EQUITABLE

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Third Quarter Report

For the three and nine months ended September 30, 2016

2016

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, 2016

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the unaudited 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, 2016. 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, 2016, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at November 10, 2016. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q3 2016 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB 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(1) of approximately $21 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products, offered under the Equitable Bank and *EQ Bank* brands. 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 that are not well served by the larger Canadian banks or in which we have a unique advantage. Our strategy is to continue growing the Bank over time by delivering superior service to our customers and business partners across Canada, and to diversify by launching new offerings. With this approach, we aim to grow earnings, produce a Return on Equity ("ROE")(1) for our shareholders in the mid to high-teens, and 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 Canadians with various saving options that offer security and attractive interest rates, including Guaranteed Investment Certificates ("GIC"s), brokered High Interest Savings Accounts ("HISA"s), and deposit notes. We generally 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 their clients. Early this year, Equitable started providing select deposit products directly to Canadian savers through our digital banking platform, *EQ Bank*. The first deposit product offered through our digital bank was a new *EQ Bank Savings Plus Account* which was received well by Canadian savers. We intend to expand the range of savings products and services that we offer through *EQ Bank* in future years, while at the same time maintaining a strong commitment to our broker partners.

For further information on Equitable's strategy, capabilities, Business Lines, and key performance indicators please refer to our 2015 annual Management's Discussion and Analysis.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGE)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
RESULTS OF OPERATIONS								
Net income	**$ 35,230**	$ 33,410	5%	$ 31,448	12%	**$ 96,652**	$ 94,429	2%
Net income available to common shareholders	**34,039**	32,219	6%	30,257	12%	**93,079**	90,857	2%
Net interest income[1]	**70,827**	67,010	6%	61,437	15%	**201,431**	178,769	13%
Total revenue[1]	**169,432**	162,861	4%	147,625	15%	**483,984**	430,499	12%
EPS – basic	**$ 2.19**	$ 2.07	6%	$ 1.96	12%	**$ 5.98**	$ 5.88	2%
EPS – diluted	**$ 2.16**	$ 2.05	5%	$ 1.93	12%	**$ 5.93**	$ 5.80	2%
ROE	**17.2%**	17.1%	0.1%	17.5%	(0.3%)	**16.3%**	18.4%	(2.1%)
Return on average assets[2]	**0.8%**	0.8%	-%	0.9%	(0.1%)	**0.8%**	0.9%	(0.1%)
NIM – TEB – total assets[2]	**1.64%**	1.61%	0.03%	1.73%	(0.09%)	**1.62%**	1.76%	(0.14%)
Efficiency Ratio – TEB[2][3]	**37.0%**	38.2%	(1.2%)	33.4%	3.6%	**39.3%**	32.9%	6.4%
BALANCE SHEET								
Total assets	**18,062,846**	17,147,854	5%	14,827,610	22%			
Assets Under Management	**21,024,401**	19,709,617	7%	16,839,263	25%			
Mortgages receivable	**17,049,744**	16,244,106	5%	13,959,432	22%			
Mortgages under Management ("MUM")[2]	**19,922,211**	18,723,056	6%	15,917,079	25%			
Shareholders' equity	**879,367**	843,924	4%	764,679	15%			
CREDIT QUALITY								
Provision for credit losses	**1,243**	105	1,084%	930	34%	**1,575**	2,574	(39%)
Provision for credit losses – rate[2]	**0.03%**	0.00%	0.03%	0.03%	-%	**0.01%**	0.03%	(0.02%)
Net impaired mortgages as a % of total mortgage assets[4]	**0.19%**	0.20%	(0.01%)	0.21%	(0.02%)			
Allowance for credit losses as a % of total mortgage assets	**0.20%**	0.20%	-%	0.25%	(0.05%)			
COMMON SHARE INFORMATION								
Shares outstanding	**15,599,657**	15,566,465	0%	15,476,687	1%			
Book value per share[2]	**$ 51.72**	$ 49.55	4%	$ 44.72	16%			
Share price – close	**$ 58.86**	$ 55.99	5%	$ 56.25	5%			
Market capitalization	**918,196**	871,566	5%	870,564	5%			
EQUITABLE BANK CAPITAL RATIOS[2]								
Risk-weighted assets	**5,968,000**	5,664,575	5%	5,113,009	17%			
CET1 Capital Ratio	**13.4%**	13.5%	(0.1%)	13.4%	-%			
Total Capital Ratio	**16.2%**	16.5%	(0.3%)	17.1%	(0.9%)			
Leverage Ratio	**4.9%**	5.0%	(0.1%)	5.2%	(0.3%)			

[1] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[3] *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
[4] *Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.*

Q3 2016 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Q3 2016 produced record quarterly earnings for Equitable and successful delivery on our key strategic priorities:

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	• Increased MUM to almost $20 billion at the end of third quarter, up 25% from Q3 2015 and 6% from last quarter • Grew our portfolio of Alternative Single Family assets by 21% and doubled the size of our Prime Single Family MUM from last year • Grew our Commercial Lending mortgage portfolio by 19% over Q3 2015 • Originated an all-time record $1.1 billion of Alternative Single Family Lending mortgages, 41% higher than in Q3 2015
Build our capabilities and brand	• Further developed our presence and brand with both brokers and consumers in the Prime Single Family lending market • Grew *EQ Bank Savings Plus Account* balances to over $1.0 billion • Increased our brokered HISA balances by 51%, to $1.2 billion from $791 million a year ago • Reached an agreement to become the successor issuer on $3.1 billion of NHA MBS pools and acquire $139 million of other assets, which is expected to be EPS accretive through 2020. • Furthered our AIRB initiative by developing our internal risk models and beginning to implement reporting tools
Consistently create shareholder value	• Delivered a record quarterly EPS of $2.16, 12% higher than last year • Produced an ROE of 17.2%, just below our 5-year average of 17.7% • Increased book value per share by 16% from Q3 of last year • Declared a common share dividend of $0.22 per share in November, 10% higher than the declaration in November 2015
Maintain a low risk profile	• Maintained a loan-to-value ratio of 68% on our residential mortgage portfolio • Recorded a provision for credit losses of $1.2 million or 3 bps of average loan balances, an increase from the prior quarter • Reported a CET1 Ratio of 13.4%, which was well ahead of regulatory minimums and most competitive benchmarks

ITEMS OF NOTE

There were no items of note in our financial results for Q3 2016, Q2 2016 or Q3 2015.

DIVIDENDS

On November 10, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of $0.22 per common share, payable on January 5, 2017, to common shareholders of record at the close of business on December 15, 2016. This dividend represents a 10% increase over dividends declared in November 2015.

In addition, on November 10, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on December 31, 2016, to preferred shareholders of record at the close of business on December 15, 2016.

BUSINESS OUTLOOK

We expect that our strategy, including our disciplined approach to capital allocation, will lead to EPS growth and returns on our equity that are consistent with our long-term average in Q4 2016 and throughout 2017.

Recent Regulatory Changes

Regulators at the Federal and Provincial levels, as well as politicians, continue to have a heightened sensitivity to the housing market and mortgage lending activities and have recently enacted changes directed at those concerns. Most notably, the Department of Finance recently tightened the qualification criteria for insured loans. Although the new qualification criteria become effective on or before November 30, 2016, it will take time for lenders to modify their strategies and for the housing market to adjust itself to the changes. In addition, the government has proposed lender risk sharing arrangements that could further affect the insured mortgage market. As a result, we believe that it will take at least through the end of 2017 to gain comprehensive visibility into the impact of the recent announcements. Directionally these regulatory interventions should have a negative impact on the level of activity in many segments of the housing market and exert downward pressure on house prices across the country, though we believe that they will be positive in the longer-term in that they will create more market stability.

The impact of these regulations on Equitable's business is less clear, but based on our deep industry experience and consultations with other industry participants, we have developed an initial view on the impact of the changes for purposes of developing our own strategy. Although there is a great deal of uncertainty regarding the future of the market due to competitive and consumer behaviours, and as a result we may change our views over time, we believe it is appropriate to share our preliminary thinking with our investors. Currently and with respect to the changes to be enacted during 2016 only, management believes that:

Potential Impact of Regulatory Changes	*Likely Implications for Equitable*
Reduced access to mortgage insurance will decrease overall housing market activity. As a result of this lower demand, house prices will likely remain constant or contract slightly	• Mortgage originations across the market should fall as a result of fewer transactions at lower values • Equitable's Prime Single Family originations will likely be pressured, but the decline should be partially mitigated by our efforts to increase our nascent market share • Our Prime portfolio continues growing as originations outweigh the runoff of this relatively young portfolio • The prime portfolio represents less than 2% of our earnings after tax, so even significant decreases in the business would not have a material impact on our overall profitability

Potential Impact of Regulatory Changes	*Likely Implications for Equitable*
The existing Alternative Single Family market will not be directly affected by the regulatory changes	• Alternative originations will be indirectly impacted if home prices and activity levels across the market fall • Our Alternative portfolio will continue to grow due to a high level of origination and renewal activity
Many Alternative mortgages that were previously insurable under the low-ratio portfolio insurance program will no longer meet the qualifying criteria	• Our capital ratios will decrease slightly over time, as our ability to portfolio insure conventional mortgages over time diminishes
The insured multi-unit residential market will not be directly affected by the changes, as the change in regulations do not apply to properties with more than four units	• The dynamics in one of Equitable's major businesses are unchanged, and we benefit from our diversified business model

Asset Growth

The Bank operates lending businesses across a wide spectrum of secured real estate assets. This diversification improves the Company's long–term growth potential, reduces our risk profile, and increases the depth of our relationships with our customers and distribution partners.

Even with the market disruption noted above, Equitable believes that there is significant growth and value in all of our existing businesses. We remain committed to our current strategy, though aspects of it will likely evolve as we navigate this period of change. As we see it today, in aggregate these recent regulatory changes will likely be neutral to our company and prospects, but the impact on individual businesses will differ.

As a result of our continued emphasis on service quality, we expect that year-over-year growth of our Mortgages Under Management ("MUM")[(1)] will be at rates in the range of 20 to 25% in the final quarter of 2016 and the mid-teens in 2017. Balance sheet assets should grow at slightly lower levels due to the derecognition of between $0.3 and $0.5 billion of securitized mortgages in each of the next five quarters.

[(1)] *When discussing performance of our businesses, we generally refer to Mortgages Under Management 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.*

Summary of Expectations for Mortgage Portfolio Growth: Q4 2016 and Full Year 2017

Portfolio	Expectations[1]	Rationale and Assumptions[1]
Forecasting asset growth remains challenging given the magnitude of the recent regulatory changes, and competitors and consumers potential reactions thereto. The outlook and comments below reflect management's current views only and are subject to change over time.		
Core Lending: Alternative Single Family	***Q4 2016*** • Assets grow in the range of 20% to 22% ***2017*** • Assets grow in the range of 18% to 20%	• For market level growth assumptions, readers should refer to the section above titled *"Recent Regulatory Changes"* • The Bank's Alternative market share continues to improve due to our consistently high levels of service • Previously insurable Prime volumes migrate to the conventional market and Equitable is able to capture a share of that volume • Although origination growth slows, the portfolio still grows at high rates due to the high absolute level of originations and improved renewal rates • Employment and benchmark interest rates are stable, and overall economic growth in Canada remains low
Core Lending: Commercial	***Q4 2016*** • Assets grow at a rate in the high teens ***2017*** • Assets grow at a rate in the high single digits	• Enhanced focus on key borrower segments leads to strong originations • Attrition rates likely increase from Q3 levels due to a higher level of maturities • Competition in the commercial market trends at a lower level than we experienced in the first half of 2016
Securitization Financing: Prime Single Family	***Q4 2016*** • MUM and balance sheet assets both more than double ***2017*** • MUM and balance sheet assets both grow in excess of 30% per year, with the growth rate declining each quarter	• For market level growth assumptions, readers should refer to the section above titled *"Recent Regulatory Changes"* • Management's initial analysis indicates that over half of 2016 YTD originations will no longer qualify for insurance • Our presence in the prime insured market improves further, and share gains help to partially offset the effects of the regulatory changes • Prime Single Family origination volumes fall, but the portfolio still grows because of low maturity levels in this young portfolio • The economy and housing market grow as indicated above for Alternative Single Family
Securitization Financing: Multi-Unit Residential ("Multis")	***Q4 2016 and 2017*** • MUM growth rate in the mid to high single digits • Balance sheet assets will decline due to high levels of asset derecognition	• Mortgages are renewed and originated in sufficient volume to use our quarterly CMB capacity, which remains at approximately $300 million • Approximately $300-$500 million of Multis will be derecognized from the balance sheet each quarter • We will choose to execute transactions to derecognize Multis rather than Prime Single Family assets due to the relative cost efficiency of the transactions

(1) All growth rates listed in this table are with reference to the prior year.

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, the regulatory environment, the housing market, or general economic conditions change, or if any of the other assumptions outlined in the table do not materialize in the amount or within the timeframes specified. Our outlook may also change if the market's reaction to recent regulatory changes differs from our initial views outlined in the section above titled *"Recent Regulatory Changes".*

Revenue

Management believes that in the last quarter of 2016 and throughout 2017, Net Interest Income ("NII") should increase at year-over-year rates in the mid to high-teens due to continued growth of the Bank's assets. We expect our reported balance sheet assets to grow at year-over-year rates in the range of 18 to 22% in Q4 2016 and in the range of 12% to 15% throughout 2017, with growth of the individual asset categories described in detail above. The positive impacts of this asset growth will be augmented by an increase in Net Interest Margins in 2017.

Total revenue growth will also be supported by Gains on Sale related to our securitization activities. When Securitization Financing assets are derecognized from our Balance Sheet, we cease recording NII on those mortgages and instead record an up-front gain on sale. The continued growth of our businesses will likely cause us to continue derecognizing assets going forward in order to effectively manage our capital position. If regulatory changes reduce the volumes of insured Prime Single Family mortgages that we originate or renew, however, we will reduce the level of our derecognition activity accordingly. If we reduce our derecognition activity, we will realize the Net Interest Income over the life of the mortgages instead of through an up-front gain on sale.

Summary of Expectations for Key Revenue Drivers: Q4 2016 and Full Year 2017

Driver	Expectations	Rationale and Assumptions
NIM: **Core Lending**	***Q4 2016*** • Will remain around Q3 levels ***2017*** • Will decrease by up to 10 bps from Q3 2016	• The Government of Canada overnight rate and the Prime Lending rate do not change through the end of 2017 • Margins within Alternative Single Family and Commercial are stable; price competition does not increase • The portfolio mix shifts slightly more towards lower spread but higher ROE Single Family assets and will cause NIM to gradually decrease • *EQ Bank* deposit balances grow moderately, as we maintain a highly attractive interest rate and add additional features to the platform in 2017
NIM: **Securitization Financing**	***Q4 2016*** • Will be consistent with Q3 levels ***2017*** • Will increase by up to 2 bps over the course of the year	• Multi margins are consistent with current levels • Prime margins will be highly dependent on the market's reaction to recent regulatory changes • Our current belief is that Prime mortgage interest rates will increase, though that will be offset in part by higher insurance premium rates
NIM: **Total**	***Q4 2016*** • Will be consistent with Q3 levels ***2017*** • Will increase by up to 5 bps from Q3 levels	• The growth rate of our higher margin Core Lending portfolio is greater than that of Securitization Financing in 2017, and that mix shift leads to an increase in overall margins • Overall NIM is helped by slightly higher margins within Securitization Financing
Securitization Gains on Sale	***Q4 2016 and 2017*** • Will increase from Q3 levels	• Securitization and derecognition activity is between $300 and $500 million in each of the next five quarters • Overall gain on sale margins will be slightly higher than in Q3 2016

NIM is a function of portfolio mix, with that mix being influenced by both the level of asset derecognition that we achieve and the types of assets that we derecognize. Accordingly, any change to our current securitization and derecognition plans could cause NIM to differ from the expectations outlined above, particularly for the Securitization Financing portfolio. Quarterly NIM may also fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors such as seasonal variations in the level of our liquidity holdings.

Non-Interest Expenses

We anticipate that over the next five quarters, non-interest expenses will increase at year-over-year rates just below the growth rate of the overall business, as we continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. Expense growth rates will trend lower partly because of the high but more consistent level of investment in our key strategic initiatives such as E*Q Bank*. The expense growth rate in Q1 2017 will be even lower due to the $2.6 million of *EQ Bank* launch costs that we incurred in Q1 of last year. These strategic investments reduce efficiency in the near-term but build a foundation for growth and productivity that will benefit our shareholders over the longer-term.

The Bank will continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model, and particularly taking into account the relative scale of our operations. Our Efficiency Ratio will improve further through the end of 2017, though will remain just above the mid 30 percent range throughout that period.

Strategic Initiatives

Throughout 2017 management will continue to pursue our key strategic initiatives. We will invest to: further diversify our sources of funding, in particular to grow *EQ Bank* balances; enhance the capabilities of our digital banking platform; build our presence in the Prime Single Family market; and continue our efforts to migrate to the Advanced Internal Ratings Based ("AIRB") approach to improve the sophistication of our capital and risk management. We expect that all of these initiatives will deliver meaningful long-term value for our shareholders.

Credit Quality

The Bank consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our arrears rates and credit loss provisions to be low over the next several quarters, assuming that Canadian economic conditions stay within the range of broad market expectations. Loss and arrears rates may return to more normal levels from the exceptionally low rates experienced over the past several years, partly due to the challenging economic conditions in Alberta and Saskatchewan.

We discuss the details of our Alberta and Saskatchewan portfolios in the Credit Quality and Allowance for Credit Losses section of this report and have provided additional data regarding on our mortgage portfolios in Table 20 of our Q3 2016 Supplemental Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca. We provide this additional disclosure because of the continuing challenges of the energy industry and the impact thereof on the economies of those two provinces. Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNT)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Net income	**$ 35,230**	$ 33,410	5%	$ 31,448	12%	**$ 96,652**	$ 94,429	2%
EPS – diluted	**$ 2.16**	$ 2.05	5%	$ 1.93	12%	**$ 5.93**	$ 5.80	2%
Net interest income	**70,827**	67,010	6%	61,437	15%	**201,431**	178,769	13%
Provision for credit losses	**1,243**	105	1,084%	930	34%	**1,575**	2,574	(39%)
Non-interest expenses	**29,039**	28,372	2%	22,123	31%	**86,789**	63,533	37%
Income taxes	**12,326**	11,545	7%	11,099	11%	**33,585**	30,758	9%

NET INTEREST INCOME

During the quarter, management refined its NII and NIM reporting by product and business to better match deposit expenses to Securitization Financing and more accurately capture the effects of such items as the timing of mortgage originations and securitizations by computing average rates from daily average balances instead of month end balances outstanding. Q2 2016, Q3 2015 and YTD 2015 comparative balances and rates have been recalculated to conform to the current period presentation.

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, EXCEPT PERCENTAGE)	Three months ended						Nine months ended			
	Sep 30, 2016		Jun 30, 2016		Sep 30, 2015		**Sep 30, 2016**		Sep 30, 2015	
	Revenue/ Expense	**Average rate[1]**	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]	**Revenue/ Expense**	**Average rate[1]**	Revenue/ Expense	Average rate[1]
Core Lending:										
Revenues derived from:										
Mortgages	**$ 114,416**	**4.65%**	$ 107,544	4.65%	$ 99,135	4.80%	**$ 323,379**	**4.64%**	$ 290,614	4.81%
Liquidity investments	**1,428**	**1.01%**	1,573	0.97%	1,713	1.06%	**4,162**	**0.94%**	4,489	1.15%
Equity securities – TEB[2]	**2,040**	**6.67%**	2,520	7.72%	2,031	5.99%	**6,719**	**7.04%**	6,673	6.10%
	117,884	**4.48%**	111,637	4.45%	102,879	4.55%	**334,260**	**4.45%**	301,776	4.61%
Expenses related to:										
Deposits and bank facilities	**44,290**	**2.09%**	42,944	2.13%	42,023	2.15%	**128,131**	**2.12%**	125,183	2.19%
Debentures	**950**	**5.81%**	950	5.88%	1,274	5.94%	**2,850**	**5.86%**	3,820	6.01%
Securitization liabilities	**4,485**	**1.60%**	3,643	1.50%	2,040	1.99%	**11,435**	**1.55%**	3,919	2.13%
	49,725	**2.06%**	47,537	2.09%	45,337	2.18%	**142,416**	**2.08%**	132,922	2.23%
Net interest income – TEB[2]	**68,159**	**2.60%**	64,100	2.55%	57,542	2.56%	**191,844**	**2.55%**	168,854	2.58%
Taxable Equivalent Basis – adjustment[2]	**(569)**		(838)		(589)		**(2,031)**		(1,873)	
Core Lending	**$ 67,590**		$ 63,262		$ 56,953		**$ 189,813**		$ 166,981	

[1] *Average rates are calculated based on the daily average balances outstanding during the period.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

($ THOUSANDS, EXCEPT PERCENTAGE)	Three months ended						Nine months ended			
	Sep 30, 2016		Jun 30, 2016		Sep 30, 2015		**Sep 30, 2016**		Sep 30, 2015	
	Revenue/ Expense	**Average rate[(1)]**	Revenue/ Expense	Average rate[(1)]	Revenue/ Expense	Average rate[(1)]	**Revenue/ Expense**	**Average rate[(1)]**	Revenue/ Expense	Average rate[(1)]
Securitization Financing:										
Revenues derived from:										
Mortgages	**$ 44,776**	**2.61%**	$ 45,296	2.73%	$ 40,907	3.13%	**$ 133,679**	**2.71%**	$ 117,269	3.21%
Liquidity investments	**330**	**1.03%**	344	0.89%	265	0.80%	**906**	**0.97%**	802	0.87%
	45,106	**2.58%**	45,640	2.68%	41,172	3.07%	**134,585**	**2.68%**	118,071	3.15%
Expenses related to:										
Securitization liabilities	**37,004**	**2.54%**	37,711	2.60%	33,426	2.94%	**110,593**	**2.59%**	98,669	3.00%
Deposits and secured funding facility	**4,865**	**1.70%**	4,181	1.79%	3,262	1.75%	**12,374**	**1.74%**	7,614	1.87%
	41,869	**2.40%**	41,892	2.49%	36,688	2.77%	**122,967**	**2.47%**	106,283	2.87%
Securitization Financing	**$ 3,237**	**0.19%**	$ 3,748	0.22%	$ 4,484	0.34%	**$ 11,618**	**0.23%**	$ 11,788	0.31%
Total Assets – TEB[(2)]	**$ 71,396**	**1.64%**	$ 67,848	1.61%	$ 62,026	1.73%	**$ 203,462**	**1.62%**	$ 180,642	1.76%

(1) *Average rates are calculated based on the daily average balances outstanding during the period.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

Q3 2016 v Q3 2015

Net interest income was up 15% due to growth in average asset balances in both the Core Lending and Securitization Financing businesses. Total NIM declined by 9 bps as a result of a shift in asset mix towards our lower yielding Securitization Financing business and a decline in NIM within that business.

Table 4(a): Factors affecting Q3 2016 v Q3 2015 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Mortgage prepayment income	3	• Single Family Lending experienced higher levels of early discharges as a proportion of the portfolio
Asset mix	7	• Reduction in the relative level of our lower yielding liquidity investments
Funding mix	3	• Growth of our low rate brokered deposits and new low cost funding facilities • Partly offset by the successful launch of our higher cost *EQ Bank* deposit product
Rates/spread[(1)]	(8)	• Lower spreads within our Commercial Lending portfolio
Other[(2)]	(1)	
Change in Core Lending NIM	4	
Securitization Financing NIM:		
Mortgage prepayment income	(6)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Other	(9)	• A shift in asset mix towards our Prime Single Family business and unusually low margins within Prime
Change in Securitization NIM	(15)	
Change in Total NIM[(2)]	(9)	

(1) *The rate effect is calculated after adjusting for the impact of asset and funding mix changes.*
(2) *Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.*

Q3 2016 v Q2 2016

Net interest income increased 6% sequentially due to growth in average assets and a 3 bp increase in NIM. The increase in our overall NIM was mainly the result of growth in our Core Lending NIM.

Table 4(b): Factors affecting Q3 2016 v Q2 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	3	• Single Family Lending experienced higher levels of early discharges as a proportion of the portfolio
Asset mix	6	• Growth in our higher yielding Commercial Lending portfolio outpaced the growth in our Single Family Lending business
Rates/spreads[1]	(5)	• Lower spreads within our Commercial Lending portfolio
Other	1	
Change in Core Lending NIM	5	
Securitization Financing NIM:		
Mortgage prepayment income	(4)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Asset mix	1	• Growth of our mortgage portfolio and a reduction in our lower yielding liquidity investments
Change in Securitization NIM	(3)	
Change in Total NIM[2]	3	

(1) The rate effect is calculated after adjusting for the impact of asset and funding mix changes.
(2) Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

YTD 2016 v YTD 2015

Net interest income was up 13% due to an increase in average assets balances, offset in part by a reduction in our NIM. Total NIM decreased as the asset mix shifted towards the lower margin Securitization Financing business and we experienced lower margins within that business and Core Lending.

Table 4(c): Factors affecting YTD 2016 v YTD 2015 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Asset mix	(2)	• A shift in year-to-date average assets towards our lower yielding but higher ROE Single Family business
Funding mix	1	• Growth of our low rate brokered HISA and other low cost funding facilities • Partly offset by the successful launch of our higher cost *EQ Bank* deposit product
Rates/spreads[1]	(2)	• On YTD basis, spreads within both our Commercial and Single Family Lending mortgage portfolios have dropped slightly
Change in Core Lending NIM	(3)	
Securitization Financing NIM:		
Mortgage prepayment income	(3)	• Mortgage prepayment income is inherently volatile
Other	(5)	• A shift in asset mix towards our Prime Single Family business and unusually low margins within Prime
Change in Securitization NIM	(8)	
Change in Total NIM[2]	(14)	

(1) The rate effect is calculated after adjusting for the impact of asset and funding mix changes.
(2) Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

PROVISION FOR CREDIT LOSSES

Table 5: Provision for credit losses

($ THOUSANDS, EXCEPT PERCENTAGE)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Individual provision	**$ 1,243**	$ 105	1,084%	$ 461	170%	**$ 1,575**	$ 792	99%
Collective provision	**-**	-	N/A	469	(100%)	**-**	1,782	(100%)
Provision for credit losses	**$ 1,243**	$ 105	1,084%	$ 930	34%	**$ 1,575**	$ 2,574	(39%)
Provision for credit losses – rate	**0.03%**	0.00%	0.03%	0.03%	-%	**0.01%**	0.03%	(0.02%)
Allowance for credit losses	**$ 33,850**	$ 33,240	1.8%	$ 34,911	(3%)			

The credit quality of our mortgage portfolio remained strong. Our provision for credit losses during the quarter was $1.2 million, up $0.3 million from the same quarter of last year and $1.1 million higher than in Q2 2016. Relative to average mortgage principal outstanding, the annualized provision for credit losses was 3 bps, consistent with Q3 2015 and historical norms. Based on our normal extensive review of mortgage assets and credit allowances, management concluded that this level of provision would maintain allowances at an appropriate level and that no additions to our collective allowance were necessary during the quarter.

The Provision for Credit Losses represents management's best estimate of loss formations during the quarter after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary quarter to quarter based on impaired loan balances, our estimates of the future losses on those loans, and economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: that aggregate amount is represented by the allowance for credit losses on our balance sheet. The allowance was $33.9 million or 20 bps of our total mortgage assets at the end of Q3, in excess of our 10 year average annual loss rate of 4 bps.

OTHER INCOME

Table 6: Other income

($ THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Fees and other income	**$ 3,873**	$ 3,781	2%	$ 3,117	24%	**$ 10,831**	$ 7,959	36%
Net (loss) gain on investments	**(44)**	747	N/A	-	N/A	**703**	(450)	N/A
Securitization activities:								
Gains on securitization and income from retained interests	**2,743**	2,048	34%	1,424	93%	**6,588**	5,202	27%
Fair value gain (losses) on derivative financial instruments	**439**	(154)	N/A	(378)	N/A	**(952)**	(186)	N/A
Total	**$ 7,011**	$ 6,422	9%	$ 4,163	68%	**$ 17,170**	$ 12,525	37%

Q3 2016 v Q3 2015

Other income increased $2.8 million compared with Q3 2015, mainly due to:

- $1.3 million increase in gains on securitization and income from retained interests, driven by a higher volume of securitization transactions that qualify for derecognition;
- $0.8 million increase due to $0.4 million of fair value gains on derivative financial instruments related to securitization activities versus $0.4 million of fair value losses in same quarter of last year; and
- $0.8 million increase in fees and other income driven mainly by growth in our mortgage assets.

(1)

Q3 2016 v Q2 2016

Other income increased $0.6 million compared with last quarter, mainly due to:

- $0.7 million increase in gains on securitization and income from retained interests due to a higher volume of securitization transactions that qualify for derecognition as well as higher margins on that volume during the third quarter; and
- $0.6 million increase in fair value gains on derivative financial instruments related to securitization activities;

Offset by:

- $0.8 million decrease as a result of a small net investment loss in the current quarter compared to a $0.7 million gain in Q2 2016.

YTD 2016 v YTD 2015

Other income increased $4.6 million on a year-over-year basis primarily because of:

- $2.9 million increase in fees and other income due to growth of our mortgage portfolio;
- $1.4 million increase in gains on securitization and income from retained interests, as a result of higher volumes of derecognition; and
- $1.2 million increase in net investment gains, as we earned $0.7 million this year and realized a net loss of $0.5 million during the same period of last year;

Offset by:

- $0.8 million increase in losses on derivative financial instruments related to securitization activities, mainly due to a $1.2 million accounting hedge loss that we recorded in Q1 2016.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

	Three months ended					Nine months ended		
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	**Sep 30, 2016**	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Growth of our franchise:								
Compensation and benefits	**$ 14,181**	$ 13,840	2%	$ 11,482	24%	**$ 41,248**	$ 33,590	23%
Technology and system costs	**3,600**	3,743	(4%)	2,819	28%	**10,476**	8,095	29%
Product costs	**2,074**	1,840	13%	2,070	(0%)	**5,852**	5,533	6%
Regulatory, legal and professional fees	**2,281**	1,817	26%	1,586	44%	**5,641**	4,764	18%
Premises	**1,495**	1,529	(2%)	813	84%	**4,709**	2,621	80%
Marketing and corporate expenses	**1,310**	2,179	(40%)	1,891	(31%)	**5,602**	5,711	(2%)
Non-interest expenses before strategic investments	**$ 24,941**	$ 24,948	(0%)	$ 20,661	21%	**$ 73,528**	$ 60,314	22%
Investments in our future:								
Compensation and benefits	**$ 1,393**	$ 1,353	3%	$ 533	161%	**$ 4,169**	$ 1,611	159%
Other	**2,705**	2,071	31%	929	191%	**9,092**	1,608	465%
Total investments in our future[1]	**$ 4,098**	$ 3,424	20%	$ 1,462	180%	**$ 13,261**	$ 3,219	312%
Total non-interest expenses	**$ 29,039**	$ 28,372	2%	$ 22,123	31%	**$ 86,789**	$ 63,533	37%
Efficiency Ratio – TEB	**37.0%**	38.2%	(1.2%)	33.4%	3.6%	**39.3%**	32.9%	6.4%
Full-time employee ("FTE") – period average	**542**	528	3%	452	20%	**525**	432	22%

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

During the third quarter, management recategorized non-interest expenses as presented in Table 7 to better align like expenses, enhance the reader's ability to understand expense trends between reporting periods, and how management monitors and manages its spending. Q2 2016, Q3 2015 and YTD 2015 comparative figures have been reclassified to conform to the current period presentation.

In Q3 2016, we continued to operate efficiently on both an absolute basis and relative to most other financial institutions, although our Efficiency Ratio increased to 37.0% from 33.4% a year ago. Compared to the previous quarter, our Efficiency Ratio improved by 1.2% to 37.0%.

The year-over-year increase is partly the result of investments that we made in key strategic priorities. These strategic investments are expected to improve our future efficiency, enhance our competitive capabilities and differentiate us from our competitors, thereby creating long-term value for our stakeholders. In total, other expenses grew at a rate in-line with the growth rate of our assets.

Without our strategic investments, our Efficiency Ratio and diluted EPS in Q3 2016 would have been 31.8% and $2.35, respectively (Q2 2016 – 33.6% and $2.21, Q3 2015 – 31.2% and $2.00).

Q3 2016 v Q3 2015

The majority of the increase in our expenses was due to:

Growth of Our Franchise: $4.3 million or 62% of the net increase

- $2.7 million of compensation and benefits costs which were up primarily because of growth in FTE to support our growing businesses;
- $0.8 million in technology and system costs in relation to our core banking system support, maintenance and enhancement;
- $0.7 million in regulatory, legal and professional fees mainly due to CDIC premiums on our growing deposit balances and legal fees incurred in the normal course of business; and
- $0.7 million in premises costs, driven by an increase in rent and depreciation expenses related to the renovation and expansion of our office space;

Offset by:

- $0.6 million decrease in marketing and corporate expenses, primarily attributable to a $0.3 million HST recovery that was recorded in Q3 2016.

Investments in Our Future: $2.6 million or 38% of the net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives. The growth was driven by:

- $0.9 million increase in compensation and benefits related to growth of our digital banking and prime lending teams. We expensed all digital banking related compensation in the quarter, whereas we had capitalized the majority of these costs in the pre-launch phase last year;
- $0.9 million increase for digital banking systems support and maintenance costs;
- $0.8 million increase in product costs, resulting from our amortization of previously capitalized digital banking investments, mainly over a 10 year period; and
- $0.2 million increase in marketing expenses related to marketing programs for *EQ Bank*.

Q3 2016 v Q2 2016

Growth of Our Franchise: remained consistent with Q2 2016

- $0.5 million increase in regulatory, legal and professional fees mainly due to CDIC premiums on our growing deposit balances and higher legal fees incurred in the normal course of business; and
- $0.3 million increase in compensation and benefits expenses as a result of FTE growth;

Offset by:

- $0.9 million decrease in marketing and corporate expenses mostly due to $0.4 million of annual Deferred Share Units ("DSU") grants that occurred in Q2 and a $0.3 million HST recovery that occurred during the current quarter.

Investments in Our Future: $0.7 million increase

The increase in expenses was primarily driven by:

- $0.5 million increase in marketing expenses related to marketing programs for *EQ Bank*.

YTD 2016 v YTD 2015

Growth of Our Franchise: $13.2 million or 57% of the net increase

The increase was a result of the same factors discussed above when comparing Q3 2016 to Q3 2015.

Investments in Our Future: $10.0 million or 43% of the net increase

The higher expenses were mainly due to the factors cited above when comparing Q3 to the same quarter of last year. In addition, we incurred $2.6 million of incremental marketing costs in Q1 2016 to support the successful launch of *EQ Bank*.

Without our strategic investments, our Efficiency Ratio and diluted EPS in 2016 on year-to-date basis would have been 33.3% and $6.61, respectively (YTD 2015 – 31.2% and $6.03).

INCOME TAXES

Q3 2016 v Q3 2015

Our effective income tax rate for the quarter was 25.8%, 0.3% lower than the same quarter of last year.

Q3 2016 v Q2 2016

Our effective income tax rate for the quarter was slightly up from the preceding quarter by 0.1%.

YTD 2016 v YTD 2015

Our year-to-date effective income tax rate increased to 25.8% from 24.6% in the same period of 2015, largely due to an investment transaction in Q2 2015 that reduced the tax provision in that period. Excluding the impact of the investment, our effective tax rate would have been consistent across both periods.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGE)	Sep 30, 2016	Jun 30, 2016	% Change	Dec 31, 2015	% Change	Sep 30, 2015	% Change
Total assets	**$ 18,062,846**	$ 17,147,854	5%	$ 15,527,584	16%	$ 14,827,610	22%
Mortgage principal – Core Lending	**10,197,270**	9,592,792	6%	8,679,129	17%	8,465,883	20%
Mortgage principal – Securitization Financing	**6,763,386**	6,568,501	3%	5,955,318	14%	5,439,543	24%
Deposit principal	**9,180,647**	9,048,465	1%	8,115,483	13%	7,961,678	15%
Total liquid assets as a % of total assets[1]	**5.7%**	6.0%	(0.3%)	5.8%	(0.1%)	5.7%	-%

[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize our ROE, while focusing our strategic growth efforts on both our Alternative and Prime Single Family Lending businesses. The following tables provide mortgage principal continuity schedules by lending portfolio for Q3 2016 and Q3 2015:

Table 9: Mortgage principal continuity schedule

	Three months ended September 30, 2016						
($ THOUSANDS, EXCEPT PERCENTAGE)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[1]**	**Securitization Financing MUM[2]**
Q2 2016 closing balance	**$ 7,155,246**	**$ 2,437,546**	**$ 9,592,792**	**$ 6,568,501**	**$ 16,161,293**	**$ 2,561,763**	**$ 9,130,264**
Originations	**1,050,366**	**367,197**	**1,417,563**	**739,352**	**2,156,915**	**-**	**739,352**
Securitization derecognized	**-**	**-**	**-**	**(427,282)**	**(427,282)**	**427,282**	**-**
Net repayments	**(665,543)**	**(147,542)**	**(813,085)**	**(117,185)**	**(930,270)**	**(27,490)**	**(144,675)**
Q3 2016 closing balance	**$ 7,540,069**	**$ 2,657,201**	**$ 10,197,270**	**$ 6,763,386**	**$ 16,960,656**	**$ 2,961,555**	**$ 9,724,941**
% Change from Q2 2016	**5%**	**9%**	**6%**	**3%**	**5%**	**16%**	**7%**
% Change from Q3 2015	**21%**	**19%**	**20%**	**24%**	**22%**	**47%**	**31%**
Net repayments percentage[3]	**9.3%**	**6.1%**	**8.5%**	**1.8%**	**5.8%**	**1.1%**	**1.6%**

	Three months ended September 30, 2015						
($ THOUSANDS, EXCEPT PERCENTAGE)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[1]	Securitization Financing MUM[2]
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
Securitization derecognized	-	-	-	(143,743)	(143,743)	143,743	-
Net repayments	(465,471)	(285,372)	(750,843)	(145,960)	(896,803)	(16,389)	(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%
Net repayments percentage[3]	7.8%	12.5%	9.1%	3.0%	6.8%	0.9%	2.4%

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

[2] *Securitization Financing MUM includes Securitization Financing balance sheet assets and Derecognized Mortgage Principal.*

[3] *Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.*

Q3 2016 v Q3 2015

Total MUM increased 25%, driven by 20% growth in Core Lending balances and 31% growth in Securitization Financing MUM.

Within Core Lending, the Alternative Single Family Lending portfolio and Commercial lending portfolios both grew due to strong origination levels. Commercial balance growth also benefited from lower than normal attrition rates.

Securitization Financing MUM increased primarily due to origination activity in our Prime Single Family business. As our Prime business is still relatively new, loans are not maturing in any significant volumes yet and accordingly attrition rates are low. We expect that attrition rates will gradually increase over time as the portfolio seasons.

Q3 2016 v Q2 2016

Total MUM increased $1.2 billion or 6% as a result of growth in both Core Lending balances and Securitization Financing MUM, primarily for the same reasons cited above when comparing Q3 2016 to Q3 of last year.

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 with our residential mortgage products, and as such we do not focus on sequential origination comparisons. The table below provides our mortgage originations for Q3 2016 and the comparable period in 2015:

Table 10: Mortgage originations – by lending business

	Three months ended					Nine months ended				
	Sep 30, 2016		Sep 30, 2015			**Sep 30, 2016**		Sep 30, 2015		
($ THOUSANDS, EXCEPT PERCENTAGE)	**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	**$ 1,050,366**	**49%**	$ 744,416	42%	41%	**$ 2,677,720**	**47%**	$ 1,953,789	44%	37%
Commercial Lending	**367,197**	**17%**	235,987	13%	56%	**892,107**	**16%**	643,731	15%	39%
	1,417,563	**66%**	980,403	55%	45%	**3,569,827**	**62%**	2,597,520	59%	37%
Securitization Financing:										
Multi-unit residential	**243,754**	**11%**	267,103	15%	(9%)	**738,204**	**13%**	719,996	16%	3%
Prime single family residential	**495,598**	**23%**	522,919	30%	(5%)	**1,439,684**	**25%**	1,094,020	25%	32%
	739,352	**34%**	790,022	45%	(6%)	**2,177,888**	**38%**	1,814,016	41%	20%
Total mortgage originations	**$ 2,156,915**	**100%**	$ 1,770,425	100%	22%	**$ 5,747,715**	**100%**	$ 4,411,536	100%	30%

Q3 2016 v Q3 2015

The Company delivered record quarterly mortgage origination volumes in Q3 2016.

Core Lending was the main driver of our overall origination growth. Within Core Lending, Alternative Single Family Lending originations were up due to the strength of the Canadian real estate market and market share gains that resulted from our consistently high levels of service quality. Commercial Lending originations were higher due to our increased market focus, our recent rebranding efforts, and the strength of our distribution partnerships.

Securitization Financing originations decreased slightly in the quarter. Of the $496 million of Prime loans that we originated in Q3, $228 million were originated internally which was up $129 million or 130% from last year.

Multi origination volumes were down $23.3 million or 9% compared to the same quarter 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. Our CMB capacity was up in 2016, but so were renewal volumes, and as a result origination volumes decreased.

YTD 2016 v YTD 2015

The Core Lending mortgage originations increased for the reasons that we discussed above when comparing Q3 to the same period of 2015. Securitization Financing originations increased on a yearly basis due to growth in Prime loans that we originated internally and source through third-party partners. This growth reflects our success in building our Prime Single Family mortgage business, both internally and through our mortgage brokers and distribution agents.

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 full or partial balance sheet derecognition and an upfront gain on sale. In some cases, we retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

The table below provides a summary of our securitization and derecognition activity in the reporting and comparative periods.

Table 11: Securitization and derecognition activity

	Three months ended					Nine months ended		
($ THOUSANDS EXCEPT PERCENTAGE)	**Sep 30, 2016**	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Securitization derecognized – non-prepayable Multis	**$ 130,656**	$ 125,432	4%	$ 143,743	(9%)	**$ 407,632**	$ 538,594	(24%)
Securitization derecognized – prepayable mortgages[1]	**296,626**	253,087	17%	-	N/A	**549,713**	-	N/A
Total principal derecognized	**$ 427,282**	$ 378,519	13%	$ 143,743	197%	**$ 957,345**	$ 538,594	78%
Gains on sale	**$ 2,505**	$ 1,894	32%	$ 1,259	99%	**$ 6,018**	$ 4,492	34%
Gains on sale margin[2]	**0.59%**	0.50%	0.09%	0.88%	(0.29%)	**0.63%**	0.83%	(0.20%)

[1] *In order to derecognize prepayable mortgages, Equitable needs to securitize the mortgages through CMHC's CMB or NHA-MBS programs and also then engage in a transaction that transfers the residual risks and rewards to third parties. This additional transaction is not required to derecognize non-prepayable mortgages.*

[2] *Gains on sale margin represents the gains on sale as a percentage of total principal derecognized.*

Q3 2016 v Q3 2015

Gains on sale were up from last year due to an increase in the volume of mortgages derecognized and despite a lower gain on sale margin. Derecognition volumes were up this year because we executed several transactions that transferred the risks and rewards of securitized *prepayable* mortgages to third parties and allowed us to effect derecognition of the assets. We executed these transactions in order to proactively manage our regulatory Leverage Ratio. These transactions resulted in the derecognition of $297 million of prepayable Multis and a gain on sale of $0.8 million (gain on sale margin of 0.27%).

The total gain on sale margin was lower than in Q3 2015 largely due to the costs of the transactions that we executed to derecognize the prepayable Multis and because the mortgages on which we chose to execute these transactions had a relatively lower spread.

Q3 2016 v Q2 2016

Gains on sale were up from the previous quarter due to an increase in the volume of mortgages derecognized and a higher gain on sale margin. The increased volume was the result of our decision to proactively manage our Leverage Ratio position and derecognize additional prepayable mortgages.

YTD 2016 v YTD 2015

Gains on sale increased due to the same reasons cited above when comparing Q3 2016 to the same quarter of last year.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management regularly evaluates the profile of Equitable's loan portfolio and our lending practices, taking into account borrower behaviours and external market variables including market values and employment conditions that prevail in the markets in which we lend. When management judges that the risk associated with a particular region or product is no longer acceptable, we adjust underwriting criteria to ensure that our policies continue to be prudent and reflective of current and expected economic conditions, thereby safeguarding the future health of our portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to maintain a low credit risk profile.

The Company's active management of credit risk and our workout efforts continue to yield positive results as highlighted in the metrics in following table. We believe that these measures reflect the health of the Company's mortgage portfolio and indicate that our allowances adequately provide for the risk of loss.

Table 12: Mortgage credit metrics

($ THOUSANDS, EXCEPT PERCENTAGE)	**Sep 30, 2016**	Jun 30, 2016	Sep 30, 2015
Provision for credit losses	**$ 1,243**	$ 105	$ 930
Provision for credit losses - rate	**0.03%**	0.00%	0.03%
Gross impaired mortgage assets[1]	**34,529**	33,531	33,241
Net impaired mortgage assets[2]	**32,569**	32,181	29,622
Net impaired mortgage assets as a % of total mortgage assets	**0.19%**	0.20%	0.21%
Allowance for credit losses	**33,850**	33,240	34,911
Allowance for credit losses as a % of total mortgage assets	**0.20%**	0.20%	0.25%
Allowances for credit losses as a % of gross impaired mortgage assets	**98%**	99%	105%

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

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

Q3 2016 v Q3 2015

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio continued to be high in Q3 2016:

- Our provision for credit losses was up from Q3 2015 but remained in line with last year and historical norms as a percentage of average mortgage principal.
- Impaired loans increased slightly in dollar terms but were lower relative to the total portfolio. Increases in impaired loans in our Single Family Lending portfolio - of which $3.8 million were in the provinces of Alberta and Saskatchewan - were partially offset by a $7.3 million commercial loan that was resolved during Q3. Impaired loans relative to total mortgage assets remained low but may return to more normalized levels in future quarters.
- The allowance for credit losses as a percentage of total mortgage assets declined year-over-year but remains sufficient in the opinion of management. The allowance declined relative to total assets partly because insured mortgages grew to represent a greater proportion of our balance sheet than a year ago and we do not typically set-up an allowance against insured assets.

Q3 2016 v Q2 2016

Our key credit risk metrics were generally consistent with the prior quarter. The provision for credit losses was up $1.1 million from the low level of the provision booked in Q2.

Alberta and Saskatchewan

Since late 2014, management has been proactively adjusting lending criteria in Alberta and Saskatchewan given the economic risks associated with low oil and gas prices. These adjustments have reduced Equitable's activity in both provinces over the past eighteen months.

The highlights of our investments in Alberta and Saskatchewan at September 30, 2016 include:

- $2.8 billion or 16% of the Company's total mortgage principal is in these two provinces
  - $1.7 billion or 60% of those assets are insured. $0.9 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
  - $1.1 billion of the assets are uninsured, with $0.8 billion of that total being single family residential and $0.3 billion being commercial. These uninsured assets represent only 7% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, $958 million or 85% are in the cities of greater Edmonton and Calgary. Similarly, $83 million or 7% are in Regina and Saskatoon. Those cities have relatively 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 66%
- Impaired mortgages in Alberta and Saskatchewan were $11.6 million or only 0.07% of our total mortgage principal, up as expected from $9.0 million in the preceding quarter and $7.8 million in the prior year
- Early stage delinquencies in Alberta and Saskatchewan were $13.4 million or 0.08% of our total mortgage principal outstanding at the end of Q3 2016, down from $16.6 million in the preceding quarter and up from $8.6 million in the prior year

Overall, the Alberta and Saskatchewan portfolios have performed better than we had expected to date in the face of declining energy prices. Arrears in the third quarter remain small relative to the overall portfolio and are down from Q1. In the first three quarters of 2016, provisions for credit losses in the two provinces were only $0.6 million on impaired mortgages. The table below provides our Alberta and Saskatchewan arrears figures for the past eight quarters:

Alberta and Saskatchewan Delinquencies

	2016			2015				2014
($ THOUSANDS, EXCEPT PERCENTAGE)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Early stage delinquencies[1]	**$ 13,428**	$ 16,573	$ 19,030	$ 9,666	$ 8,602	$ 7,461	$ 14,946	$ 7,413
Impaired mortgages[2]	**11,644**	8,911	9,066	7,103	7,765	6,126	6,060	5,390
Total Delinquencies	**$ 25,072**	$ 25,484	$ 28,096	$ 16,769	$ 16,367	$ 13,587	$ 21,006	$ 12,803
Delinquencies as a % of total mortgage principal	**0.15%**	0.16%	0.18%	0.11%	0.12%	0.10%	0.16%	0.10%
Impaired mortgages as a % of total mortgage principal	**0.07%**	0.06%	0.06%	0.05%	0.06%	0.05%	0.05%	0.04%

(1) *Early stage delinquencies consist of principal of both uninsured mortgages in arrears between 30 and 89 days and insured mortgage in arrears between 30 and 365 days.*
(2) *Impaired mortgages include principal of both uninsured mortgages in arrears greater than 89 days and insured mortgages in arrears 365 days or more.*

Given the low oil price environment and the expected economic impact thereof, we anticipate that our arrears rates in Alberta and Saskatchewan could rise through the remainder of the year and into 2017. Due to our conservative

underwriting approach, our focus on lending in larger urban centres such as Calgary and Edmonton, and our robust workout process, we expect losses to be manageable in the overall context of the Bank's financial position.

In order to arrive at our view on these potential losses, management conducts regular stress tests on our loan portfolio. The results of our most recent *residential housing market* stress tests for Alberta and Saskatchewan indicate that realized loan losses would be manageable under all scenarios tested. We discussed the results of these stress tests in our Q1 and Q2 2016 Management's Discussion and Analysis.

The expected provisions are low due to the nature of Equitable's lending activities and our prudent risk management practices. The primary factors contributing to the low provisions include:

- **Insurance:** over half of our lending portfolio in Alberta and Saskatchewan is insured.
- **Secured Lending:** our lending in these provinces is secured by high-quality residential and commercial real estate.
- **Loan-to-Value Ratios:** the low average loan-to-value ratio of our uninsured residential portfolio in Alberta and Saskatchewan provides us with substantial downside protection against a drop in real estate prices.
- **Market Positioning:** We maintain strict lending policies that govern our activity in the upper and lower ends of the house price spectrum because we view those segments of the market as inherently more risky. As such, we believe that our residential mortgage portfolio, which is weighted to the relatively more stable middle market, will be less impacted by any market instability.
- **Geographic Focus:** Our portfolio is focused on the major urban centres of Calgary, Edmonton, Regina, and Saskatoon. Those cities have relatively diversified economies and liquid real estate markets, which allows Equitable to more quickly realize the value of any collateral.

We will continue to monitor these markets and review our risk management approach in order to maintain the risk of loss at an acceptably low level.

Details of our Alberta and Saskatchewan lending portfolios can be found in our Q3 2016 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

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 13: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGE)	Sep 30, 2016	Jun 30, 2016	Sep 30, 2015
Eligible deposits with regulated financial institutions[1]	**$ 383,375**	$ 336,195	$ 413,510
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**101,175**	150,906	24,979
Debt securities guaranteed by Government of Canada	**3,945**	3,968	17,143
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**500,432**	419,067	427,749
Obligations under repurchase agreements	**(69,290)**	-	(163,189)
Liquid assets held for regulatory purposes	**919,637**	910,136	720,192
Other deposits with regulated financial institutions	**413**	42	8
Equity securities[3]	**117,210**	123,456	129,149
Total liquid assets	**$ 1,037,259**	$ 1,033,634	$ 849,349
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**5.1%**	5.3%	4.9%
Total liquid assets as a % of total assets	**5.7%**	6.0%	5.7%

(1) Eligible deposits with regulated financial institution represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $103.4 million (June 30, 2016 – $27.7 million, September 30, 2015 – $22.2 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $135.5 million (June 30, 2016 – $123.0 million, September 30, 2015 – $94.7 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

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

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

The size and composition of our liquidity portfolio at any point in time is influenced by several factors, most notably by our expected cash needs over the subsequent eight week period and the availability of other funding sources. We always hold sufficient liquid assets to ensure that we can meet these upcoming obligations even through a disruption in the financial markets. In addition, we apply a strategic approach to our liquidity management through rigorous asset-liability matching analysis and stress tests.

In addition to assets that are held for the purpose of providing liquidity protection, we hold other deposits with regulated financial institutions as collateral for our derivative and securitization activities. We also maintain an equity portfolio, the majority of which is investment grade preferred shares that are held to yield tax-preferred dividend income, but which could be liquidated in the event of financial stress.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio ("LCR")[1]. At September 30, 2016, our LCR was well in excess of the regulatory minimum of 100%.

Q3 2016 v Q3 2015

Liquid assets held for regulatory purposes were up as compared with Q3 2015, primarily due to a higher mortgage commitment pipeline. Higher expected future funding generally causes us to keep more liquidity on hand.

Q3 2016 v Q2 2016

Liquid asset balances were consistent with Q2 2016 as our mortgage commitment pipeline and other future funding obligations were stable.

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

OTHER ASSETS

Please refer to Note 10 of our Q3 2016 interim consolidated financial statements for details of our Other asset balances.

Q3 2016 v Q3 2015

Other assets grew 21% or $13.0 million from a year ago mainly due to the following items:

- $9.7 million of capital asset investments, related to an office expansion that we have undertaken in support of our growth and to investments in our computer systems; and
- $12.9 million for a deposit made in relation to the Successor Issuer rights for $3.1 billion of NHA MBS assets, recorded in Prepaid expenses and other;

Offset by:

- $12.5 million decrease in income taxes receivable.

Included in Prepaid expenses and other is a net receivable of $3.2 million (June 30, 2016 and September 30, 2015 – $3.2 million) related to an alleged fraud that was identified in 2011. The Company continues to pursue 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 2016 v Q2 2016

Other assets increased $15.3 million or 25% from the prior quarter end primarily driven by the same reasons cited above when comparing Q3 2016 to Q3 of last year.

DEPOSITS

Table 14: Deposit principal

($ THOUSANDS)	**Sep 30, 2016**	Jun 30, 2016	Sep 30, 2015
GICs	**$ 6,821,166**	$ 6,742,096	$ 6,934,026
Brokered HISAs	**1,197,125**	1,075,208	791,472
EQ Bank Savings Plus Accounts	**1,012,010**	995,645	-
Deposit notes	**150,346**	235,516	236,180
	$ 9,180,647	$ 9,048,465	$ 7,961,678

Our deposits, which are primarily in the form of GICs, HISAs, and deposit notes, provide a reliable and stable source of funding that can be matched against mortgage maturities. Total deposit principal was up $1.2 billion or 15% over Q3 2015, just below the growth rate of our Core Lending portfolio.

The majority of this growth was in our new savings product, the *EQ Bank Savings Plus Account,* and in our brokered HISA product. *EQ Bank* deposits surpassed $1.0 billion at the end of Q3 and were up $16.4 million from the prior quarter. Brokered HISA balances increased by $406 million or 51% from last year and were up 11% from last quarter. The growth of these products has further diversified our funding sources and reduced our overall risk profile.

Deposit note balances decreased by $85 million during the quarter due to the redemption of a floating rate note in September. Although we are committed to maintaining a deposit note program over the long-term, the Bank has not been an active issuer recently as deposit note yields remain high relative to those of our other funding sources.

Brokered term deposit balances were down slightly from a year ago. Our reduced activity in this product reflects the growth in our savings account balances and other alternative sources of funding. Balances increased over last quarter due to the high level of mortgage funding in Q3 and the more moderate growth in our other deposit products.

EQ BANK – A NEW WAY OF BANKING with Equitable

In Q1, 2016, Equitable launched *EQ Bank*, a new and completely digital banking experience. *EQ Bank* operates as part of Equitable Bank but under a separate brand. The *EQ Bank* platform was launched to diversify the Bank's sources of funding by providing a direct-to-consumer channel for deposit gathering. The digital platform provides additional strategic advantages because it builds the value of our brand with consumers and can be leveraged for other future growth opportunities.

In order to manage account growth and ensure we maintain our target high levels of service, we reduced the interest rate on the *EQ Bank Savings Plus Account* to 2.0% in August. We implemented this change earlier than we had expected, but felt it was necessary given market conditions and we are still positioned with a highly competitive rate.

We plan to continue investing in the *EQ Bank* platform, delivering more functionality, and offering a broader range of products and services to Canadian savers over time.

SECURITIZATION LIABILITIES

Securitization liability principal increased $445 million or 7% over Q2 2016 and $1.8 billion or 32% over Q3 2015. The increase from last year is largely due to the growth of our Prime Single Family business but also to a new funding program established in Q2 2015 and expanded in Q2 2016. 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 with major Schedule I Canadian Banks to fund insured residential mortgages prior to securitization, with an aggregate capacity of $700 million. At September 30, 2016, the balance outstanding on these facilities was $399 million (June 30, 2016 – $170 million, September 30, 2015 – $190 million).

There was no change to our debentures in the current quarter. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2015 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 2015 Annual Report.

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. Most of our capital ratios were relatively consistent with the prior quarter and Q3 of last year which reflects our strategy of retaining the vast majority of our earnings to fund our growth. Our Total Capital Ratio was down 9 bps from Q3 of last year partly because we redeemed $20 million of Series 9 subordinated debentures in December 2015.

As with last quarter, capital levels in Q3 were impacted by $26 million of after-tax mark-to-market losses on our preferred share portfolio and a $15 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 lower 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 January 1, 2015, Canadian Banks were required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the Assets-to-Capital Multiple ("ACM") framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 4.9% at September 30, 2016 which makes the Bank fully compliant with our regulatory requirements. Our Leverage Ratio has been trending down in recent quarters due to the growth of our insured Prime Single Family assets. In order to manage our Leverage Ratio position, we executed transactions during Q3 that allowed us to derecognize assets from our Balance Sheet. We will continue to execute similar transactions in the future in order to maintain our Leverage Ratio at or above target levels.

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 15: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGE)	**Sep 30, 2016**	Jun 30, 2016	Sep 30, 2015
Total risk-weighted assets ("RWA")	**$ 5,968,000**	$ 5,664,575	$ 5,113,009
Common Equity Tier 1 Capital:			
Common shares	**148,175**	147,096	144,453
Contributed surplus	**6,206**	6,191	5,900
Retained earnings	**683,583**	652,872	572,947
Accumulated other comprehensive (loss) income ("AOCI")[1]	**(24,133)**	(26,392)	(25,762)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(14,687)**	(14,495)	(13,206)
Common Equity Tier 1 Capital	**799,144**	765,272	684,332
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**871,698**	837,826	756,886
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	31,292
Subordinated debentures	**65,000**	65,000	85,000
Tier 2 Capital	**96,890**	96,890	116,292
Total Capital	**$ 968,588**	$ 934,716	$ 873,178
Capital ratios:			
CET1 Ratio	**13.4%**	13.5%	13.4%
Tier 1 Capital Ratio	**14.6%**	14.8%	14.8%
Total Capital Ratio	**16.2%**	16.5%	17.1%
Leverage Ratio	**4.9%**	5.0%	5.2%

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

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in mortgage prepayment income and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 16: Summary of quarterly results

	2016			2015				2014
($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGE)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
RESULTS OF OPERATIONS								
Net income	**$ 35,230**	$ 33,410	$ 28,012	$ 31,436	$ 31,448	$ 33,520	$ 29,461	$ 26,885
Net income available to common shareholders	**34,039**	32,219	26,821	30,245	30,257	32,330	28,270	24,993
EPS – basic	**$ 2.19**	$ 2.07	$ 1.73	$ 1.95	$ 1.96	$ 2.09	$ 1.83	$ 1.62
EPS – diluted	**$ 2.16**	$ 2.05	$ 1.71	$ 1.93	$ 1.93	$ 2.06	$ 1.81	$ 1.59
Net interest income	**70,827**	67,010	63,594	63,458	61,437	60,995	56,337	54,220
NIM – TEB:								
Total Assets	**1.64%**	1.61%	1.62%	1.69%	1.73%	1.79%	1.74%	1.76%
Core Lending	**2.60%**	2.55%	2.50%	2.64%	2.56%	2.62%	2.55%	2.58%
Securitization Financing	**0.19%**	0.22%	0.31%	0.22%	0.34%	0.31%	0.29%	0.34%
Total revenues	**169,432**	162,861	151,691	151,495	147,625	145,595	137,279	134,928
ROE	**17.2%**	17.1%	14.7%	17.0%	17.5%	19.8%	17.9%	16.0%
Return on average assets	**0.8%**	0.8%	0.7%	0.8%	0.9%	1.0%	0.9%	0.8%
Efficiency Ratio – TEB	**37.0%**	38.2%	43.2%	35.7%	33.4%	32.8%	32.4%	35.4%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**1,050,366**	952,937	674,417	719,361	744,416	641,095	568,278	758,442
Commercial Lending Services	**367,197**	323,061	201,849	259,502	235,987	199,977	207,767	253,961
Core Lending	**1,417,563**	1,275,998	876,266	978,863	980,403	841,072	776,045	1,012,403
Securitization Financing	**739,352**	745,409	693,127	759,258	790,022	555,272	468,722	576,527
Total originations	**2,156,915**	2,021,407	1,569,393	1,738,121	1,770,425	1,396,344	1,244,767	1,588,930
BALANCE SHEET								
Total assets	**18,062,846**	17,147,854	16,411,221	15,527,584	14,827,610	14,329,824	13,387,915	12,854,903
Mortgages receivable	**17,049,744**	16,244,106	15,540,241	14,700,806	13,959,432	13,216,267	12,785,852	12,269,945
MUM	**19,922,211**	18,723,056	17,668,821	16,706,935	15,917,079	15,059,846	14,437,643	13,759,706
Liquid assets	**1,037,259**	1,033,634	939,691	895,056	849,349	1,251,692	756,017	676,559
Shareholders' equity	**879,367**	843,924	816,049	796,116	764,679	750,149	723,606	703,694
SHARE CAPITAL								
Dividends declared per:								
Common share	**$ 0.21**	$ 0.21	$ 0.20	$ 0.20	$ 0.19	$ 0.19	$ 0.18	$ 0.18
Preferred share	**$ 0.40**	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.63
Common shares outstanding:								
Weighted average basic	**15,570,678**	15,556,836	15,543,952	15,493,549	15,471,960	15,461,161	15,440,328	15,416,625
Weighted average diluted	**15,722,532**	15,709,456	15,674,734	15,677,954	15,661,842	15,687,647	15,660,067	15,683,821
Book value per common share	**$ 51.72**	$ 49.55	$ 47.81	$ 46.57	$ 44.72	$ 43.80	$ 42.13	$ 40.90

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 2016 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 to the audited consolidated financial statements in the Company's 2015 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 and IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the Q3 2016 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(d) to the Q3 2016 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 interim consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements in the Company's 2015 Annual Report) and letters of credit issued in the normal course of business.

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $3.0 billion at September 30, 2016 (June 30, 2016 – $2.6 billion, September 30, 2015 – $2.0 billion). The securitization liabilities associated with these transferred assets is approximately $3.0 billion at September 30, 2016 (June 30, 2016 – $2.6 billion, September 30, 2015 – $2.0 billion). The securitization retained interests recorded with respect to certain securitization transactions were $87.3 million at September 30, 2016 (June 30, 2016 – $74.6 million, September 30, 2015 – $61.5 million) and the associated servicing liability was $21.4 million at September 30, 2016 (June 30, 2016 – $17.9 million, September 30, 2015 – $14.4 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.0 billion of mortgages in the ordinary course of business at September 30, 2016 (June 30, 2016 – $1.1 billion, September 30, 2015 – $880 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 $5.6 million were outstanding at September 30, 2016 (June 30, 2016 – $5.6 million, September 30, 2015 – $8.3 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in GIC deposits, subordinated debentures, HISAs, 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 audit consolidated financial statements in the Company's 2015 Annual Report for further details.

RISK MANAGEMENT

Through our 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 us 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 the section entitled Risk Management of the Company's 2015 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

Credit risk is defined as the possibility that the Company will not receive the full value of amounts and recovery costs owed to us if counterparties fail to honor their obligations to the Company. Credit risk arises principally from our lending activities and our 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 our 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 of this MD&A.

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 50% or $59.1 million of the total equity securities portfolio at September 30, 2016, compared to 50% or $63.9 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 99% of the total equity securities portfolio at the end of Q3.

LIQUIDITY AND FUNDING RISK

Liquidity and Funding risk is defined as the possibility that we will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet our 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. Funding and Liquidity Risk may also be affected if an unduly large proportion of our deposit-taking business involves a single person, organization or group of related persons/organizations or a single geographic area.

We have a low tolerance for liquidity and funding risk and adhere to a Liquidity and Funding Risk Management policy that requires us to maintain a pool of high quality liquid assets. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations.

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, 2016, 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 it's 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, 2016. 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 17: Net interest income shock

($ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	**$ 8,951**	**$ (150)**
Impact on EVE	**(10,771)**	**16,783**
EVE impact as a % of common shareholders' equity	**(1.34%)**	**2.09%**
200 basis point shift		
Impact on net interest income	**$ 15,648**	**$ (150)**
Impact on EVE	**(19,849)**	**27,745**
EVE impact as a % of common shareholders' equity	**(2.47%)**	**3.46%**

(1) *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. We mitigate this risk by investing only in high-quality, liquid shares and actively monitoring our 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 10, 2016, the Company had 15,605,957 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 605,600 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $26.8 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 and accompanying notes.

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 2016 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 often do not have any standardized meaning, and therefore, are unlikely to be comparable to similar measures presented by other companies. 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 may present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Management believes that adjusted results as defined below can to some extent enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. Adjusted results are also intended to provide the user with greater consistency and comparability to 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.

($ THOUSANDS)	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change
Total assets on the consolidated balance sheet	$ 18,062,846	$ 17,147,854	5%	$ 14,827,610	22%
Mortgage principal derecognized	2,961,555	2,561,763	16%	2,011,653	47%
Assets Under Management	$ 21,024,401	$ 19,709,617	7%	$ 16,839,263	25%

- **Book value per common share:** is calculated by dividing common shareholders' equity by the number of common shares outstanding.

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change
Shareholders' equity	$ 879,367	$ 843,924	4%	$ 764,679	15%
Less: preferred shares	72,557	72,557	0%	72,557	0%
Common shareholders' equity	$ 806,810	$ 771,367	5%	$ 692,122	17%
Common shares outstanding	15,599,657	15,566,465	0%	15,476,687	1%
Book value per common share	$ 51.72	$ 49.55	4%	$ 44.72	16%

- **Capital ratios:**
  - **CET1 Ratio:** this key measure of capital strength is defined as CET1 capital 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 capital 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 capital. Tier 2 Capital is equal to the sum of the Bank's collective allowance and subordinated debentures. Total Capital equals to Tier 1 plus Tier 2 Capital.
  - **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 Capital Adequacy Requirements ("CAR") Guideline. A detailed calculation of all Capital ratios can be found in Table 15 of this MD&A.

- **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 liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than is in net interest income because 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.

($ THOUSANDS, EXCEPT PERCENTAGE)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Non-interest expenses	**$ 29,039**	$ 28,372	2%	$ 22,123	31%	**$ 86,789**	$ 63,533	37%
Net revenue	**78,407**	74,270	6%	66,189	18%	**220,632**	193,167	14%
Efficiency Ratio	**37.0%**	38.2%	(1.2%)	33.4%	3.6%	**39.3**	32.9%	6.4%

- **Investments in our future:** is the portion of non-interest expenses spent on various strategic initiatives to enable future growth and maintain our superior level of service. In most cases, these investments are made ahead of associated benefits, and as such reduce our net income and elevate our Efficiency Ratio in the current year. A detailed calculation can be found in Tables 7 of this MD&A.

- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are 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 13 of this MD&A.

- **Liquidity Coverage Ratio ("LCR"):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Company's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It is equal to high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.

- **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.

($ THOUSANDS)	**Sep 30, 2016**	Jun 30, 2016	% Change	Sep 30, 2015	% Change
Mortgage principal reported on the consolidated balance sheet	**$ 16,960,656**	$ 16,161,293	5%	$ 13,905,426	22%
Mortgage principal derecognized	**2,961,555**	2,561,763	16%	2,011,653	47%
Mortgages Under Management	**$ 19,922,211**	$ 18,723,056	6%	$ 15,917,079	25%

- **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. A detailed calculation can be found in Table 3 of this MD&A.

- **Net revenue:** is calculated as the sum of net interest income, other income, and the TEB adjustment.

($ THOUSANDS)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Net interest income	**$ 70,827**	$ 67,010	6%	$ 61,437	15%	**$ 201,431**	$ 178,769	13%
Other income	**7,011**	6,422	9%	4,163	68%	**17,170**	12,525	37%
TEB adjustment	**569**	838	(32%)	589	(3%)	**2,031**	1,873	8%
Net revenue	**$ 78,407**	$ 74,270	6%	$ 66,189	18%	**$ 220,632**	$ 193,167	14%

- **Provision for credit losses - rate**: this credit quality metric is calculated on an annualized basis and is defined as the provision for credit losses as a percentage of average loan portfolio outstanding during the period.

($ THOUSANDS, EXCEPT PERCENTAGE)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Provision for credit losses	**$ 1,243**	$ 105	1084%	$ 930	34%	**$ 1,575**	$ 2,574	(39%)
Divided by: average mortgage principal	**16,560,975**	15,812,659	5%	13,540,487	22%	**15,797,551**	13,073,062	21%
Provision for credit Losses - rate	**0.03%**	0.00%	0.03%	0.03%	-%	**0.01%**	0.03%	(0.02%)

- **Return on average assets:** this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average month-end total assets balances outstanding during the period.

($ THOUSANDS, EXCEPT PERCENTAGE)	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Net income	**$ 35,230**	$ 33,410	5%	$ 31,448	12%	**$ 96,652**	$ 94,429	2%
Average total assets	**17,639,942**	16,938,901	4%	14,537,107	21%	**16,854,413**	13,870,281	22%
Return on average assets	**0.8%**	0.8%	-%	0.9%	(0.1%)	**0.8%**	0.9%	(0.1%)

- **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.

($ THOUSANDS, EXCEPT PERCENTAGE))	Three months ended					Nine months ended		
	Sep 30, 2016	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Net income available to common shareholders	**$ 34,039**	$ 32,219	6%	$ 30,257	12%	**$ 93,079**	$ 90,857	2%
Weighted average common equity	**788,749**	757,004	4%	684,831	15%	**764,877**	661,771	16%
Return on shareholders' equity	**17.2%**	17.1%	0.1%	17.5%	(0.3%)	**16.3%**	18.4%	(2.1%)

- **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. A detailed calculation can be found in Table 9 of this MD&A.

- **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, 2016, June 30, 2016, and September 30, 2015, the TEB adjustment was $0.6 million, $0.8 million and $0.8 million. For the nine months ended September 30, 2016, the TEB adjustment was $2.0 million as compared to $1.9 million for the same period in 2015.

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

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

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

	Three months ended					Nine months ended		
($ THOUSANDS)	**Sep 30, 2016**	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Interest income	**$ 162,421**	$ 156,439	4%	$ 143,462	13%	**$ 466,814**	$ 417,974	12%
Less: interest expense	**91,594**	89,429	2%	82,025	12%	**265,383**	239,205	11%
Net interest income	**$ 70,827**	$ 67,010	6%	$ 61,437	15%	**$ 201,431**	$ 178,769	13%

- **Total revenue:** is defined as interest income plus other income.

	Three months ended					Nine months ended		
($ THOUSANDS)	**Sep 30, 2016**	Jun 30, 2016	% Change	Sep 30, 2015	% Change	**Sep 30, 2016**	Sep 30, 2015	% Change
Interest income	**$ 162,421**	$ 156,439	4%	$ 143,462	13%	**$ 466,814**	$ 417,974	12%
Other income	**7,011**	6,422	9%	4,163	68%	**17,170**	12,525	37%
Total revenue	**$ 169,432**	$ 162,861	4%	$ 147,625	15%	**$ 483,984**	$ 430,499	12%

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT SEPTEMBER 30, 2016

With comparative figures as at December 31, 2015 and September 30, 2015

($ THOUSANDS)

	Note	**September 30, 2016**	December 31, 2015	September 30, 2015
Assets:				
Cash and cash equivalents		**$ 383,788**	$ 423,366	$ 413,518
Restricted cash		**238,945**	107,988	116,894
Securities purchased under reverse repurchase agreements		**102,760**	19,918	63,598
Investments	*6*	**124,485**	153,714	149,734
Mortgages receivable – Core Lending	*7, 8*	**10,199,787**	8,674,599	8,458,087
Mortgages receivable – Securitization Financing	*7, 8*	**6,849,957**	6,026,207	5,501,345
Securitization retained interests	*8*	**87,262**	61,650	61,524
Other assets	*10*	**75,862**	60,142	62,910
		$ 18,062,846	$ 15,527,584	$ 14,827,610
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	*11*	**$ 9,268,606**	$ 8,211,265	$ 8,055,591
Securitization liabilities	*8*	**7,258,672**	6,109,436	5,485,344
Obligations under repurchase agreements	*8*	**69,290**	-	163,189
Deferred tax liabilities	*12*	**37,763**	28,698	25,713
Other liabilities	*13*	**85,239**	81,290	58,094
Bank facilities	*14*	**398,909**	235,779	190,000
Debentures		**65,000**	65,000	85,000
		17,183,479	14,731,468	14,062,931
Shareholders' equity:				
Preferred shares	*15*	**72,557**	72,557	72,557
Common shares	*15*	**145,694**	143,690	141,971
Contributed surplus	*16*	**5,114**	4,706	4,808
Retained earnings		**688,867**	605,436	578,295
Accumulated other comprehensive loss		**(32,865)**	(30,273)	(32,952)
		879,367	796,116	764,679
		$ 18,062,846	$ 15,527,584	$ 14,827,610

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016

With comparative figures for the three and nine month periods ended September 30, 2015

($THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended		Nine months ended	
		September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Interest income:					
Mortgages – Core Lending		**$ 114,416**	$ 99,135	**$ 323,379**	$ 290,614
Mortgages – Securitization Financing		**44,776**	40,907	**133,679**	117,269
Investments		**2,142**	1,599	**6,390**	5,279
Other		**1,087**	1,821	**3,366**	4,812
		162,421	143,462	**466,814**	417,974
Interest expense:					
Deposits		**47,204**	43,560	**136,947**	128,614
Securitization liabilities	*8*	**41,489**	35,466	**122,028**	102,588
Bank facilities		**1,926**	1,407	**3,532**	2,906
Debentures		**950**	1,274	**2,850**	3,820
Other		**25**	318	**26**	1,277
		91,594	82,025	**265,383**	239,205
Net interest income		**70,827**	61,437	**201,431**	178,769
Provision for credit losses	*7*	**1,243**	930	**1,575**	2,574
Net interest income after provision for credit losses		**69,584**	60,507	**199,856**	176,195
Other income:					
Fees and other income		**3,873**	3,117	**10,831**	7,959
Net (loss) gain on investments		**(44)**	-	**703**	(450)
Gains on securitization activities and income from securitization retained interests	*8*	**3,182**	1,046	**5,636**	5,016
		7,011	4,163	**17,170**	12,525
Net interest and other income		**76,595**	64,670	**217,026**	188,720
Non-interest expenses:					
Compensation and benefits		**15,574**	12,015	**45,417**	35,201
Other		**13,465**	10,108	**41,372**	28,332
		29,039	22,123	**86,789**	63,533
Income before income taxes		**47,556**	42,547	**130,237**	125,187
Income taxes:					
Current	*12*	**8,227**	6,133	**24,521**	19,992
Deferred		**4,099**	4,966	**9,064**	10,766
		12,326	11,099	**33,585**	30,758
Net income		**$ 35,230**	$ 31,448	**$ 96,652**	$ 94,429
Earnings per share:	*17*				
Basic		**$ 2.19**	$ 1.96	**$ 5.98**	$ 5.88
Diluted		**$ 2.16**	$ 1.93	**$ 5.93**	$ 5.80

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016

With comparative figures for the three and nine month periods ended September 30, 2015

($ THOUSANDS)

		Three months ended		Nine months ended	
	Note	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Net income		**$ 35,230**	$ 31,448	**$ 96,652**	$ 94,429
Other comprehensive income – items that may be reclassified subsequently to income:					
Available for sale investments:					
Net unrealized gains (losses) from change in fair value		**3,249**	(17,178)	**(1,206)**	(29,931)
Reclassification of net (gains) losses to income		**(174)**	(130)	**(1,075)**	229
		3,075	(17,308)	**(2,281)**	(29,702)
Income tax (expense) recovery		**(816)**	4,569	**606**	7,841
		2,259	(12,739)	**(1,675)**	(21,861)
Cash flow hedges*:*	*9*				
Net unrealized gains (losses) from change in fair value		**1,096**	(1,636)	**(3,734)**	(4,310)
Reclassification of net losses to income		**703**	1,103	**2,486**	2,560
		1,799	(533)	**(1,248)**	(1,750)
Income tax (expense) recovery		**(478)**	141	**331**	462
		1,321	(392)	**(917)**	(1,288)
Total other comprehensive income (loss)		**3,580**	(13,131)	**(2,592)**	(23,149)
Total comprehensive income		**$ 38,810**	$ 18,317	**$ 94,060**	$ 71,280

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2016

With comparative figures for the three month period ended September 30, 2015

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
September 30, 2016	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 144,615**	**$ 5,099**	**$ 658,098**	**$ (10,053)**	**$ (26,392)**	**$ (36,445)**	**$ 843,924**
Net income	**-**	**-**	**-**	**35,230**	**-**	**-**	**-**	**35,230**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**1,321**	**2,259**	**3,580**	**3,580**
Exercise of stock options	**-**	**871**	**-**	**-**	**-**	**-**	**-**	**871**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(3,270)**	**-**	**-**	**-**	**(3,270)**
Stock-based compensation	**-**	**-**	**223**	**-**	**-**	**-**	**-**	**223**
Transfer relating to the exercise of stock options	**-**	**208**	**(208)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 145,694**	**$ 5,114**	**$ 688,867**	**$ (8,732)**	**$ (24,133)**	**$ (32,865)**	**$ 879,367**

					Accumulated other comprehensive income (loss)			
September 30, 2015	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	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)
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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016

With comparative figures for the nine month period ended September 30, 2015

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
September 30, 2016	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 143,690**	**$ 4,706**	**$ 605,436**	**$ (7,815)**	**$ (22,458)**	**$ (30,273)**	**$ 796,116**
Net income	**-**	**-**	**-**	**96,652**	**-**	**-**	**-**	**96,652**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(917)**	**(1,675)**	**(2,592)**	**(2,592)**
Exercise of stock options	**-**	**1,615**	**-**	**-**	**-**	**-**	**-**	**1,615**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(3,573)**	**-**	**-**	**-**	**(3,573)**
Common shares	**-**	**-**		**(9,648)**	**-**	**-**	**-**	**(9,648)**
Stock-based compensation	**-**	**-**	**797**	**-**	**-**	**-**	**-**	**797**
Transfer relating to the exercise of stock options	**-**	**389**	**(389)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 145,694**	**$ 5,114**	**$ 688,867**	**$ (8,732)**	**$ (24,133)**	**$ (32,865)**	**$ 879,367**

					Accumulated other comprehensive income (loss)			
September 30, 2015	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016

With comparative figures for the three and nine month periods ended September 30, 2015

($ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 35,230**	$ 31,448	**$ 96,652**	$ 94,429
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	**(2,479)**	(981)	**(3,488)**	3,661
Amortization of premiums/discount on investments	**114**	183	**393**	582
Amortization of capital assets and intangible costs	**1,963**	859	**5,758**	2,516
Provision for credit losses	**1,243**	930	**1,575**	2,574
Securitization gains	**(2,505)**	(1,259)	**(6,018)**	(4,492)
Net loss (gain) on sale or redemption of investments	**44**	-	**(703)**	450
Stock-based compensation	**223**	202	**797**	709
Income taxes	**12,326**	11,099	**33,585**	30,758
Changes in operating assets and liabilities:				
Restricted cash	**(88,254)**	(9,556)	**(130,957)**	(49,204)
Securities purchased under reverse repurchase agreements	**48,146**	38,427	**(82,843)**	(45,481)
Mortgages receivable, net of securitizations	**(821,327)**	(750,250)	**(2,381,080)**	(1,711,914)
Other assets	**(14,713)**	(404)	**(14,346)**	1,544
Deposits	**120,927**	(180,902)	**1,058,964**	563,116
Securitization liabilities	**450,708**	614,357	**1,149,236**	1,130,016
Obligations under repurchase agreements	**69,290**	(4,578)	**69,290**	110,776
Bank facilities	**228,909**	48,198	**163,130**	97,764
Other liabilities	**4,198**	1,158	**(13)**	(4,177)
Income taxes paid	**(2,885)**	(7,477)	**(14,339)**	(26,418)
Securitization retained interests	**4,339**	2,868	**11,342**	7,735
Cash flows from (used in) operating activities	**45,497**	(205,678)	**(43,065)**	204,944
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid on preferred shares	**(1,191)**	(1,191)	**(3,573)**	(3,572)
Dividends paid on common shares	**(3,270)**	(2,938)	**(9,485)**	(5,718)
Issue of preferred shares, net of issuance cost	**-**	-	**-**	145
Proceeds from issuance of common shares	**871**	143	**1,614**	1,082
Cash flows used in financing activities	**(3,590)**	(3,986)	**(11,444)**	(8,063)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**-**	(9,653)	**(6,783)**	(25,089)
Proceeds on sale or redemption of investments	**8,997**	5,846	**32,605**	14,651
Net change in Canada Housing Trust re-investment accounts	**15**	16	**64**	11,811
Purchase of capital assets and system development costs	**(3,368)**	(4,944)	**(10,955)**	(14,799)
Cash flows from (used in) investing activities	**5,644**	(8,735)	**14,931**	(13,426)
Net increase (decrease) in cash and cash equivalents	**47,551**	(218,399)	**(39,578)**	183,455
Cash and cash equivalents, beginning of period	**336,237**	631,917	**423,366**	230,063
Cash and cash equivalents, end of period	**$ 383,788**	$ 413,518	**$ 383,788**	$ 413,518
Cash flows from operating activities include:				
Interest received	**$ 162,889**	$ 142,938	**$ 463,336**	$ 416,449
Interest paid	**(89,638)**	(82,410)	**(246,382)**	(230,378)
Dividends received	**1,604**	1,670	**5,705**	11,035

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 2015 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 10, 2016.

(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.

(e) Consolidation:

The interim consolidated financial statements as at and for the nine months ended September 30, 2016 and September 30, 2015 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, 2015. Refer to Note 3 of the audited consolidated financial statements in the Company's 2015 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)

IFRS 15 Revenue from Contracts with Customers is effective for fiscal years beginning on January 1, 2017 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.

(c) Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16 Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 51 to 61 of the Company's 2015 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 risks.

(iv) Deposits

The estimated fair value of deposits is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Deposit liabilities include GICs that are measured at fair value through income and are guaranteed by Canada Deposit Insurance Corporation ("CDIC"). This guarantee from CDIC is reflected in the fair value measurement of the deposit liabilities.

(v) Securitization liabilities

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

(vi) Debentures

The estimated fair value of the 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 stock prices, bond prices and interest rate curves into present value calculations.

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at September 30, 2016 and December 31, 2015. The tables do not include assets and liabilities that are not considered financial instruments.

							September 30, 2016
	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	$ 383,788	$ -	$ -	$ -	$ -	$ 383,788	$ 383,788
Restricted cash	238,945	-	-	-	-	238,945	238,945
Securities purchased under reverse repurchase agreements	-	-	-	-	102,760	102,760	102,760
Investments	308	-	2,330	120,847	1,000	124,485	124,485
Mortgages receivable – Core Lending	-	47,883	-	-	10,151,904	10,199,787	10,232,707
Mortgages receivable – Securitization Financing	29,303	-	-	-	6,820,654	6,849,957	7,044,407
Securitization retained interests	-	-	-	87,262	-	87,262	87,262
Other assets:							
Derivative Financial Instruments-							
interest rate swaps	378	-	-	-	-	378	378
total return swaps	366	-	-	-	-	366	366
Mortgage commitments	10	-	-	-	-	10	10
Other	-	-	-	-	23,158	23,158	23,158
Total financial assets	$ 653,098	$ 47,883	$ 2,330	$ 208,109	$ 17,099,476	$ 18,010,896	$ 18,238,266
Financial liabilities:							
Deposits	$ -	$ 43,986	$ -	$ -	$ 9,224,620	$ 9,268,606	$ 9,285,637
Securitization liabilities	-	-	-	-	7,258,672	7,258,672	7,411,567
Obligations under repurchase agreements	-	-	-	-	69,290	69,290	69,290
Other liabilities:							
Derivative financial instruments-							
interest rate swaps	123	-	-	-	-	123	123
bond forwards	425	-	-	-	-	425	425
Other	-	-	-	-	78,475	78,475	78,475
Bank facilities	-	-	-	-	398,909	398,909	398,909
Debentures	-	-	-	-	65,000	65,000	65,534
Total financial liabilities	$ 548	$ 43,986	$ -	$ -	$ 17,094,966	$ 17,139,500	$ 17,309,960

							December 31, 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	$ 423,366	$ -	$ -	$ -	$ -	$ 423,366	$ 423,366
Restricted cash	107,988	-	-	-	-	107,988	107,988
Securities purchased under reverse repurchase agreements	-	-	-	-	19,918	19,918	19,918
Investments	891	-	2,395	149,428	1,000	153,714	153,714
Mortgages receivable – Core Lending	-	47,707	-	-	8,626,892	8,674,599	8,706,580
Mortgages receivable – Securitization Financing	45,019	-	-	-	5,981,188	6,026,207	6,214,016
Securitization retained interests	-	-	-	61,650	-	61,650	61,650
Other assets:							
Derivative financial instruments – interest rate swaps	990	-	-	-	-	990	990
Mortgage commitments	2	-	-	-	-	2	2
Other	-	-	-	-	8,216	8,216	8,216
Total financial assets	$ 578,256	$ 47,707	$ 2,395	$ 211,078	$ 14,637,214	$ 15,476,650	$ 15,696,440
Financial liabilities:							
Deposits	$ -	$ 45,431	$ -	$ -	$ 8,165,834	$ 8,211,265	$ 8,240,920
Securitization liabilities	-	-	-	-	6,109,436	6,109,436	6,237,077
Other liabilities:							
Derivative financial instruments – bond forwards	1,592	-	-	-	-	1,592	1,592
total return swaps	879	-	-	-	-	879	879
Other	-	-	-	-	78,510	78,510	78,510
Bank Facilities	-	-	-	-	235,779	235,779	235,779
Debentures	-	-	-	-	65,000	65,000	65,987
Total financial liabilities	$ 2,471	$ 45,431	$ -	$ -	$ 14,654,559	$ 14,702,461	$ 14,860,744

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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.

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 classified using the fair value hierarchy:

				September 30, 2016
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 121,155	$ 2,330	$ 1,000	$ 124,485
Mortgages receivable – Core Lending	-	47,883	10,184,824	10,232,707
Mortgages receivable – Securitization Financing	-	29,303	7,015,104	7,044,407
Securitization retained interests	-	87,262	-	87,262
Other assets:				
Derivative financial instruments – interest rate swaps	-	-	378	378
Derivative financial instruments – total return swaps	-	121	245	366
Mortgage commitments	-	-	10	10
Total financial assets	$ 121,155	$ 166,899	$ 17,201,561	$ 17,489,615
Financial liabilities:				
Deposits	$ -	$ -	$ 9,285,637	$ 9,285,637
Securitization liabilities	-	1,606,214	5,805,353	7,411,567
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	108	15	123
Derivative financial instruments – bond forwards	-	425	-	425
Debentures	-	65,534	-	65,534
Total financial liabilities	$ -	$ 1,672,281	$ 15,091,005	$ 16,763,286

				December 31, 2015
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 150,319	$ 2,395	$ 1,000	$ 153,714
Mortgages receivable – Core Lending	-	47,707	8,658,873	8,706,580
Mortgages receivable – Securitization Financing	-	45,019	6,168,997	6,214,016
Securitization retained interests	-	61,650	-	61,650
Other assets:				
Derivative financial instruments – interest rate swaps	-		990	990
Mortgage Commitments	-	-	2	2
Total financial assets	$ 150,319	$ 156,771	$ 14,829,862	$ 15,136,952
Financial liabilities:				
Deposits	$ -	$ -	$ 8,240,920	$ 8,240,920
Securitization liabilities	-	1,531,629	4,705,448	6,237,077
Other liabilities:				
Derivative financial instruments – bond forwards	-	1,592	-	1,592
Derivative financial instruments – total return swaps	-	879	-	879
Debentures	-	65,987	-	65,987
Total financial liabilities	$ -	$ 1,600,087	$ 12,946,368	$ 14,546,455

Note 6 – Investments

Carrying value of investments, categorized by type and maturity are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Debt securities guaranteed by Government of Canada	$ 3,945	$ 16,295	$ 17,143
Debt securities – corporate debt	1,000	1,000	1,000
Equity securities – preferred shares	116,807	133,053	128,203
Equity securities – common shares	403	971	945
Canada Housing Trust re-investment accounts[1][2]	2,330	2,395	2,443
	$ 124,485	$ 153,714	$ 149,734

[1] *Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB program.*
[2] *Excludes reverse repurchase agreements of 1,585 (December 31, 2015 – nil, September 30, 2015 – $38,619) which are included under Securities purchased under reverse repurchase agreements.*

Net unrealized gains (losses) on available for sale investments recorded in Accumulated other comprehensive loss are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Debt securities guaranteed by Government of Canada	$ 222	$ 1,127	$ 1,273
Equity securities – preferred shares	(35,270)	(33,111)	(37,688)
Equity securities – common shares	40	25	15
	$ (35,008)	$ (31,959)	$ (36,400)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

September 30, 2016	Gross amount	Allowance for credit losses: Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 10,201,449	$ 983	$ 31,890	$ 32,873	$ 10,168,576
Mortgages – Securitization Financing	6,838,311	-	-	-	6,838,311
Accrued interest	43,834	977	-	977	42,857
	$ 17,083,594	$ 1,960	$ 31,890	$ 33,850	$ 17,049,744

December 31, 2015	Gross amount	Allowance for credit losses: Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 8,678,968	$ 494	$ 31,890	$ 32,384	$ 8,646,584
Mortgages – Securitization Financing	6,014,263	-	-	-	6,014,263
Accrued interest	40,791	832	-	832	39,959
	$ 14,734,022	$ 1,326	$ 31,890	$ 33,216	$ 14,700,806

September 30, 2015	Gross amount	Allowance for credit losses: Individual	Collective	Total	Net amount
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

Mortgages – Securitization Financing include mortgages 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. As at September 30, 2016, mortgage principal outstanding on these mortgages is $29,303 (December 31, 2015 – $45,019, September 30, 2015 – $35,235) and the fair value adjustment is $43 (December 31, 2015 – ($206), September 30, 2015 – ($78)).

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, 2016, mortgage principal outstanding for these mortgages is $46,754 (December 31, 2015 – $46,120, September 30, 2015 – $46,390) and the fair value adjustment is $1,129 (December 31, 2015 – $1,587, September 30, 2015 – $1,830).

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

	September 30, 2016	September 30, 2015
Net loss in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	$ (163)	$ (296)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	(458)	(113)

At September 30, 2016, the Company had commitments to fund a total of $1,006,522 (December 31, 2015 − $1,009,763, September 30, 2015 – $879,944) 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, 2016, accrued interest on impaired mortgages amounted to $1,031 (December 31, 2015 – $902, September 30, 2015 – $1,551).

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

			September 30, 2016	December 31, 2015	September 30, 2015
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	$ 34,133	$ 1,960	$ 32,173	$ 32,760	$ 29,529
Mortgages – Core Lending – Insured	396	-	396	97	93
Mortgages – Securitization Financing – Insured	-	-	-	-	-
	$ 34,529	$ 1,960	$ 32,569	$ 32,857	$ 29,622

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

				September 30, 2016
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 27,909	$ 15,922	$ -	$ 43,831
Mortgages – Core Lending – Insured	441	201	1,321	1,963
Mortgages – Securitization Financing – Insured	3,881	685	2,085	6,651
	$ 32,231	$ 16,808	$ 3,406	$ 52,445

				December 31, 2015
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 28,656	$ 8,012	$ -	$ 36,668
Mortgages – Core Lending – Insured	1,200	820	2,255	4,275
Mortgages – Securitization Financing – Insured	3,503	628	313	4,444
	$ 33,359	$ 9,460	$ 2,568	$ 45,387

(c) Allowance for credit losses:

			September 30, 2016
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 1,326	$ 31,890	$ 33,216
Provision for credit losses	1,575	-	1,575
Realized losses	(1,004)	-	(1,004)
Recoveries	63	-	63
Balance, end of period	$ 1,960	$ 31,890	$ 33,850

	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

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 2015 Annual Report.

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

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

	September 30, 2016		December 31, 2015		September 30, 2015	
	Securitized assets	**Obligations under repurchase agreements**	Securitized assets	Obligations under repurchase agreements	Securitized assets	Obligations under repurchase agreements
Carrying amount of assets	**$ 7,815,351**	**$ 69,290**	$ 6,469,248	$ -	$ 5,891,012	$ 163,189
Carrying amount of associated liability	**7,258,672**	**69,290**	6,109,436	-	5,485,344	163,189
Carrying amount, net position	**$ 556,679**	**$ -**	$ 359,812	$ -	$ 405,668	$ -
Fair value of assets	**$ 8,011,065**	**$ 69,290**	$ 6,659,389	$ -	$ 5,818,326	$ 163,189
Fair value of associated liability	**7,411,651**	**69,290**	6,237,077	-	5,643,088	163,189
Fair value, net position	**$ 599,414**	**$ -**	$ 422,312	$ -	$ 175,238	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $505,532 (December 31, 2015 – $290,434, September 30, 2015 – $412,812). The fair value of these assets are $507,063 (December 31, 2015 – $291,826, September 30, 2015 – $415,420).

The carrying amount of assets exclude mortgages held for securitization of $500,468 (December 31, 2015 – $484,778, September 30, 2015 – $371,953).

The Company's outstanding securitization liabilities are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Securitization principal	$ 7,280,782	$ 6,137,734	$ 5,503,688
Deferred net discount and issuance costs	(39,634)	(40,974)	(36,503)
Accrued interest	17,524	12,676	18,159
Total	$ 7,258,672	$ 6,109,436	$ 5,485,344

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

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

	September 30, 2016	September 30, 2015
Mortgages securitized and sold	$ 957,345	$ 538,594
Carrying value of Securitization retained interests	36,186	23,982
Carrying value of Securitized mortgage servicing liability	9,675	5,186
Gains on mortgages securitized and sold	6,018	4,492
(Loss) income from securitization activities and retained interests	(382)	524

During the period, the Company entered into transactions to transfer substantially all of the residual risks and rewards of securitized prepayable multi-residential mortgages to third parties. As a result, the Company derecognized $296,626 of multi-residential mortgages and recorded a gain on sale of $799 included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

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 and interest swaps 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.

The Company also uses bond forwards to hedge changes in future cash flows arising from changes in interest rates attributable to highly probable forecasted issuance of fixed rate liabilities. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

The Company hedges 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.

The Company also hedges 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 used to fund floating rate mortgages. The hedging instruments used to manage these exposures are bond forwards and 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.

(b) Other derivatives:

Total return swaps

As part of its CMB activities, the Company may assume reinvestment risk between the amortizing MBS and the bullet CMB for securitized mortgages which are derecognized. The Company assumes this risk by entering into total return swaps with highly rated counterparties and exchanging the cash flows of the CMB for those of the MBS transferred to CHT. These swaps are recognized on the Company's consolidated balances sheets and fair valued through the Company's consolidated statements of income.

(c) Financial impact of derivatives:

The fair values and notional amounts of derivatives outstanding is as follows:

	September 30, 2016			
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	$ 154,335	$ -	$ (341)	$ (341)
Interest rate swaps – hedge accounting				
1 to 5	337,454	-	(108)	(108)
Total return swaps – hedge accounting				
1 or less	1,094	-	(95)	(95)
1 to 5	3,335	136	-	136
Total return swaps – non-hedge accounting				
1 or less	1,799	79	-	79
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	100,000	378	-	378
Interest rate swaps – non-hedge accounting				
5 and above	1,468	-	(15)	(15)
Bond forwards – non-hedge accounting				
1 or less	36,150	-	(84)	(84)
Other derivatives:				
Total return swaps				
1 to 5	200,192	-	(176)	(176)
5 and above	189,549	422	-	422
	$ 1,025,376	$ 1,015	$ (819)	$ 196

				December 31, 2015
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	$ 210,125	$ -	$ (1,287)	$ (1,287)
Total return swaps – hedge accounting				
1 or less	1,379	-	(33)	(33)
1 to 5	2,725	-	(469)	(469)
Total return swaps – non-hedge accounting				
1 or less	1,941	-	(377)	(377)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 to 5	100,000	990	-	990
Bond forwards – non-hedge accounting				
1 or less	52,040	-	(305)	(305)
	$ 368,210	$ 990	$ (2,471)	$ (1,481)

				September 30, 2015
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	$ 248,514	$ 468	$ -	$ 468
Total return swaps – hedge accounting				
1 or less	1,379	-	(183)	(183)
1 to 5	2,796	-	(302)	(302)
Total return swaps – non-hedge accounting				
1 or less	1,937	-	(257)	(257)
Fair value hedges:				
Interest rate swaps - hedge accounting				
1 to 5	100,000	1,231	-	1,231
Bond forwards				
1 or less	38,350	103	-	103
	$ 392,976	$ 1,802	$ (742)	$ 1,060

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

Cash flow hedges:

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

	September 30, 2016	September 30, 2015
Fair value changes recorded in Other comprehensive income	**$ (1,248)**	$ (1,750)
Fair value changes recorded in Income	**(1,196)**	(450)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	**(2,637)**	(2,263)
Amounts reclassified from Other comprehensive income to Interest expense – deposits	**(35)**	-
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	**186**	(297)

Fair value hedges:

Gain (loss) due to changes in fair value hedges included in the Company's consolidated financial results is as follows:

	September 30, 2016	September 30, 2015
Bond forwards	**$ 154**	$ 351
Interest rate swaps – hedge accounting	**(612)**	2,674
Interest rate swaps – non-hedge accounting	**-**	(6)
Changes in fair value recognized in income	**$ (458)**	$ 3,019

Note 10 – Other Assets

	September 30, 2016	December 31, 2015	September 30, 2015
Prepaid expenses and other	**$ 20,911**	$ 8,223	$ 8,000
Capital assets	**20,160**	14,369	10,491
Intangible assets	**18,530**	18,836	17,500
Real estate owned	**7,554**	8,200	6,623
Receivables relating to securitization activities	**6,704**	5,524	5,682
Accrued interest and dividends on non-mortgage assets	**1,249**	420	354
Derivative financial instruments – interest rate swaps	**378**	990	1,231
Derivative financial instruments – total return swaps	**366**	-	-
Mortgage commitments	**10**	2	-
Income taxes recoverable	**-**	3,578	12,457
Derivative financial instruments – bond forwards	**-**	-	572
	$ 75,862	$ 60,142	$ 62,910

Prepaid expenses and other include a deposit of $12,929 (December 31, 2015 – Nil, September 30, 2015 – Nil) paid to KPMG Inc., in its capacity as the court appointed liquidator of Maple Bank GmbH's Toronto Branch ('Maple') in connection with the Maple transactions. For further details, refer to Note 20.

Capital assets include leasehold improvements of $11,285 (December 31, 2015 – $6,320, September 30, 2015 – $1,853) related to an expansion and renovation of the Company's leased head office premises in Toronto.

Note 11 – Deposits

	September 30, 2016	December 31, 2015	September 30, 2015
Term and other deposits	**$ 9,180,647**	$ 8,115,483	$ 7,961,678
Accrued interest	**106,102**	113,563	111,944
Deferred deposit agent commissions	**(18,143)**	(17,781)	(18,031)
	$ 9,268,606	$ 8,211,265	$ 8,055,591

Term and other deposits also include $43,697 (December 31, 2015 – $45,193, September 30, 2015 – $45,261) of deposits designated as at fair value through income that 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, 2016 is $289 (December 31, 2015 – $238, September 30, 2015 – $305).

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

	September 30, 2016	September 30, 2015
Fair value loss recognized in income	**$ (51)**	$ (414)

Term and other deposits also include $100,000 (December 31, 2015 – $100,000, September 30, 2015 – $100,000) of deposits designated in qualifying fair value interest rate hedging relationships that 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, 2016 is $346 (December 31, 2015 – $946, September 30, 2015 – $1,180).

The impact of changes in fair value for deposits designated in qualifying fair value interest rate hedging relationships that are fair valued through income are as follows:

	September 30, 2016	September 30, 2015
Fair value gain (loss) recognized in income	**$ 600**	$ (2,644)

Note 12 – Income Taxes

(a) Income tax provision:

	September 30, 2016	September 30, 2015
Current tax expense:		
Current period	$ 24,306	$ 20,045
Adjustments for prior years	215	(53)
	24,521	19,992
Deferred tax expense:		
Reversal of temporary differences	9,164	10,711
Adjustments for prior years	(100)	(59)
Change in tax rates	-	114
	9,064	10,766
Total income tax expense	$ 33,585	$ 30,758

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, 2016	September 30, 2015
Canadian statutory income tax rate	26.5%	26.5%
Increase (decrease) resulting from:		
Tax-exempt income	(1.1%)	(2.3%)
Future tax rate changes	-	0.1%
Non-deductible expenses and other	0.4%	0.3%
Effective income tax rate	25.8%	24.6%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	September 30, 2016	December 31, 2015	September 30, 2015
Deferred income tax assets:			
Allowance for credit losses	$ 8,593	$ 8,502	$ 8,405
Share issue expenses	747	1,011	1,096
Other	1,541	1,248	1,432
	10,881	10,761	10,933
Deferred income tax liabilities:			
Securitization activities	24,012	19,310	18,656
Deposit agent commissions	4,788	4,638	4,685
Net mortgage fees	14,102	10,264	8,673
Intangible costs	3,416	3,645	-
Other	2,326	1,602	4,632
	48,644	39,459	36,646
Net deferred income tax liabilities	$ 37,763	$ 28,698	$ 25,713

Note 13 – Other Liabilities

	September 30, 2016	December 31, 2015	September 30, 2015
Accounts payable and accrued liabilities	$ **38,540**	$ 24,999	$ 27,968
Securitized mortgage servicing liability	**21,367**	14,552	14,413
Mortgagor realty taxes	**19,061**	39,268	14,916
Income taxes payable	**5,723**	-	-
Derivative financial instruments – bond forwards	**425**	1,592	-
Derivative financial instruments – interest rate swaps	**123**	-	-
Derivative financial instruments – total return swaps	**-**	879	743
Mortgage commitments	**-**	-	54
	$ **85,239**	$ 81,290	$ 58,094

Note 14 – Bank Facilities

The Company has two credit facilities totaling $700,000 with major Schedule I Canadian Banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at September 30, 2016 is $398,909 (December 31, 2015 – $235,779, September 30, 2015 – $190,000). For further details on the company's bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2015 Annual Report.

Note 15 – Shareholders' Equity

Capital stock:

Authorized:

Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1, par value $25.00 per share
Unlimited number of non-cumulative floating rate preferred shares, Series 2, par value $25.00 per share
Unlimited number of 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, 2016			September 30, 2015		
	Number of shares	Amount	Dividends per share[1]	Number of shares	Amount	Dividends per share[1]
Preferred Shares, Series 3	**3,000,000**	$ **72,557**	$ **1.19**	3,000,000	$ 72,557	$ 1.19

	September 30, 2016			September 30, 2015		
	Number of shares	Amount	Dividends per share[1]	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of period	**15,538,605**	$ **143,690**		15,435,356	$ 140,657	
Contributions from exercise of stock options	**61,052**	**1,615**		41,331	1,082	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**389**		-	232	
Balance, end of period	**15,599,657**	$ **145,694**	$ **0.62**	15,476,687	$ 141,971	$ 0.56

[1] *Dividends per share represents dividends declared by the Company during the period.*

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, 2016, 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 2023. A summary of the Company's stock option activity and related information for the periods ended September 30, 2016 and September 30, 2015 is as follows:

	September 30, 2016		September 30, 2015	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**540,236**	**$ 40.12**	544,449	$ 33.52
Granted	**136,239**	**53.15**	101,695	59.98
Exercised	**(61,052)**	**26.45**	(41,331)	26.18
Forfeited/cancelled	**(3,523)**	**54.39**	(6,914)	63.78
Outstanding, end of period	**611,900**	**$ 44.31**	597,899	$ 38.18
Exercisable, end of period	**316,539**	**$ 36.07**	292,815	$ 29.88

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $797 (September 30, 2015 – $709) 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, 2016 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	September 30, 2016	September 30, 2015
Risk-free rate	**0.5%**	0.7%
Expected option life (years)	**4.8**	4.8
Expected volatility	**25.9%**	22.4%
Expected dividends	**1.3%**	1.1%
Weighted average fair value of each option granted	**$ 9.0**	$ 10.56

(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, 2016, the Company expensed $526 (September 30, 2015 – $398) 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 2015 Annual Report.

A summary of the Company's DSU activity for the periods ended September 30, 2016 and September 30, 2015 is as follows:

	September 30, 2016	September 30, 2015
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**30,133**	24,709
Granted	**6,332**	5,117
Dividends reinvested	**326**	224
Exercised	**(5,022)**	-
Outstanding, end of period	**31,769**	30,050

The liability associated with DSUs outstanding as at September 30, 2016 was $1,886 (September 30, 2015 – $1,680). Compensation expense recorded relating to DSUs outstanding during the nine months ended September 30, 2016 amounted to $620 (September 30, 2015 – $357).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs or PSUs 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 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 2015 Management Information Circular for further details on its compensation plan structure.

The Company hedges 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 and PSU activity for the periods ended September 30, 2016 and September 30, 2015 is as follows:

	September 30, 2016	September 30, 2015
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	**42,861**	**39,794**
Granted	**33,888**	**26,855**
Dividends reinvested	**756**	**225**
Exercised	**(380)**	**-**
Forfeited/cancelled	**(2,083)**	**(1,552)**
Outstanding, end of period	**75,042**	65,322

The liability associated with RSUs and PSUs outstanding as at September 30, 2016 was $2,228 (September 30, 2015 – $1,991). Compensation expense recorded relating to RSUs and PSUs outstanding during the nine months ended September 30, 2016 amounted to $1,207 (September 30, 2015 – $938).

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 year, taking into account the dilution effect of stock options using the treasury stock method.

	September 30, 2016	September 30, 2015
Earnings per common share – basic:		
Net income	$ 96,652	$ 94,429
Dividends on preferred shares	3,573	3,572
Net income available to common shareholders	$ 93,079	$ 90,857
Weighted average basic number of common shares outstanding	15,557,205	15,457,932
Earnings per common share – basic	$ 5.98	$ 5.88
Earnings per common share – diluted:		
Net income available to common shareholders	$ 93,079	$ 90,857
Weighted average basic number of common shares outstanding	15,557,205	15,457,932
Adjustment to weighted average number of common shares outstanding:		
Stock options	145,187	212,511
Weighted average diluted number of common shares outstanding	15,702,392	15,670,443
Earnings per common share – diluted	$ 5.93	$ 5.80

For the period ended September 30, 2016, the calculation of the diluted earnings per share excluded 215,360 (September 30, 2015 − 198,021) average options outstanding with a weighted average exercise price of $56.32 (September 30, 2015 − $56.50) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 18 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 25-26 of the 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 year, Equitable Bank complied with all internal and external capital requirements.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**$ 148,175**	$ 145,836	$ 144,453
Contributed surplus	**6,206**	6,126	5,900
Retained earnings	**683,583**	600,128	572,947
Accumulated other comprehensive loss[1]	**(24,133)**	(22,458)	(25,762)
Less: Regulatory adjustments	**(14,687)**	(14,574)	(13,206)
Common Equity Tier 1 Capital	**799,144**	715,058	684,332
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**871,698**	787,612	756,886
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	31,292
Subordinated debentures	**65,000**	65,000	85,000
Tier 2 Capital	**96,890**	96,890	116,292
Total Capital	**$ 968,588**	$ 884,502	$ 873,178

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

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, 2016.

								September 30, 2016
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive[1]**	**Total[1]**
Total assets	**$ 3,606,268 $**	**1,392,207 $**	**4,141,935 $**	**9,140,410 $**	**7,732,302 $**	**940,462 $**	**249,672 $**	**18,062,846**
Total liabilities and equity[2][3]	**(154)**	**(5,375,259)**	**(3,526,331)**	**(8,901,744)**	**(7,231,145)**	**(860,245)**	**(1,069,712)**	**(18,062,846)**
Off-balance sheet items[4]	**-**	**(127,404)**	**132,787**	**5,383**	**(8,743)**	**3,360**	**-**	**-**
Interest rate sensitive gap	**$ 3,606,114 $**	**(4,110,456) $**	**748,391 $**	**244,049 $**	**492,414 $**	**83,577 $**	**(820,040) $**	**-**
Cumulative gap [2]	**$ 3,606,114 $**	**(504,342) $**	**244,049 $**	**244,049 $**	**736,463 $**	**820,040 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**19.96%**	**(2.79%)**	**1.35%**	**1.35%**	**4.08%**	**4.54%**	**-%**	**-%**

								December 31, 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[1]	Total[1]
Cumulative gap[2][3][4]	$ 2,923,598 $	935,722 $	493,838 $	493,838 $	767,039 $	758,247 $	- $	-
Cumulative gap as a percentage of total assets	18.83%	6.03%	3.18%	3.18%	4.94%	4.88%	-%	-%

								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[1]	Total[1]
Cumulative gap[2][3][4]	$ 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%	-%	-%

(1) *Accrued interest is included in "Non- interest sensitive" assets and liabilities.*
(2) *Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.*
(3) *Any prepayments of debentures, contractual or otherwise, have not been estimated as these would require Equitable Bank to receive regulatory pre-approval.*
(4) *Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.*

Note 20 – Subsequent Event

On September 12, 2016, the Company entered into an agreement with CMHC to acquire the successor issuer rights for $3,073,089 of issued and outstanding NHA-MBS pools originally issued by Maple. Equitable will assume Maple's payments and other responsibilities related to these NHA-MBS and in exchange will receive the excess interest spread (the difference between the mortgage interest revenue and NHA-MBS interest expense). Of these pools $2,972,677 are already sold to third party investors. Subsequently, on October 18, 2016, the Company closed the transaction and will disclose the excess interest spread as Interest Only Strip as part of Investments on its consolidated balance sheets.

On September 12, 2016, the Company also entered into an agreement with KPMG Inc., in its capacity as the Court appointed Liquidator of Maple, to acquire $100,412 of the issued and unsold NHA-MBS pools collateralized by insured residential mortgages, a $32,683 credit facility secured by residential mortgages and $5,454 of other assets. Subsequently, on October 18, 2016, the Company closed these transactions and will report these assets on the Company's consolidated balance sheet.

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