79
Forfeited/cancelled	(6,914)	63.78	(13,423)	43.26
Outstanding, end of period	597,899	\$ 38.18	567,899	\$ 33.10
Exercisable, end of period	292,815	\$ 29.88	192,483	\$ 26.54

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$709 (September 30, 2014 – \$661) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended September 30, 2015 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	September 30, 2015	September 30, 2014
Risk-free rate	0.7%	1.6%
Expected option life (years)	4.8	4.8
Expected volatility	22.4%	23.3%
Expected dividends	1.1%	1.5%
Weighted average fair value of each option granted	\$ 10.56	\$ 9.24

#### (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 up to a certain maximum per employee.

During the period ended September 30, 2015, the Company expensed \$398 (September 30, 2014 – \$298) 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 2014 Annual Report.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

During the period, the Company began hedging the risk of change in future cash flows related to the DSU plan. Please refer to Note 9 – Derivative Financial Instruments for further details.

A summary of the Company's DSU activity for the periods ended September 30, 2015 and September 30, 2014 is as follows:

	September 30, 2015	September 30, 2014
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	24,709	32,754
Granted	5,117	5,090
Dividends reinvested	224	263
Exercised	-	(13,464)
Outstanding, end of period	30,050	24,643

The liability associated with DSUs outstanding as at September 30, 2015 was \$1,680 (September 30, 2014 – \$1,573). Compensation expense recorded relating to DSUs outstanding during the nine months ended September 30, 2015 amounted to \$357 (September 30, 2014 – \$841).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs and/or Performance share units ("PSU") are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the RSU plan, each RSU or PSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs or PSUs when cash dividends are paid on the Company's common shares. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employees in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to, and including the vesting date. The value of PSUs can be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada. Please refer to the Company's 2014 Management Information Circular for further details on its compensation plan structure.

During the period, the Company began hedging the risk of change in future cash flows related to the RSU plan. Please refer to Note 9 – Derivative Financial Instruments for further details.

A summary of the Company's RSU activity for the periods ended September 30, 2015 and September 30, 2014 is as follows:

	September 30, 2015	September 30, 2014
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	39,794	44,376
Granted	26,855	21,455
Dividends reinvested	225	258
Forfeited/cancelled	(1,552)	(1,325)
Outstanding, end of period	65,322	64,764

The liability associated with RSUs outstanding as at September 30, 2015 was \$1,991 (September 30, 2014 – \$2,295). Compensation expense recorded relating to RSUs outstanding during the nine months ended September 30, 2015 amounted to \$938 (September 30, 2014 – \$1,320).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### 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.

	September 30, 2015	September 30, 2014
Earnings per common share – basic:		
Net income	\$ 94,429	\$ 79,833
Dividends on preferred shares	3,572	2,719
Net income available to common shareholders	\$ 90,857	\$ 77,114
Weighted average basic number of common shares outstanding	15,457,932	15,393,048
Earnings per common share – basic	\$ 5.88	\$ 5.01
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 90,857	\$ 77,114
Weighted average basic number of common shares outstanding	15,457,932	15,393,048
Adjustment to weighted average number of common shares outstanding:		
Stock options	212,511	242,207
Weighted average diluted number of common shares outstanding	15,670,443	15,635,255
Earnings per common share – diluted	\$ 5.80	\$ 4.93

For the period ended September 30, 2015, the calculation of the diluted earnings per share excluded 198,021 (September 30, 2014 – 10,862) average options outstanding with a weighted average exercise price of \$56.50 (September 30, 2014 – \$52.58) 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)

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### 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 page 19 of this MD&A.

Equitable Bank maintains a Capital Management Policy, and an Internal Capital Adequacy Assessment Process, 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:

	September 30, 2015	December 31, 2014	September 30, 2014
Common Equity Tier 1 Capital ("CET1"):			
Common shares	\$ 144,453	\$ 143,141	\$ 142,469
Contributed surplus	5,900	5,423	5,304
Retained earnings	572,947	490,774	468,342
Accumulated other comprehensive loss <sup>(1)</sup>	(25,762)	(2,453)	(786)
Less: Regulatory adjustments	(13,206)	(1,723)	(1,755)
Common Equity Tier 1 Capital	684,332	635,162	613,574
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	67,603	72,409
Tier 1 Capital	756,886	702,765	685,983
Tier 2 Capital:			
Collective allowance	31,292	29,510	29,311
Subordinated debentures	85,000	85,000	92,483
Tier 2 Capital	116,292	114,510	121,794
Total Capital	\$ 873,178	\$ 817,275	\$ 807,777

<sup>(1)</sup> 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.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

### 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 September 30, 2015:

	September 30, 2015							
	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 <sup>(1)</sup>	Total <sup>(1)</sup>
Total assets	\$ 2,688,657	\$ 1,081,087	\$ 3,323,363	\$ 7,093,107	\$ 6,119,661	\$ 1,447,677	\$ 167,165	\$ 14,827,610
Total liabilities and equity <sup>(2)(3)</sup>	(143)	(3,232,040)	(3,407,414)	(6,639,597)	(5,887,423)	(1,423,980)	(876,610)	(14,827,610)
Off-balance sheet items <sup>(4)</sup>	-	(285,596)	42,785	(242,811)	267,311	(24,500)	-	-
Interest rate sensitive gap	\$ 2,688,514	\$ (2,436,549)	\$ (41,266)	\$ 210,699	\$ 499,549	\$ (803)	\$ (709,445)	\$ -
Cumulative gap <sup>(2)</sup>	\$ 2,688,514	\$ 251,965	\$ 210,699	\$ 210,699	\$ 710,248	\$ 709,445	\$ -	\$ -
Cumulative gap as a percentage of total assets	18.13%	1.70%	1.42%	1.42%	4.79%	4.78%	-	-

	December 31, 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 <sup>(1)</sup>	Total <sup>(1)</sup>
Cumulative gap <sup>(2)(3)(4)</sup>	\$ 1,563,626	\$ 603,890	\$ 114,147	\$ 114,147	\$ 714,130	\$ 645,369	\$ -	\$ -
Cumulative gap as a percentage of total assets	12.16%	4.70%	0.89%	0.89%	5.56%	5.02%	-	-

	September 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 <sup>(1)</sup>	Total <sup>(1)</sup>
Cumulative gap <sup>(2)(3)(4)</sup>	\$ 1,583,422	\$ 436,472	\$ 301,331	\$ 301,331	\$ 679,166	\$ 628,461	\$ -	\$ -
Cumulative gap as a percentage of total assets	12.99%	3.58%	2.47%	2.47%	5.57%	5.15%	-	-

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

<sup>(2)</sup> 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.

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

<sup>(4)</sup> 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.

## DIRECTORS

<b>Eric Beutel</b> Vice-President, Oakwest Corporation Limited, an investment holding company	<b>David LeGresley</b> Chair of the Board of the Company and Equitable Bank, and a Corporate Director	<b>Vincenza Sera</b> Corporate Director
<b>Johanne Brossard</b> Corporate Director	<b>Lynn McDonald</b> Corporate Director	<b>Michael Stramaglia</b> Corporate Director and President and Founder of Matrisc Advisory Group Inc., a risk management consulting firm
<b>Michael Emory</b> President and Chief Executive Officer, Allied Properties REIT	<b>Andrew Moor</b> President and Chief Executive Officer of the Company and Equitable Bank	
<b>Eric Kirzner</b> Professor of Finance, Rotman School of Management, University of Toronto	<b>Rowan Saunders</b> President and Chief Executive Officer, Royal & Sun Alliance Insurance Company of Canada	

## OFFICERS

<b>Andrew Moor</b> President and Chief Executive Officer of the Company and Equitable Bank	<b>Isabelle Farella</b> Vice-President, Internal Audit of Equitable Bank	<b>Rajesh Raut</b> Vice-President and Controller of Equitable Bank
<b>Ron Tratch</b> Vice-President and Chief Risk Officer of the Company and Equitable Bank	<b>Vince Faustini</b> Vice-President, Commercial Mortgage Origination of Equitable Bank	<b>Dan Ruch</b> Vice-President and Chief Compliance Officer of Equitable Bank
<b>Tim Wilson</b> Vice-President and Chief Financial Officer of the Company and Equitable Bank	<b>Scott Fryer</b> Vice-President, Deposit Services of Equitable Bank	<b>John Simoes</b> Vice-President, Financial Planning and Reporting of Equitable Bank
<b>Aviva Braude</b> Vice-President, Mortgage Services of Equitable Bank	<b>Kimberly Kukulowicz</b> Vice-President, Residential Sales and Partner Relations of Equitable Bank	<b>David Soni</b> Vice-President, Risk Policy of Equitable Bank
<b>Dan Dickinson</b> Vice-President, Digital Banking of Equitable Bank	<b>Brian Leland</b> Vice-President, Residential Credit of Equitable Bank	<b>Jody Sperling</b> Vice-President, Human Resources of Equitable Bank
<b>David Downie</b> Vice-President, Commercial Mortgage Origination of Equitable Bank	<b>Darren Lorimer</b> Vice-President, Commercial Lending of Equitable Bank	<b>Nicholas Strube</b> Vice-President and Treasurer of Equitable Bank
	<b>Tamara Malozewski</b> Vice-President, Finance of Equitable Bank	<b>David Yu</b> Vice-President, Information Technology of Equitable Bank

## SHAREHOLDER AND CORPORATE INFORMATION

<b>Corporate Head Office</b> 30 St. Clair Avenue West, Suite 700 Toronto, Ontario, Canada, M4V 3A1	<b>Vancouver</b> 777 Hornby Street, Suite 1240 Vancouver, British Columbia, Canada, V6Z 1S4	<b>Stock Listings</b> TSX: EQB and EQB.PR.C
<b>Regional Offices:</b>	<b>Halifax</b> 1959 Upper Water Street, Suite 1300 Halifax, NS B3J 3N2	<b>Investor Relations</b> Tim Wilson Vice-President and Chief Financial Officer 416.515.7000 investor@equitablegroupinc.com
<b>Quebec</b> 1411 Peel Street, Suite 501 Montreal, Quebec, Canada, H3A 1S5	<b>Website</b> www.equitablebank.ca	
<b>Calgary</b> 600 - 1333 8 <sup>th</sup> Street S.W, Suite 600 Calgary, Alberta, Canada, T2R 1M6	<b>Transfer Agent and Registrar</b> Computershare Investor Services Inc. 100 University Avenue, 9 <sup>th</sup> Floor Toronto, Ontario, Canada, M5J 2Y1 1.800.564.6253	