EQUITABLE | TSX.EQB EQB.PR.C

2017 Q3

Third Quarter Report

For the three and nine months ended September 30, 2017

Canada's Challenger Bank. Money Well Banked.

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, 2017

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, 2017. 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, 2017, 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, 2016, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at November 9, 2017. 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 2017 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

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"), Canada's Challenger 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 over $24 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), 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. Starting in 2016 and consistent with our challenger bank approach, Equitable provides select deposit products directly to Canadian savers through our digital banking platform, *EQ Bank*. The first deposit product offered through our digital bank was the *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*, 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 2016 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 PERCENTAGES)	Three months ended					Nine months ended		
	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	**Sep 30, 2017**	Sep 30, 2016	% Change
RESULTS OF OPERATIONS								
Net income	**$ 37,869**	$ 38,909	(3%)	$ 35,230	7%	**$ 120,171**	$ 96,652	24%
Net income available to common shareholders	**36,678**	37,718	(3%)	34,039	8%	**116,598**	93,079	25%
Net interest income	**71,964**	78,349	(8%)	70,827	2%	**228,665**	201,431	14%
Total revenue	**189,290**	183,025	3%	169,432	12%	**553,840**	483,984	14%
EPS – basic	**$ 2.23**	$ 2.29	(3%)	$ 2.19	2%	**$ 7.08**	$ 5.98	18%
EPS – diluted	**$ 2.21**	$ 2.28	(3%)	$ 2.16	2%	**$ 7.03**	$ 5.93	19%
ROE	**14.4%**	15.6%	(1.2%)	17.2%	(2.8%)	**16.1%**	16.3%	(0.2%)
Return on average assets[1]	**0.8%**	0.8%	-%	0.8%	-%	**0.8%**	0.8%	-%
NIM – TEB – total assets[1]	**1.47%**	1.63%	(0.16%)	1.64%	(0.17%)	**1.58%**	1.62%	(0.04%)
Efficiency Ratio – TEB[1][2]	**37.4%**	39.2%	(1.8%)	37.0%	0.4%	**36.6%**	39.3%	(2.7%)
BALANCE SHEET								
Total assets	**20,221,205**	19,795,986	2%	18,062,846	12%			
Assets Under Management[1]	**24,274,172**	23,641,546	3%	21,024,401	15%			
Mortgages receivable	**18,787,348**	18,263,623	3%	17,049,744	10%			
Mortgages Under Management ("MUM")[1]	**22,753,938**	22,013,453	3%	19,922,211	14%			
Shareholders' equity	**1,098,325**	1,060,852	4%	879,367	25%			
CREDIT QUALITY								
Provision for credit losses	**40**	378	(89%)	1,243	(97%)	**1,156**	1,575	(27%)
Provision for credit losses – rate[1]	**0.001%**	0.01%	(0.01%)	0.03%	(0.03%)	**0.01%**	0.01%	-%
Net impaired mortgages as a % of total mortgage assets[3]	**0.13%**	0.16%	(0.03%)	0.19%	(0.06%)			
Allowance for credit losses as a % of total mortgage assets	**0.18%**	0.19%	(0.01%)	0.20%	(0.02%)			
SHARE CAPITAL								
Common shares outstanding	**16,479,034**	16,477,654	0%	15,599,657	6%			
Book value per common share[1]	**$ 62.25**	$ 59.98	4%	$ 51.72	20%			
Common share price – close	**$ 56.00**	$ 59.48	(6%)	$ 58.86	(5%)			
Common share market capitalization	**922,826**	980,091	(6%)	918,196	1%			
EQUITABLE BANK CAPITAL RATIOS[1]								
Risk-weighted assets	**6,814,247**	6,561,813	4%	5,968,000	14%			
CET1 Ratio	**14.8%**	14.8%	-%	13.4%	1.4%			
Tier 1 Capital Ratio	**15.8%**	15.9%	(0.1%)	14.6%	1.2%			
Total Capital Ratio	**17.2%**	17.4%	(0.2%)	16.2%	1.0%			
Leverage Ratio	**5.3%**	5.3%	-%	4.9%	0.4%			

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

Q3 2017 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record third quarter earnings in Q3 2017 though results were down slightly from the earlier part of the year due to the impact of several actions that we undertook in Q2 to manage through some funding market stress. These actions included obtaining a $2.0 billion secured backstop funding facility and insuring an $892 million portfolio of existing residential mortgages (see discussion our in Q1 and Q2 2017 MD&As). Together, these two actions net of the associated funding cost benefits reduced Earnings Per Share ("EPS") by approximately $0.42 in Q3 2017 (Q2 2017 - $0.26). Our key financial and operating metrics point to continued strength in the fundamentals of our business and the credit quality of our assets.

During Q3, we continued to deliver on our key strategic priorities:

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	• Grew our Alternative Single Family assets by 20% over Q3 2016; originated a record $1.1 billion of mortgages while maintaining stringent credit criteria • Grew our Commercial Lending portfolio by 7% over the prior year • Increased Prime Single Family MUM by 17% from a year ago
Build our capabilities and brand	• Increased GIC principal balances by $1.0 billion or 15%, to $7.8 billion from $6.8 billion a year ago and by $111 million over the previous quarter • Grew *EQ Bank Savings Plus Account* balances to over $1.5 billion, up 56% from the third quarter of 2016 and 21% from last quarter • Awarded 6th place in *Financial IT*'s 2017 ranking of the top digital banks globally • Received Canada's Best Employer Platinum Award for 2018 by AON for the second consecutive year • Furthered our AIRB initiative and risk modelling capabilities • Completed initial testing of our IFRS 9 program that we will implement in 2018
Consistently create shareholder value	• Delivered record third quarter EPS of $2.21 • Produced an ROE of 14.4%, surpassing the quarterly average of the eight largest publicly traded Canadian banks • Increased book value per share by 20% from Q3 of last year • Declared a common share dividend of $0.25 per share in November, which was 14% higher than the declaration in November 2016
Maintain a low risk profile	• Maintained an average loan-to-value ratio of 61% on our uninsured residential mortgage portfolio, as compared to 63% in Q3 2016 and 60% in Q2 2017 • Recorded a provision for credit losses of $40 thousand, partly because we released $0.9 million of provisions related to mortgages that were resolved • Reported a CET1 Ratio of 14.8%, which was well ahead of the regulatory minimum and most competitive benchmarks

ITEMS OF NOTE

Q3 2017 financial results were impacted by the following item:

- $1.5 million of fair value gains on derivative financial instruments related to securitization activities.

Q2 2017 financial results were impacted by the following items:

- $0.8 million of losses on the disposal of certain preferred share investments; and
- $0.5 million of gains on investments acquired from Maple Bank GmbH's Toronto Branch ("Maple Bank").

Q3 2016 financial results were not affected by any items of note.

DIVIDENDS

On November 9, 2017, the Company's Board of Directors declared a quarterly dividend in the amount of $0.25 per common share, payable on January 4, 2018, to common shareholders of record at the close of business on December 15, 2017. This dividend represents a 14% increase over dividends declared in November 2016 and is indicative of Equitable's commitment to consistently growing its dividend each year.

In addition, on November 9, 2017, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on December 31, 2017, to preferred shareholders of record at the close of business on December 15, 2017.

BUSINESS OUTLOOK

Equitable expects that its strategy, including its disciplined approach to capital allocation, will continue to deliver value to its shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our core lending markets continue to present meaningful opportunities. We expect earnings to continue growing but that our ROE in Q4 2017 and in 2018 will be below the Bank's 5-year average of 17.8% due to the costs associated with successfully navigating recent financial market disruptions (see the Company's Q1 and Q2 2017 MD&As).

Recent Regulatory Changes

Governments at all levels in Canada continue to focus on the stability of the domestic housing market. Since last fall, the Federal and Ontario Governments have introduced a series of measures intended to curtail market activity and house prices. The most recent changes relate to OSFI's Guideline B-20, Residential Mortgage Underwriting Practices and Procedures ("B-20") and will become effective on January 1, 2018.

The B-20 revisions will likely have a negative impact on Equitable's Alternative Single Family Lending originations, though the full effect is difficult to assess in the absence of information about competitive implications or consumer reactions. Most notably, the requirement that borrowers qualify for an uninsured mortgage using a 'stress test' at a prescribed spread over the contract rate of the mortgage may prevent us from lending to certain types of customers that have traditionally made up part of our customer base. On the other hand, larger lenders may also be negatively impacted by aspects of the proposed changes, which could cause incremental volume to flow into the alternative mortgage market and offset some of our expected volume loss. Additionally, although B-20 changes will impact our originations in future quarters they will not affect our ability to renew existing mortgages. In fact, the B-20 revisions could make it more difficult for borrowers to switch lenders and cause our retention rates to increase.

Management has conducted extensive analysis on the sensitivity of the Bank's asset growth rates and believes that the Alternative Single Family mortgage portfolio will grow in 2018 even if originations decline by up to 20%. Asset growth in 2018 would be positive because of renewals and the fact that originations are high relative to the size of the portfolio. Using our trailing 12-month performance to illustrate these dynamics:

Q3 2017 Trailing Twelve Month Alternative Single Family Lending Portfolio Growth

Actual Results vs. Two Illustrative Scenarios

Portfolio	Actual Performance ($Bn)	What if Originations Were 10% Lower? ($Bn)	What if Originations Were 20% Lower? ($Bn)
Opening Balance	**$7.5**	**$7.5**	**$7.5**
Originations	**$3.8**	**$3.4**	**$3.1**
Attrition	**($2.2)**	**($2.2)**	**($2.2)**
Ending Balance	**$9.1**	**$8.7**	**$8.4**
Growth Rate (%)[(1)]	**20%**	**15%**	**10%**

(1) Note that the impact on growth as a result of reduced originations is larger the higher the opening balance.

In addition, to the extent that single family origination growth slows, we intend to deploy more capital into Commercial Lending. We have deep expertise in Commercial and believe we can grow this portfolio within our current risk appetite.

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.

As a result of our continued emphasis on service quality and despite regulatory changes, we expect that year-over-year growth of our Mortgages under Management ("MUM")[(1)] will be in the range of 10% to 12% in the final quarter of 2017 and 6% to 8% in 2018. Balance sheet assets should grow at slightly lower levels due to derecognition of some securitized mortgages. We expect our balance sheet mortgage assets to grow at year-over-year rates in the high-single digits in both Q4 2017 and in 2018, with growth of individual asset categories described in detail below. Given recent market dynamics and regulatory changes, there is significant uncertainty to this growth outlook and our views will likely evolve over time.

(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 for Q4 2017 and Full Year 2018

<table>
<tr><th>Portfolio</th><th>Expectations[1]</th><th>Rationale and Assumptions[1]</th></tr>
<tr><td colspan="3">Forecasting asset growth remains challenging given the magnitude of the recent regulatory changes and competitive shifts. The outlook and comments below reflect management's current views only and are subject to change over time.</td></tr>
<tr><td>Core Lending: Alternative Single Family</td><td>Q4 2017
• Assets grow at rates between 18% and 20%
2018
• Assets grow at rates in the low single digits, with the growth rate decelerating each quarter</td><td>• Recent regulatory changes will continue to decrease overall housing market activity; house prices will remain stable in most markets
• The Alternative mortgage market contracts in 2018 due to new B-20 standards (though the degree of change is highly uncertain)
• The Bank has a higher market share in the Alternative segment due to our consistently superior levels of service and competitive disruptions
• Portfolio growth is helped by higher renewal rates, which result partly from the changes to B-20
• Employment is stable and overall economic growth in Canada remains positive
• Our current sources of funding continue to deliver sufficient volumes to profitably support this level of growth</td></tr>
<tr><td>Core Lending: Commercial</td><td>Q4 2017
• Assets grow at rates in the mid-single digits
2018
• Assets grow at rates in the high teens</td><td>• Originations increase in 2018 after having been deliberately tempered at times in 2017 due to funding constraints
• The market continues to present quality opportunities and the competitive environment remains stable
• Attrition rates are consistent with levels experienced in the second half of 2017</td></tr>
<tr><td>Securitization Financing: Prime Single Family</td><td>Q4 2017 and 2018
• MUM and balance sheet assets do not experience any growth</td><td>• The economy and housing market perform as indicated above for Alternative Single Family
• Market-wide insured prime mortgage origination activity will be consistent with recent levels
• We will focus on maintaining our market share by concentrating on niches in which we have a competitive advantage
• Originations are sufficient to just offset the expected attrition in the portfolio</td></tr>
<tr><td>Securitization Financing: CMHC Multi-Unit Residential ("Multis")</td><td>Q4 2017 and 2018
• MUM grows at a rate in the high-single digits
• Balance sheet assets decline at rates in the high-single digits in Q4 2017 due to asset derecognition but increase in the low-single digits in 2018</td><td>• We will fully utilize our fixed rate CMB capacity (approximately $300 million per quarter) with Multi renewals and originations
• Slightly more than 50%, or $150 to $200 million, of securitized Multis will be derecognized each quarter</td></tr>
</table>

[1] All growth rates listed in this table are with reference to the prior year unless noted otherwise

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, funding availability, 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.

Revenue

Management believes that in the final quarter of 2017 Net Interest Income ("NII") will increase at year-over-year rates in the 1% to 2% range as continued growth of the Bank's assets and pricing changes offset the costs associated with recent market disruptions. We expect that in 2018 full year NII growth rates will rebound to the 8% to 10% range as some of the costs associated with the market events in 2017 abate and pricing changes flow through more of our mortgage portfolio. Quarterly NIM may fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors such as seasonal variations in our liquidity holdings.

Summary of Expectations for Key Revenue Drivers for Q4 2017 and Full Year 2018

Driver	Expectations	Rationale and Assumptions
NIM: **Core Lending**	***Q4 2017*** • Will be up by 10 to 15 bps relative to Q3 2017 levels ***2018*** • Will be 15 to 20 bps higher than Q3 2017 levels and relatively consistent quarter to quarter	• Our backstop funding facility will cost us $5 million per quarter and have a negative 4 bps effect on NIM • The net expense related to mortgage insurance premiums paid in May 2017 will be $2 million in Q4; but the impact in 2018 will be immaterial • The portfolio mix shifts slightly more towards higher spread commercial assets • Spreads on originated and renewed mortgages decrease slightly from currently elevated levels as funding costs move higher • Low margin liquid asset balances will be higher than normal for the next several quarters which will place some pressure on NIM
NIM: **Securitization Financing**	***Q4 2017 and 2018*** • Will be consistent with Q3 levels	• CMHC Multi margins are consistent with recent levels • Prime margins will increase from current, unsustainably low levels • Prepayment income is lower as underlying benchmark interest rates increase and refinancing options become more expensive
NIM: **Total**	***Q4 2017*** • Will be up by 10 to 15 bps from Q3 levels ***2018*** • Will be up to 20 bps higher than in Q3 2017 and relatively consistent quarter to quarter	• NIM benefits from the shift in asset mix towards our higher margin Core Lending portfolio and a higher NIM within that portfolio
Income from NHA-MBS Successor Issuer Rights	***Q4 2017 and 2018*** • Maple income will be in the range of $0.04-$0.08 per share per quarter	• The assets underlying this revenue stream continue to amortize as expected through 2020
Securitization Gains on Sale	***Q4 2017 and 2018*** • Will be consistent with Q3 2017 levels	• Securitization and derecognition activity is between $150 and $200 million in each of the next five quarters • Overall gain on sale margins will be consistent with the levels realized in Q3 2017

Non-Interest Expenses

We anticipate that during the last quarter of 2017 and throughout 2018 non-interest expenses will increase at year-over-year rates slightly higher than the growth rate of the overall business, as we continue to make investments that build the Bank's franchise and reinforce our high level of customer service. If growth in any of our lending markets slows in 2018, we will manage our expense levels accordingly. Expenses may exhibit some volatility quarter to quarter due to the timing of *EQ bank* marketing campaigns.

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. We expect that our Efficiency Ratio in Q4 2017 and in 2018 will be in the high 30 percent range.

Strategic Initiatives

Management will continue to pursue our key strategic initiatives in 2018. These strategic investments build a foundation for growth and productivity that will benefit our shareholders over the longer-term. We will invest to grow our lending businesses and improve our servicing proficiency; enhance our digital banking platform; diversify our balance sheet; and continue our efforts to migrate to the Advanced Internal Ratings Based ("AIRB") approach to improve the sophistication of our capital and risk management. The aggregate levels of capital investment and operating expenses in our strategic programs during 2018 will be slightly higher than the levels in 2017, mainly due to investments in our digital platform, *EQ Bank*.

With respect to *EQ Bank*, we plan to continually enhance the functionality of the platform and will pursue opportunities to launch new products and services over time, furthering our challenger bank strategy. For example, in the coming months we intend to begin selling GICs over the *EQ bank* platform so that we can offer a broader range of savings products to our customers and extend the average term of our deposits. With these and other innovations, marketing campaign investments, and a competitive interest rate we believe we can grow our customer base and balances consistently. Growth of these direct-to-consumer retail accounts will be an enabler of our asset growth and a critical tool in managing our level of liquidity risk.

We continue to advance our AIRB initiative with the objective of operationalizing the program by the end of 2020. To date, we have been refining our risk models, updating our internal processes, implementing supporting software tools, and actively engaging with peers and regulators. We have invested $2.5 million in the program to date, substantially all of which has been capitalized and will be amortized into income after implementation.

Finally, and consistent with our long-term objective of being Canada's Challenger Bank, we continually assess opportunities to diversify our assets. We have been evaluating many opportunities against various strategic and financial criteria, and believe that there may be attractive opportunities for us to pursue in the short to mid-term. Management intends to enter any new businesses gradually and grow organically in order to minimize operational risk, thereby building scale over a period of several years.

Funding

We believe that our current sources of funding – most notably brokered term deposits and *EQ Bank* – will be adequate to fund our asset growth in 2018. Our deposit balances have grown steadily since the middle of Q2 2017 and we believe that trend will continue for the foreseeable future.

During and beyond 2018, management will continue to look for opportunities to diversify the bank's funding profile for risk management purposes. In addition, new funding sources may eventually be required to deliver on the Company's longer-term growth aspirations.

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 in Q4 2017 and in 2018, 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, and particularly from the rates experienced in Q3.

As indicated in Table 20 of our Q3 2017 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca, the average credit score of our borrowers continued to be high and stable. As well, Table 19 highlights that the average loan-to-value ratio of our uninsured Single Family Residential portfolio is 61% and has decreased over the past year, even as house prices declined slightly in Q3. This provides a significant buffer against house price declines.

Equitable is aware that there is heightened risk and uncertainty in certain parts of the Canadian residential real estate market and we are actively monitoring these developments. We continue to believe that our prudent risk appetite and approach to lending will allow us to effectively manage through any negative changes in market conditions. For example, Equitable's low loan-to-value ratios ("LTVs") on its uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults. To reinforce that approach, we lend at lower LTVs for borrowers who we consider to be at higher risk of default. In simple terms, the LTV of 61% on our single family portfolio offers us protection against a significant decrease in house prices.

Similarly, Equitable maintains a robust system of internal controls that is designed to effectively manage the Bank's risks associated with underwriting mortgages, including misrepresentation and fraud. These controls are oriented around our three lines of defense model. As a result of recent regulatory changes, tightening mortgage qualification criteria, increasing housing prices – particularly in the Greater Toronto and Greater Vancouver areas – and other market developments, we continue to make investments to enhance these control systems. For example, in 2016 and 2017 we implemented voice recording income verification calls, devoted more resources to scrutinize loan applications before and after funding, and deployed tools such as Equifax's Citadel system. This risk framework and the enhancements we have made enable our teams to better assess applications, improve quality assurance levels in our underwriting practice, evaluate exposure on existing loans, identify suspicious transactions and in the latter case, quickly end relationships with brokers whom we believe are involved in such activities.

As in previous quarters, we relied on these controls to manage the risks inherent in our lending activities. Over the past several months and in the normal course of business, our systems continued to detect applications with suspicious documentation, including several submitted by a single broker. This one relationship was promptly terminated. As the broker represented less than 1% of Equitable's mortgage originations, these findings will not have a material impact on our operations or business prospects. The mortgages are well secured by independently valued collateral and all are performing; as a result we expect no impact to our overall level of credit losses.

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 Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	Nine months ended Sep 30, 2017	Sep 30, 2016	% Change
Net income	**$ 37,869**	$ 38,909	(3%)	$ 35,230	7%	**$ 120,171**	$ 96,652	24%
EPS – diluted	**$ 2.21**	$ 2.28	(3%)	$ 2.16	2%	**$ 7.03**	$ 5.93	19%
Net interest income	**71,964**	78,349	(8%)	70,827	2%	**228,665**	201,431	14%
Provision for credit losses	**40**	378	(89%)	1,243	(97%)	**1,156**	1,575	(27%)
Non-interest expenses	**31,642**	34,495	(8%)	29,039	9%	**95,957**	86,789	11%

NET INTEREST INCOME

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

Table 3: Net interest income

	Three months ended						Nine months ended			
	Sep 30, 2017		Jun 30, 2017		Sep 30, 2016		**Sep 30, 2017**		Sep 30, 2016	
($ THOUSANDS, EXCEPT PERCENTAGES)	**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	**$ 129,372**	**4.47%**	$ 125,670	4.46%	$ 114,416	4.65%	**$ 376,934**	**4.49%**	$ 323,379	4.64%
Liquidity investments	**2,089**	**0.93%**	1,397	0.74%	1,428	1.01%	**5,090**	**0.84%**	4,162	0.94%
Equity securities – TEB[2]	**1,402**	**5.92%**	1,430	5.86%	2,040	6.67%	**4,660**	**6.09%**	6,719	7.04%
	132,863	**4.23%**	128,497	4.24%	117,884	4.48%	**386,684**	**4.26%**	334,260	4.45%
Expenses related to:										
Deposits and bank facilities	**50,516**	**2.06%**	46,246	1.98%	44,290	2.09%	**139,858**	**2.01%**	128,131	2.12%
Backstop funding facility[3]	**5,425**	**-%**	1,378	-%	-	-%	**6,803**	**-%**	-	-%
Debentures	**950**	**5.80%**	950	5.86%	950	5.81%	**2,850**	**5.86%**	2,850	5.86%
Securitization liabilities	**8,089**	**1.86%**	6,604	1.65%	4,485	1.60%	**21,309**	**1.70%**	11,435	1.55%
	64,980	**2.24%**	55,178	2.00%	49,725	2.06%	**170,820**	**2.07%**	142,416	2.08%
Net interest income – TEB	**67,883**	**2.17%**	73,319	2.41%	68,159	2.60%	**215,864**	**2.37%**	191,844	2.55%
Taxable Equivalent Basis – adjustment	**(402)**		(397)		(569)		**(1,284)**		(2,031)	
Core Lending	**$ 67,481**		$ 72,922		$ 67,590		**$ 214,580**		$ 189,813	
Securitization Financing:										
Revenues derived from:										
Mortgages	**$ 43,368**	**2.54%**	$ 44,957	2.60%	$ 44,776	2.61%	**$ 133,480**	**2.56%**	$ 133,679	2.71%
Liquidity investments	**1,272**	**1.42%**	655	0.95%	330	1.03%	**2,436**	**1.21%**	906	0.97%
	44,640	**2.48%**	45,612	2.54%	45,106	2.58%	**135,916**	**2.51%**	134,585	2.68%
Expenses related to:										
Securitization liabilities	**35,558**	**2.36%**	35,775	2.36%	37,004	2.54%	**108,650**	**2.38%**	110,593	2.59%
Deposits and secured funding facility	**4,599**	**1.85%**	4,410	1.76%	4,865	1.70%	**13,181**	**1.74%**	12,374	1.74%
	40,157	**2.29%**	40,185	2.27%	41,869	2.40%	**121,831**	**2.29%**	122,967	2.47%
Securitization Financing	**$ 4,483**	**0.25%**	$ 5,427	0.30%	$ 3,237	0.19%	**$ 14,085**	**0.26%**	$ 11,618	0.23%
Total interest earning assets – TEB	**$ 72,366**	**1.47%**	$ 78,746	1.63%	$ 71,396	1.64%	**$ 229,949**	**1.58%**	$ 203,462	1.62%

[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.*
[3] *Since its establishment in June 2017, there have been no draws on the $2 billion backstop funding facility.*

Q3 2017 v Q3 2016

Net interest income was up 2% as growth in average asset balances in both the Core Lending and Securitization Financing businesses was largely offset by a 17 bp decrease in NIM. The decrease in Total NIM was largely the result of a decrease in our Core Lending NIM of 43 bps, driven by the liquidity events that unfolded in the second quarter.

Table 4(a): Factors affecting Q3 2017 v Q3 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(4)	• Reduced levels of early discharges in Single Family Lending
Asset mix	(9)	• A reduction in the relative level of our higher yielding equity securities • A shift towards our lower yielding but higher ROE Single Family business
Funding mix	(3)	• Growth of our higher cost *EQ Bank* deposit product • Decrease in our low rate brokered HISA • Partly offset by a shift in mix towards our lower cost securitization funding options and a redemption of a higher rate deposit note
Liquidity actions initiated in Q2 2017	(30)	• Insurance premium amortization related to the $892 million of Alternative Single Family mortgages that we insured in May 2017, net of the associated funding benefits • Fees associated with our new $2 billion secured backstop funding facility
Rates/spreads[1]	3	• Higher spreads in both our Single Family and Commercial portfolio
Change in Core Lending NIM	(43)	
Securitization Financing NIM:		
Mortgage prepayment income	8	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter-to-quarter
Asset mix	(3)	• Growth in the relative size of our lower yielding liquidity investments
Other	1	
Change in Securitization NIM	6	
Change in Total NIM[2]	(17)	

(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 2017 v Q2 2017

Net interest income decreased 8% from last quarter as the effect of growth in average assets was offset by a 16 bp decrease in NIM.

Table 4(b): Factors affecting Q3 2017 v Q2 2017 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(4)	• Reduced levels of early discharges in Single Family Lending
Asset mix	(5)	• Growth in the relative size of our lower yielding liquidity investments
Funding mix	(7)	• Growth of our higher cost *EQ Bank* deposit product
Liquidity actions initiated in Q2 2017	(10)	• A full quarter of fees associated with our new $2 billion secured backstop funding facility • A full quarter of insurance premium amortization related to the $892 million of Alternative Single Family mortgages that we insured in May 2017
Rates/spreads[1]	2	• Higher spreads within both our Single Family and Commercial portfolios
Change in Core Lending NIM	(24)	
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 in the relative size of our lower yielding liquidity investments
Change in Securitization NIM	(5)	
Change in Total NIM[2]	(16)	

(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 2017 v YTD 2016

Net interest income was up 14% year over year due to the growth in average assets of both Core Lending and Securitization Financing offset in part by a 4 bp decrease in NIM. The decrease in our overall NIM was the result of a mix shift towards Core Lending and a drop in NIM of 18 bps within that business.

Table 4(c): Factors affecting YTD 2017 v YTD 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	1	• Higher levels of early discharges in Single Family Lending
Asset mix	(5)	• A reduction in the relative level of our higher yielding equity securities • A shift towards our lower yielding but higher ROE Single Family business
Funding mix	5	• A shift in mix towards our lower cost securitization funding options • Redemption of a higher rate deposit note • Partly offset by growth of our higher cost *EQ Bank* deposit product and decrease in our low rate brokered HISA
Liquidity actions initiated in Q2 2017	(17)	• Insurance premium amortization related to the $892 million of Alternative Single Family mortgages that we insured in May 2017 • Fees associated with our new $2 billion secured backstop funding facility
Rates/spreads[1]	(2)	• Slightly lower spreads within our Commercial portfolio, partially offset by higher spreads within our Single Family business
Change in Core Lending NIM	(18)	
Securitization Financing NIM:		
Mortgage prepayment income	5	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter-to-quarter
Asset mix	(2)	• Growth in the relative level of our lower yielding liquidity investments
Change in Securitization NIM	3	
Change in Total NIM[2]	(4)	

(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 PERCENTAGES)	Three months ended					Nine months ended		
	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	**Sep 30, 2017**	Sep 30, 2016	% Change
Individual provision	**$ 40**	$ 378	(89%)	$ 1,243	(97%)	**$ 1,156**	$ 1,575	(27%)
Collective provision	**-**	-	N/A	-	N/A	**-**	-	N/A
Provision for credit losses	**$ 40**	$ 378	(89%)	$ 1,243	(97%)	**$ 1,156**	$ 1,575	(27%)
Provision for credit losses – rate	**0.001%**	0.01%	(0.01%)	0.03%	(0.03%)	**0.01%**	0.01%	-%
Allowance for credit losses	**$ 33,545**	$ 34,369	(2%)	$ 33,850	(1%)			

The credit quality of our mortgage portfolio remained solid in Q3. Our provision for credit losses during the third quarter was $40 thousand, $0.3 million below the prior quarter and $1.2 million lower than in the same quarter of 2016. Relative to average mortgage principal outstanding during the period, the provision for credit losses was less than one basis point. Of note, the net provision benefitted from the release of $884 thousand of specific provisions previously recorded on impaired mortgages that were resolved during the quarter. Consistent with our historic practices, we worked out these loans ourselves and none of the mortgages were sold to other parties. The gross provision before these releases was $924 thousand or 2 bps of mortgage principal. 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 required during the quarter.

The provision for credit losses represents management's best estimate of loss formations during the period after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary from period-to-period based on impaired loan balances, our estimates of the credit 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 consolidated interim balance sheet. The allowance was $33.5 million or 18 bps of our total mortgage assets at September 30, 2017, which is 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, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	**Sep 30, 2017**	Sep 30, 2016	% Change
Fees and other income:								
Fees and other income	**$ 4,839**	$ 4,671	4%	$ 3,873	25%	**$ 14,727**	$ 10,831	36%
Income from successor issuer activities	**2,653**	2,182	22%	-	N/A	**7,422**	-	N/A
Net (loss) gain on investments	**(100)**	(788)	N/A	(44)	N/A	**(888)**	703	(226%)
Securitization activities:								
Gains on securitization and income from retained interests	**3,304**	3,212	3%	2,743	20%	**10,477**	6,588	59%
Fair value gain (losses) on derivative financial instruments	**1,493**	36	N/A	439	240%	**786**	(952)	N/A
Total	**$ 12,189**	$ 9,313	31%	$ 7,011	74%	**$ 32,524**	$ 17,170	89%

Q3 2017 v Q3 2016

Other income was up $5.2 million or 74% compared with Q3 2016, mainly due to increases in:

- Income from successor issuer activities, representing income earned from certain Maple Assets and which is expected to be recurring on a diminishing basis through 2020;
- Gains on derivative financial instruments related to securitization activities during the quarter;

- Fees and other income, the majority of which resulted from growth in our mortgage business and gains on either foreclosures or investments acquired from Maple Bank; and
- Gains on securitization and income from retained interests, driven by a higher gain on sale margin and despite a lower volume of securitization transactions that qualify for derecognition.

Q3 2017 v Q2 2017

Other income increased $2.9 million or 31% primarily because of:

- Higher fair value gains on derivative financial instruments related to securitization activities;
- Lower investment losses on preferred share sale during the quarter; and
- Higher income from successor issuer activities.

YTD 2017 v YTD 2016

Other income increased $15.4 million or 89% on a year over year basis primarily due to:

- Increase in income from successor issuer rights on certain Maple Assets that we acquired last October;
- Increase in fees and other income, the majority of which resulted from gains recorded on certain investments acquired from Maple Bank, gains on the sale of foreclosed assets, and growth in our mortgage business;
- Higher gains on securitization and income from retained interests, mainly due to an increase in the gain on sale margin and despite a lower level of derecognition activities; and
- Fair value gains on derivative financial instruments related to securitization activities versus a loss in the same period of 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, 2017**	Jun 30, 2017	% Change	Sep 30, 2016	% Change	**Sep 30, 2017**	Sep 30, 2016	% Change
Compensation and benefits	**$ 16,495**	$ 16,467	0%	$ 15,574	6%	**$ 49,385**	$ 45,417	9%
Technology and system costs	**4,974**	5,764	(14%)	4,929	1%	**15,547**	14,388	8%
Product costs	**3,128**	3,020	4%	2,808	11%	**9,176**	7,766	18%
Regulatory, legal and professional fees	**2,950**	2,580	14%	2,287	29%	**7,504**	5,619	34%
Marketing and corporate expenses	**2,527**	5,178	(51%)	1,946	30%	**9,627**	8,852	9%
Premises	**1,568**	1,486	6%	1,495	5%	**4,718**	4,747	(1%)
Total non-interest expenses	**$ 31,642**	$ 34,495	(8%)	$ 29,039	9%	**$ 95,957**	$ 86,789	11%
Efficiency Ratio – TEB	**37.4%**	39.2%	(1.8%)	37.0%	0.4%	**36.6%**	39.3%	(2.7%)
Full-time employee ("FTE") – period average	**573**	569	1%	542	6%	**569**	525	8%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our Efficiency Ratio for the quarter increased slightly to 37.4% from 37.0% a year ago but decreased from 39.2% in the preceding quarter.

Q3 2017 v Q3 2016

Total non-interest expenses increased $2.6 million or 9%, primarily due to:

- Higher Compensation and benefits costs as a result of FTE growth of 6%;
- Growth in Regulatory, legal and professional fees driven by an increase in CDIC's standard premium rates, higher deposit balances, and an increase in professional services usage; and
- Higher Marketing and corporate expenses related to advertising for our *EQ Bank* platform and growth of our business.

Q3 2017 v Q2 2017

Overall expenses dropped $2.9 million or 8% compared to the preceding quarter, mainly driven by:

- A reduction in Marketing and corporate expenses, $2.2 million of which related to the marketing campaign that we launched in Q2 2017 to promote our *EQ Bank* savings product; and
- A decrease in Technology and system expenses, mainly related to product development activities.

Offset by:

- An increase in Regulatory, legal and professional fees, mainly a result of higher consulting fees for our IFRS 9 implementation.

YTD 2017 v YTD 2016

Total non-interest expenses on a year-to-date basis increased $9.2 million or 11% over last year, largely attributable to:

- An increase in Compensation and benefits costs mainly as a result of FTE growth of 8%;
- Growth in Regulatory, legal and professional fees driven by an increase in CDIC's standard premium rates, higher deposit balances, and business growth;
- Higher Product costs which is largely related to transaction volumes and the outsourcing of our brokered HISA administration in Q4 2016;
- An increase in Technology and system costs mainly in relation to support, maintenance and enhancement of our core systems (including our digital platform); and
- An increase in Marketing expenses related to advertising for our *EQ Bank* platform.

INCOME TAXES

Q3 2017 v Q3 2016

Our effective income tax rate for the quarter increased to 27.8% from 25.8% a year ago due to lower tax-exempt dividend income as a result of the sale of over $40 million of preferred shares from our securities portfolio over the past four quarters and other adjustments. Our statutory income tax rate did not change from 2016 and remains at 26.5%.

Q3 2017 v Q2 2017

Our effective income tax rate for the quarter increased to 27.8% compared to 26.2% in Q2 mainly due to adjustments processed in the current quarter.

YTD 2017 v YTD 2016

Our year-to-date effective income tax rate increased to 26.8% from 25.8% in the same period of 2016, mainly due to the same reasons cited above when comparing Q3 2017 to the same quarter of last year.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2017	Jun 30, 2017	% Change	Dec 31, 2016	% Change	Sep 30, 2016	% Change
Total assets	$ 20,221,205	$ 19,795,986	2%	$ 18,973,588	7%	$ 18,062,846	12%
Mortgage principal – Core Lending	11,908,020	11,376,297	5%	10,682,712	11%	10,197,270	17%
Mortgage principal – Securitization Financing	6,792,951	6,791,596	0%	7,017,120	(3%)	6,763,386	0%
Deposit principal	10,506,896	10,006,735	5%	9,680,163	9%	9,180,647	14%
Total liquid assets as a % of total assets[1]	7.2%	7.9%	(0.7%)	6.7%	0.5%	5.7%	1.5%

[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 our Alternative Single Family Lending business. The following table provides mortgage principal continuity schedules by lending portfolio for Q3 2017 and Q3 2016:

Table 9: Mortgage principal continuity schedule

	Three months ended September 30, 2017						
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[1]	Securitization Financing MUM[2]
Q2 2017 closing balance	$ 8,541,004	$ 2,835,293	$ 11,376,297	$ 6,791,596	$ 18,167,893	$ 3,845,560	$ 10,637,156
Originations	1,098,725	380,442	1,479,167	492,905	1,972,072	-	492,905
Securitization derecognized	-	-	-	(276,902)	(276,902)	276,902	-
Net repayments	(584,945)	(362,499)	(947,444)	(214,648)	(1,162,092)	(69,495)	(284,143)
Q3 2017 closing balance	$ 9,054,784	$ 2,853,236	$ 11,908,020	$ 6,792,951	$ 18,700,971	$ 4,052,967	$ 10,845,918
% Change from Q2 2017	6%	1%	5%	0%	3%	5%	2%
% Change from Q3 2016	20%	7%	17%	0%	10%	37%	12%
Net repayments percentage[3]	6.8%	12.8%	8.3%	3.2%	6.4%	1.8%	2.7%

	Three months ended September 30, 2016						
($ THOUSANDS, EXCEPT PERCENTAGES)	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%
Net repayments percentage[3]	9.3%	6.1%	8.5%	1.8%	5.8%	1.1%	1.6%

[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 third parties, 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 2017 v Q3 2016

Total MUM increased $2.8 billion or 14%, driven by growth in both our Core Lending business and Securitization Financing MUM.

Within Core Lending, both the Alternative Single Family and Commercial lending portfolios grew due to strong origination levels over the past four quarters.

Securitization Financing MUM increased primarily due to high Multi originations and low attrition levels in our Prime business. As our Prime business is still relatively new, loans are not yet maturing in any significant volumes and accordingly attrition rates are low. We expect that attrition rates will gradually increase over the next year as the portfolio seasons.

Q3 2017 v Q2 2017

Total MUM increased 3% mainly as a result of growth in Core Lending.

Within Core Lending, Single Family growth was supported by higher originations and a slight decline in attrition levels. Commercial lending balances increased only slightly as we chose to strategically allocate funding to our Single Family business.

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 single family residential mortgage products, and as such we do not focus on sequential origination comparisons. The table below provides our mortgage originations for Q3 2017 and the comparable period in 2016:

Table 10: Mortgage originations – by lending business

	Three months ended					Nine months ended				
	Sep 30, 2017		Sep 30, 2016			**Sep 30, 2017**		Sep 30, 2016		
($ THOUSANDS, EXCEPT PERCENTAGES)	**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	**$ 1,098,725**	**56%**	$ 1,050,366	49%	5%	**$ 2,873,096**	**55%**	$ 2,677,720	47%	7%
Commercial Lending	**380,442**	**19%**	367,197	17%	4%	**962,227**	**18%**	892,107	16%	8%
	1,479,167	**75%**	1,417,563	66%	4%	**3,835,323**	**73%**	3,569,827	62%	7%
Securitization Financing:										
Multi-unit residential	**359,422**	**18%**	243,754	11%	47%	**990,145**	**19%**	738,204	13%	34%
Prime single family residential	**133,483**	**7%**	495,598	23%	(73%)	**398,645**	**8%**	1,439,684	25%	(72%)
	492,905	**25%**	739,352	34%	(33%)	**1,388,790**	**27%**	2,177,888	38%	(36%)
Total mortgage originations	**$ 1,972,072**	**100%**	$ 2,156,915	100%	(9%)	**$ 5,224,113**	**100%**	$ 5,747,715	100%	(9%)

Q3 2017 v Q3 2016

Most of our businesses delivered strong mortgage origination volumes in Q3 2017, but overall volumes were down as a result of lower origination levels in Prime Single Family.

Core Lending produced its highest ever quarterly volumes, up 4% from Q3 2016 levels, and driven by record originations in Alternative Single Family Lending. Commercial originations were also strong, surpassing Q3 2016 levels by 4%. Origination growth was the result of the high relative quality of our customer service and continued market share gains in the single family residential market.

Securitization Financing originations decreased as a result of Prime Single Family volumes. The decrease reflected an overall reduction in market activity, which is likely the result of regulatory changes announced last fall and a high level of competition. Since the margins on this portfolio are thin, we do not expect this decline to have a significant adverse impact on our overall profitability. Multi origination volumes were up 47% compared to the same quarter of the prior year, partly as a result of an increase in our CMB capacity.

YTD 2017 v YTD 2016

On a year-to-date basis, Core Lending mortgage origination volumes increased as a result of strong performances from both our Alternative Single Family Lending and Commercial Lending businesses. Commercial Lending origination growth was supported by one large structured loan that was originated at the end of Q1 2017 and the continued strength of our relationship with brokers and business partners.

Securitization Financing originations decreased on a year over year basis due to the same reasons that we discussed above when comparing Q3 to the same period of 2016.

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 interim 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 PERCENTAGES)	**Sep 30, 2017**	Jun 30, 2017	% Change	Sep 30, 2016	% Change	**Sep 30, 2017**	Sep 30, 2016	% Change
Securitization derecognized – non-prepayable Multis	**$ 276,902**	$ 273,070	1%	$ 130,656	112%	**$ 792,514**	$ 407,632	94%
Securitization derecognized – prepayable mortgages[1]	**-**	-	N/A	296,626	(100%)	**149,049**	549,713	(73%)
Total principal derecognized	**$ 276,902**	$ 273,070	1%	$ 427,282	(35%)	**$ 941,563**	$ 957,345	(2%)
Gains on sale	**$ 2,504**	$ 2,717	(8%)	$ 2,505	(0%)	**$ 8,791**	$ 6,018	46%
Gains on sale margin[2]	**0.90%**	0.99%	(0.09%)	0.59%	0.31%	**0.93%**	0.63%	0.30%

[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 2017 v Q3 2016

Gains on sale were consistent with Q3 of last year as higher margins were offset by a decrease in derecognition volumes. Overall derecognition levels declined year-over-year because we did not execute any transactions to effect the derecognition of prepayable mortgages (the type which generally do not qualify for derecognition) in order to manage our Leverage Ratio position. Derecognition of non-prepayable Multis increased due to higher demand for this product. Gain on sale margins increased primarily as a result of the shift in mix towards non-prepayable Multis (which generally have higher gain on sale margins than do prepayable loans).

Q3 2017 v Q2 2017

Gains on sale were down sequentially due to a lower gain on sale margin.

YTD 2017 v YTD 2016

Gains on sale increased year-over-year mainly as a result of the higher gain on sale margin from a mix shift towards non-prepayable mortgages.

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 variables including housing 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.

Management is monitoring the Toronto market carefully given the volatility in price growth over the past several months. We made some adjustments to our underwriting criteria earlier this year in order to reduce our risk in certain segments of the market and will make further adjustments if warranted.

The Company's active management of credit risk and our workout efforts continue to yield positive results as highlighted in the metrics below in Table 12. 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 PERCENTAGES)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016
Provision for credit losses	**$ 40**	$ 378	$ 1,243
Provision for credit losses – rate	**0.001%**	0.01%	0.03%
Gross impaired mortgage assets[1]	**26,242**	31,740	34,529
Net impaired mortgage assets[2]	**24,587**	29,261	32,569
Net impaired mortgage assets as a % of total mortgage assets	**0.13%**	0.16%	0.19%
Allowance for credit losses	**33,545**	34,369	33,850
Allowance for credit losses as a % of total mortgage assets	**0.18%**	0.19%	0.20%
Allowances for credit losses as a % of gross impaired mortgage assets	**128%**	108%	98%

(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 2017 v Q3 2016

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio was strong in Q3 2017:

- Our provision for credit losses in absolute dollars and relative to average mortgage principal decreased but remained sufficient. See the discussion in the Provision for Credit Losses section above for further details.
- Impaired loans decreased in both dollar terms and as a percentage of the mortgage portfolio compared to prior periods. The majority of the decrease was in our Alternative Single Family Lending portfolio (almost half of which related to Alberta), with the remainder related to the discharge of a large commercial loan. The impairment rate may return to more normalized levels in future quarters.
- The allowance for credit losses decreased in dollar terms and as a percentage of total mortgage assets, but remains sufficient in the opinion of management.

Q3 2017 v Q2 2017

Our key credit risk metrics remained solid and generally improved from the prior quarter. Impaired loans decreased by $5.5 million mainly due to a large delinquent commercial loan that was fully repaid during the quarter.

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. Despite our liquidity risk management framework, a significant or protracted disruption to the funding markets could require the Company to take further liquidity protection measures, as we did in Q2 2017.

At the moment, management believes that funding markets are stable and that the Company's liquidity position is sufficient. Nonetheless, over the longer term we will continue to take actions to strengthen our liquidity profile.

Table 13: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016
Eligible deposits with regulated financial institutions[1]	**$ 723,934**	$ 811,365	$ 383,375
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**-**	-	101,175
Debt securities guaranteed by Government of Canada	**-**	-	3,945
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**955,867**	1,094,880	500,431
Obligations under repurchase agreements	**(316,087)**	(428,985)	(69,290)
Liquid assets held for regulatory purposes	**1,363,714**	1,477,260	919,636
Other deposits with regulated financial institutions	**380**	100	413
Equity securities[3]	**95,617**	93,172	117,210
Total liquid assets	**$ 1,459,711**	$ 1,570,532	$ 1,037,259
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**6.7%**	7.5%	5.1%
Total liquid assets as a % of total assets	**7.2%**	7.9%	5.7%

(1) Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $22.0 million (June 30, 2017 – $22.8 million, September 30, 2016 – $103.4 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $375 million (June 30, 2017 – $389 million, September 30, 2016 – $135.5 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 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, such as our expected future cash needs and the availability of our various funding sources. We hold sufficient liquid assets to ensure that we can meet these upcoming obligations even through a disruption in the financial markets. Further, 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 also maintain a portfolio of equity securities, the majority of which is investment grade preferred shares that are held to yield tax-preferred dividend income. This portfolio 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, 2017, our LCR was well in excess of the regulatory minimum of 100%.

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

Q3 2017 v Q3 2016

Liquid asset balances were $1.5 billion at Q3 2017, up $400 million from the prior year. The increase was mainly due to growth of our business and our decision to adopt a more cautious stance after funding market disruptions experienced in Q2 2017.

Q3 2017 v Q2 2017

Liquid asset balances decreased slightly from Q2 2017, but remained high relative to historical levels, for the reasons discussed in the paragraph above.

OTHER ASSETS

Q3 2017 v Q3 2016

Other assets grew 28% or $21.3 million from a year ago mainly due to:

- $23.9 million increase in Intangible assets, $18.5 million of which related to upfront costs for the backstop funding facility that we closed in June (amortized over a 2-year period) and $5.8 million was for projected-related costs incurred since Q4 2016;
- $11.8 million increase in the fair value of outstanding derivative financial instruments; and
- $5.4 million increase in Receivables relating mainly to certain Maple assets that we assumed in Q4 2016.

Offset by:

- $12.2 million decrease in Prepaid expenses and other mainly as a result of a deposit that we made in Q3 2016 for the acquisition of the Successor Issuer rights for Maple Bank's assets;
- $5.5 million decrease in Real estate owned due to the sale of foreclosed assets; and
- $1.6 million decrease in Capital assets, largely a result of amortization over the past twelve months.

Included in Other assets is a net receivable of $3.2 million (Q2 2017 and Q3 2016 – $3.2 million) related to an alleged external 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 2017 v Q2 2017

Other assets dropped slightly by $0.5 million from the prior quarter primarily because of:

- $6.6 million decrease in Real estate owned due to the disposition of foreclosed assets; and
- $0.9 million decrease in Prepaid expenses and other, mainly a result of monies received for leasehold inducements in relation to our office renovation.

Offset by:

- $4.6 million increase in the fair value of outstanding derivative financial instruments; and
- $2.4 million increase in Receivables relating to securitization activities, mainly driven by certain Maple assets we assumed last October.

DEPOSITS

Table 14: Deposit principal

($ THOUSANDS)		Sep 30, 2017		Jun 30, 2017		Sep 30, 2016
GICs	**$**	**7,824,106**	$	7,713,588	$	6,821,166
Brokered HISAs		**949,116**		837,246		1,197,125
EQ Bank Savings Plus Accounts		**1,583,674**		1,305,901		1,012,010
Deposit notes		**150,000**		150,000		150,346
	$	**10,506,896**	$	10,006,735	$	9,180,647

Equitable Bank is a federally regulated deposit taking institution and offers deposits eligible for CDIC insurance to savers across Canada. We source deposits primarily through a national distribution network of third party deposit agents and financial advisors. In January 2016, we introduced the *EQ Bank Savings Plus Account* through our digital banking platform, a new channel that further diversifies our funding sources and builds direct relationships with Canadian savers. Our deposit product suite, which now includes GICs, HISAs, and deposit notes, provides a reliable and diversified base of funding that can be effectively matched against mortgage maturities.

Total deposit principal was up $1.3 billion or 14% over Q3 2016, just below the growth rate of our Core Lending portfolio. A significant portion of this growth was in GICs. We continue to have strong relationships with our deposit agents and brokers, and our distribution network remains as broad as that of any non-big 6 bank.

Also contributing to the growth of our deposits was the *EQ Bank Savings Plus Account*. *EQ Bank* deposit principal was $572 million above Q3 of last year, reflecting our efforts to enhance the platform and to grow our customer base. *EQ bank* is a key strategic pillar for us and the platform demonstrated its value during the liquidity event in Q2 2017. Most notably, our retention rates on these direct-to-consumer deposits were significantly higher than for brokered deposits. We were also able to quickly drive increased account acquisition and balance growth by launching a promotional campaign and increasing the interest rate we offer. We expect these deposits to represent a growing share of our overall funding base in future periods.

The above increases were in part offset by a $0.2 billion decrease in our brokered HISA account balances compared to last year. Brokered HISA deposits experienced a high level of attrition during April and early May but have since stabilized. Given the behaviour of these accounts during the second quarter, we intend to focus on growing *EQ Bank* and to de-emphasize growth of these brokered balances going forward. We will continue to offer the product, with a competitive rate, but will take steps aimed at curtailing growth such as reducing the maximum allowable account balance.

SECURITIZATION LIABILITIES

Securitization liability principal increased $480 million or 7% over Q3 2016 and was down $24 million as compared to Q2 2017. The increase from last year is largely because we securitized and sold approximately $0.7 billion of the $0.9 billion portfolio of residential mortgages that we insured in Q2 2017.

The sequential decrease in the Securitization liability from last quarter is mainly attributable to higher levels of attrition during the quarter, offset in part by the securitization and sale of $0.3 billion of residential mortgages as discussed above.

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 $600 million. At Q3 2017, the balance outstanding on these facilities was $194 million (Q2 2017 – $142 million, Q3 2016 – $399 million).

In Q2 2017, the Company obtained a two-year, $2.0 billion secured backstop funding facility from a syndicate of the Big-6 Canadian banks. The terms of the facility included a 0.75% commitment fee, a 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the Banks' cost of funds plus 1.25%. No advances have yet been made on this facility.

There was no change to our debentures in the current quarter. Subsequent to quarter end, $65 million of Series 10 debentures were fully redeemed on October 23, 2017.

Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2016 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 based on the Bank's 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 2016 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. Our CET1, Tier 1 Capital and Total Capital Ratios were up from Q3 of last year. The year over year increase was primarily due to a common share issuance that occurred in December 2016, our strategy of retaining the vast majority of our earnings to fund our growth, a reduction in unrealized losses on our preferred share investments, and a lower risk weight density. Risk weight density decreased primarily due to the Bank obtaining insurance on $892 million of existing residential mortgages during Q2 2017. Compared to last quarter, our capital ratios remained unchanged. At current levels, capital is above management's targets, and we hope to be able to deploy the excess into asset growth during 2018.

Capital levels in Q3 2017 improved sequentially due to lower cumulative after-tax mark-to-market losses on our preferred share portfolio and amortization of 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.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.3% at Q3 2017 and the Bank remains fully compliant with our regulatory requirements. Our Leverage Ratio was consistent with last quarter and higher than in the same quarter of last year as a result of the common share issuance discussed above and our earnings retention.

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 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. (See Business Outlook section of this document for further details.)

On October 23, 2017, subsequent to quarter end and in accordance with our strategic and capital plans, the Bank redeemed $65 million of its Series 10 Debentures with the approval of the Office of the Superintendent of Financial Institutions. On a pro forma basis, this redemption resulted in a reduction of approximately 0.9% in our Total Capital Ratio with no impact to our Common Equity Tier 1 or Tier 1 Capital Ratios, or our Leverage Ratio.

Table 15: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016
Total risk-weighted assets ("RWA")	**$ 6,814,247**	$ 6,561,813	$ 5,968,000
Common Equity Tier 1 Capital:			
Common shares	**199,968**	199,918	148,175
Contributed surplus	**6,962**	6,686	6,206
Retained earnings	**826,479**	793,587	683,583
Accumulated other comprehensive (loss) income ("AOCI")[1]	**(11,577)**	(12,874)	(24,133)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(16,299)**	(15,325)	(14,687)
Common Equity Tier 1 Capital	**1,005,533**	971,992	799,144
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,078,087**	1,044,546	871,698
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	31,890
Subordinated debentures	**62,891**	62,891	65,000
Tier 2 Capital	**94,781**	94,781	96,890
Total Capital	**$ 1,172,868**	$ 1,139,327	$ 968,588
Capital ratios:			
CET1 Ratio	**14.8%**	14.8%	13.4%
Tier 1 Capital Ratio	**15.8%**	15.9%	14.6%
Total Capital Ratio	**17.2%**	17.4%	16.2%
Leverage Ratio	**5.3%**	5.3%	4.9%

(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

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
RESULTS OF OPERATIONS								
Net income	**$ 37,869**	$ 38,909	$ 43,393	$ 41,678	$ 35,230	$ 33,410	$ 28,012	$ 31,436
Net income available to common shareholders	**36,678**	37,718	42,202	40,488	34,039	32,219	26,821	30,245
Net interest income	**71,964**	78,349	78,352	77,926	70,827	67,010	63,594	63,458
Total revenue	**189,290**	183,025	181,525	179,939	169,432	162,861	151,691	151,495
EPS – basic[1]	**$ 2.23**	$ 2.29	$ 2.56	$ 2.58	$ 2.19	$ 2.07	$ 1.73	$ 1.95
EPS – diluted[1]	**$ 2.21**	$ 2.28	$ 2.54	$ 2.56	$ 2.16	$ 2.05	$ 1.71	$ 1.93
ROE	**14.4%**	15.6%	18.4%	19.3%	17.2%	17.1%	14.7%	17.0%
Return on average assets	**0.8%**	0.8%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%
NIM – TEB:								
Total Assets	**1.47%**	1.63%	1.66%	1.70%	1.64%	1.61%	1.62%	1.69%
Core Lending	**2.17%**	2.41%	2.55%	2.64%	2.60%	2.55%	2.50%	2.64%
Securitization Financing	**0.25%**	0.3%	0.22%	0.24%	0.19%	0.22%	0.31%	0.22%
Efficiency Ratio – TEB	**37.4%**	39.2%	33.2%	33.9%	37.0%	38.2%	43.2%	35.7%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**1,098,725**	938,591	835,780	930,449	1,050,366	952,937	674,417	719,361
Commercial Lending Services	**380,442**	201,789	379,996	377,578	367,197	323,061	201,849	259,502
Core Lending	**1,479,167**	1,140,380	1,215,776	1,308,027	1,417,563	1,275,998	876,266	978,863
Securitization Financing	**492,905**	486,621	409,264	871,391	739,352	745,409	693,127	759,258
Total originations	**1,972,072**	1,627,001	1,625,040	2,179,418	2,156,915	2,021,407	1,569,393	1,738,121
BALANCE SHEET								
Total assets	**20,221,205**	19,795,986	19,300,418	18,973,588	18,062,846	17,147,854	16,411,221	15,527,584
Assets Under Management	**24,274,172**	23,641,546	22,959,080	22,277,769	21,024,401	19,709,617	18,616,018	17,600,072
Mortgages receivable	**18,787,348**	18,263,623	18,164,958	17,783,803	17,049,744	16,244,106	15,540,241	14,700,806
MUM	**22,753,938**	22,013,453	21,743,431	21,004,013	19,922,211	18,723,056	17,668,821	16,706,935
Shareholders' equity	**1,098,325**	1,060,852	1,023,702	977,150	879,367	843,924	816,049	796,116
Liquid assets	**1,459,711**	1,570,532	1,153,174	1,280,591	1,037,259	1,033,634	939,691	895,056
CREDIT QUALITY								
Provision for credit losses	**40**	378	738	870	1,243	105	227	1,064
Provision for credit losses – rate	**0.001%**	0.01%	0.02%	0.02%	0.03%	0.003%	0.01%	0.03%
Net impaired mortgages as a % of total mortgage assets	**0.13%**	0.16%	0.21%	0.21%	0.19%	0.20%	0.22%	0.22%
Allowance for credit losses as a % of total mortgage assets	**0.18%**	0.19%	0.19%	0.19%	0.20%	0.20%	0.21%	0.23%

Table 16: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,478,314**	16,477,456	16,464,170	15,692,833	15,570,678	15,556,836	15,543,952	15,493,549
Weighted average diluted	**16,570,256**	16,567,699	16,614,221	15,808,124	15,722,532	15,709,456	15,674,734	15,677,954
Book value per common share	**$ 62.25**	$ 59.98	$ 57.73	$ 54.96	$ 51.72	$ 49.55	$ 47.81	$ 46.57
Common share price – close	**$ 56.00**	$ 59.48	$ 69.37	$ 60.46	$ 58.86	$ 55.99	$ 50.76	$ 51.50
Common share market capitalization	**922,826**	980,091	1,142,881	995,180	918,196	871,566	789,413	800,238
Dividends declared per:[2]								
Common share	**$ 0.24**	$ 0.23	$ 0.23	$ 0.22	$ 0.21	$ 0.21	$ 0.20	$ 0.20
Preferred share – Series 3	**$ 0.40**	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
EQUITABLE BANK CAPITAL RATIOS								
Risk-weighted assets	**6,814,247**	6,561,813	6,739,517	6,385,825	5,968,000	5,664,575	5,433,025	5,259,384
CET1 Ratio	**14.8%**	14.8%	13.9%	14.0%	13.4%	13.5%	13.5%	13.6%
Tier 1 Capital Ratio	**15.8%**	15.9%	15.0%	15.1%	14.6%	14.8%	14.9%	15.0%
Total Capital Ratio	**17.2%**	17.4%	16.4%	16.6%	16.2%	16.5%	16.7%	16.8%
Leverage Ratio	**5.3%**	5.3%	5.3%	5.1%	4.9%	5.0%	5.0%	5.2%

(1) *Annual EPS may not equal the sum of the quarterly EPS' as a result of rounding.*
(2) *Annual dividends declared per share may not equal the sum of the quarterly dividends per share as a result of rounding.*

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 2017 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2016. Refer to Note 3 to the audited consolidated financial statements in the Company's 2016 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 audited consolidated financial statements in the Company's 2016 Annual Report and Note 3 to the Q3 2017 interim consolidated financial statements for further discussion.

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 2017 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 2016 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 $4.1 billion at September 30, 2017 (June 30, 2017 – $3.8 billion, September 30, 2016 – $3.0 billion). The securitization liabilities associated with these transferred assets are approximately $4.0 billion at September 30, 2017 (June 30, 2017 – $3.8 billion, September 30, 2016 – $3.0 billion). The securitization retained interests recorded with respect to certain securitization transactions were $102.7 million at September 30, 2017 (June 30, 2017 – $98.5 million, September 30, 2016 – $87.3 million) and the associated servicing liability was $25.7 million at September 30, 2017 (June 30, 2017 – $25.0 million, September 30, 2016 – $21.4 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.2 billion of mortgages in the ordinary course of business at September 30, 2017 (June 30, 2017 – $1.3 billion, September 30, 2016 – $1.0 billion).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $8.3 million were outstanding at September 30, 2017 (June 30, 2017 – $8.0 million, September 30, 2016 – $5.6 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, subordinated debentures, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 23 to the audit consolidated financial statements in the Company's 2016 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.

For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management of the Company's 2016 Annual Report which is available on SEDAR at www.sedar.com. The most significant of those risks are summarized below.

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 a 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 42% or $38 million of the total equity securities portfolio at September 30, 2017, compared to 51% or $59 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 redemption or maturity of deposits, the maturity of mortgage backed securities and commitments to extend credit. Redemptions rates are affected by many factors, including the level of consumer confidence in the Bank. 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. Despite these precautions, there is a risk that a disruption in the funding markets may be so severe or prolonged that the Company may need to take further actions to protect its liquidity position, which may even include curtailing lending activity or drawing on its backstop funding facility.

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, 2017, see Note 16 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, 2017. 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 PERCENTAGES)	Increase in interest rates	Decrease in interest rates[(1)]
100 basis point shift		
Impact on net interest income	**$ 9,288**	**$ (6,036)**
Impact on EVE	**(12,867)**	**4,661**
EVE impact as a % of common shareholders' equity	**(1.26%)**	**0.46%**
200 basis point shift		
Impact on net interest income	**$ 16,104**	**$ (6,373)**
Impact on EVE	**(20,368)**	**7,052**
EVE impact as a % of common shareholders' equity	**(1.99%)**	**0.69%**

(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 a Committee of the Board quarterly.

UPDATED SHARE INFORMATION

At November 9, 2017, the Company had 16,481,534 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 641,674 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $32.3 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 2017 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, if any, 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, 2017**	Jun 30, 2017	% Change	Sep 30, 2016	% Change
Total assets on the consolidated balance sheet	**$ 20,221,205**	$ 19,795,986	2%	$ 18,062,846	12%
Mortgage principal derecognized	**4,052,967**	3,845,560	5%	2,961,555	37%
Assets Under Management	**$ 24,274,172**	$ 23,641,546	3%	$ 21,024,401	15%

- **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, 2017		Jun 30, 2017	% Change		Sep 30, 2016	% Change
Shareholders' equity	$	1,098,325	$	1,060,852	4%	$	879,367	25%
Preferred shares		72,557		72,557	-%		72,557	-%
Common shareholders' equity	$	1,025,768	$	988,295	4%	$	806,810	27%
Common shares outstanding		16,479,034		16,477,654	-%		15,599,657	6%
Book value per common share	$	62.25	$	59.98	4%	$	51.72	20%

- **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.

	Three months ended							Nine months ended			
($ THOUSANDS, EXCEPT PERCENTAGES)		Sep 30, 2017		Jun 30, 2017	% Change		Sep 30, 2016	% Change		Sep 30, 2017		Sep 30, 2016	% Change
Non-interest expenses	$	31,642	$	34,495	(8%)	$	29,039	9%	$	95,957	$	86,789	11%
Net revenue		84,555		88,059	(4%)		78,407	8%		262,473		220,632	19%
Efficiency Ratio		37.4%		39.2%	(1.8%)		37.0%	0.4%		36.6%		39.3%	(2.7%)

- **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, 2017		Jun 30, 2017	% Change		Sep 30, 2016	% Change
Mortgage principal reported on the consolidated balance sheet	$	**18,700,971**	$	18,167,893	3%	$	16,960,656	10%
Mortgage principal derecognized		**4,052,967**		3,845,560	5%		2,961,555	37%
Mortgages Under Management	$	**22,753,938**	$	22,013,453	3%	$	19,922,211	14%

- **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.

	Three months ended					Nine months ended		
($ THOUSANDS)	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	Sep 30, 2017	Sep 30, 2016	% Change
Net interest income	$ **71,964**	$ 78,349	(8%)	$ 70,827	2%	$ **228,665**	$ 201,431	14%
Other income	**12,189**	9,313	31%	7,011	74%	**32,524**	17,170	89%
TEB adjustment	**402**	397	1%	569	(29%)	**1,284**	2,031	(37%)
Net revenue	$ **84,555**	$ 88,059	(4%)	$ 78,407	8%	$ **262,473**	$ 220,632	19%

- **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.

	Three months ended					Nine months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	Sep 30, 2017	Sep 30, 2016	% Change
Provision for credit losses	$ **40**	$ 378	(89%)	$ 1,243	(97%)	$ **1,156**	$ 1,575	(27%)
Divided by: average mortgage principal	**18,434,432**	18,126,331	2%	16,560,975	11%	**18,200,402**	15,797,551	15%
Provision for credit Losses – rate	**0.001%**	0.01%	(0.01%)	0.03%	(0.03%)	**0.01%**	0.01%	-%

- **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.

	Three months ended					Nine months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	Sep 30, 2017	Sep 30, 2016	% Change
Net income	$ **37,869**	$ 38,909	(3%)	$ 35,230	7%	$ **120,171**	$ 96,652	24%
Average total assets	**19,971,606**	19,572,199	2%	17,639,942	13%	**19,561,267**	16,854,413	16%
Return on average assets	**0.8%**	0.8%	-%	0.8%	-%	**0.8%**	0.8%	-%

- **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.

	Three months ended					Nine months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2017	Jun 30, 2017	% Change	Sep 30, 2016	% Change	Sep 30, 2017	Sep 30, 2016	% Change
Net income available to common shareholders	$ **36,678**	$ 37,718	(3%)	$ 34,039	8%	$ **116,598**	$ 93,079	25%
Weighted average common equity	**1,007,031**	969,755	4%	788,749	28%	**965,337**	764,877	26%
Return on shareholders' equity	**14.4%**	15.6%	(1.2%)	17.2%	(2.8%)	**16.1%**	16.3%	(0.2%)

- **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. 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, 2017, June 30, 2017 and September 30, 2016, the TEB adjustment was $0.4 million, $0.4 million and $0.6 million. For the nine months ended September 30, 2017, the TEB adjustment was $1.3 million as compared to $2.0 million for the same period in 2016.

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT SEPTEMBER 30, 2017
With comparative figures as at December 31, 2016 and September 30, 2016
($ THOUSANDS)

	Note	**September 30, 2017**	December 31, 2016	September 30, 2016
Assets:				
Cash and cash equivalents		**$ 724,314**	$ 444,179	$ 383,788
Restricted cash		**397,365**	247,878	238,945
Securities purchased under reverse repurchase agreements		**-**	199,401	102,760
Investments	*6*	**112,255**	136,718	124,485
Mortgages receivable – Core Lending	*7, 8*	**11,921,274**	10,678,452	10,199,787
Mortgages receivable – Securitization Financing	*7, 8*	**6,866,074**	7,105,351	6,849,957
Securitization retained interests		**102,715**	88,782	87,262
Other assets		**97,208**	72,827	75,862
		$ 20,221,205	$ 18,973,588	$ 18,062,846
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	*10*	**$ 10,594,205**	$ 9,763,082	$ 9,268,606
Securitization liabilities	*8*	**7,730,776**	7,762,632	7,258,672
Obligations under repurchase agreements	*8*	**316,087**	112,488	69,290
Deferred tax liabilities		**31,869**	38,771	37,763
Other liabilities		**191,289**	204,465	85,239
Bank facilities		**193,654**	50,000	398,909
Debentures		**65,000**	65,000	65,000
		19,122,880	17,996,438	17,183,479
Shareholders' equity:				
Preferred shares	*12*	**72,557**	72,557	72,557
Common shares	*12*	**197,488**	196,608	145,694
Contributed surplus	*13*	**5,870**	5,056	5,114
Retained earnings		**830,976**	725,912	688,867
Accumulated other comprehensive loss		**(8,566)**	(22,983)	(32,865)
		1,098,325	977,150	879,367
		$ 20,221,205	$ 18,973,588	$ 18,062,846

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017

With comparative figures for the three and nine month periods ended September 30, 2016

($THOUSANDS, EXCEPT PER SHARE AMOUNTS)

		Three months ended		Nine months ended	
	Note	**September 30, 2017**	September 30, 2016	**September 30, 2017**	September 30, 2016
Interest income:					
Mortgages – Core Lending		**$ 129,372**	$ 114,416	**$ 376,934**	$ 323,379
Mortgages – Securitization Financing		**43,368**	44,776	**133,480**	133,679
Investments		**65**	2,142	**3,563**	6,390
Other		**4,296**	1,087	**7,339**	3,366
		177,101	162,421	**521,316**	466,814
Interest expense:					
Deposits		**54,004**	47,229	**150,815**	136,973
Securitization liabilities	*8*	**43,647**	41,489	**129,959**	122,028
Bank facilities		**6,536**	1,926	**9,027**	3,532
Debentures		**950**	950	**2,850**	2,850
		105,137	91,594	**292,651**	265,383
Net interest income		**71,964**	70,827	**228,665**	201,431
Provision for credit losses	*7*	**40**	1,243	**1,156**	1,575
Net interest income after provision for credit losses		**71,924**	69,584	**227,509**	199,856
Other income:					
Fees and other income		**7,492**	3,873	**22,149**	10,831
Net (loss) gain on investments		**(100)**	(44)	**(888)**	703
Gains on securitization activities and income from securitization retained interests	*8*	**4,797**	3,182	**11,263**	5,636
		12,189	7,011	**32,524**	17,170
Net interest and other income		**84,113**	76,595	**260,033**	217,026
Non-interest expenses:					
Compensation and benefits		**16,495**	15,574	**49,385**	45,417
Other		**15,147**	13,465	**46,572**	41,372
		31,642	29,039	**95,957**	86,789
Income before income taxes		**52,471**	47,556	**164,076**	130,237
Income taxes:					
Current		**15,773**	8,227	**39,860**	24,521
Deferred		**(1,171)**	4,099	**4,045**	9,064
		14,602	12,326	**43,905**	33,585
Net income		**$ 37,869**	$ 35,230	**$ 120,171**	$ 96,652
Dividends on preferred shares		**1,191**	1,191	**3,573**	3,573
Net income available to common shareholders		**$ 36,678**	$ 34,039	**$ 116,598**	$ 93,079
Earnings per share:	*14*				
Basic		**$ 2.23**	$ 2.19	**$ 7.08**	$ 5.98
Diluted		**$ 2.21**	$ 2.16	**$ 7.03**	$ 5.93

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017

With comparative figures for the three and nine month periods ended September 30, 2016

($ THOUSANDS)

		Three months ended		Nine months ended	
	Note	**September 30, 2017**	September 30, 2016	**September 30, 2017**	September 30, 2016
Net income		**$ 37,869**	$ 35,230	**$ 120,171**	$ 96,652
Other comprehensive income – items that may be reclassified subsequently to income:					
Available for sale investments:					
Net unrealized gains (losses) from change in fair value		**1,755**	3,249	**11,835**	(1,206)
Reclassification of net losses (gains) to income		**11**	(174)	**412**	(1,075)
		1,766	3,075	**12,247**	(2,281)
Income tax (expense) recovery		**(469)**	(816)	**(3,221)**	606
		1,297	2,259	**9,026**	(1,675)
Cash flow hedges:	*9*				
Net unrealized gains (losses) from change in fair value		**3,501**	1,096	**5,333**	(3,734)
Reclassification of net losses to income		**758**	703	**2,086**	2,486
		4,259	1,799	**7,419**	(1,248)
Income tax (expense) recovery		**(1,131)**	(478)	**(2,028)**	331
		3,128	1,321	**5,391**	(917)
Total other comprehensive income (loss)		**4,425**	3,580	**14,417**	(2,592)
Total comprehensive income		**$ 42,294**	$ 38,810	**$ 134,588**	$ 94,060

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2017

With comparative figures for the three month period ended September 30, 2016

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
September 30, 2017	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 197,439**	**$ 5,594**	**$ 798,253**	**$ (510)**	**$ (12,481)**	**$ (12,991)**	**$ 1,060,852**
Net income	**-**	**-**	**-**	**37,869**	**-**	**-**	**-**	**37,869**
Other comprehensive gain, net of tax	**-**	**-**	**-**	**-**	**3,128**	**1,297**	**4,425**	**4,425**
Exercise of stock options	**-**	**40**	**-**	**-**	**-**	**-**	**-**	**40**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(3,955)**	**-**	**-**	**-**	**(3,955)**
Stock-based compensation	**-**	**-**	**285**	**-**	**-**	**-**	**-**	**285**
Transfer relating to the exercise of stock options	**-**	**9**	**(9)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 197,488**	**$ 5,870**	**$ 830,976**	**$ 2,618**	**$ (11,184)**	**$ (8,566)**	**$ 1,098,325**

					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 gain, net of tax	-	-	-	-	1,321	2,259	3,580	3,580
Issuance cost	-	-	-	-	-	-	-	-
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

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017

With comparative figures for the nine month period ended September 30, 2016

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
September 30, 2017	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 196,608**	**$ 5,056**	**$ 725,912**	**$ (2,773)**	**$ (20,210)**	**$ (22,983)**	**$ 977,150**
Net income	**-**	**-**	**-**	**120,171**	**-**	**-**	**-**	**120,171**
Other comprehensive gain, net of tax	**-**	**-**	**-**	**-**	**5,391**	**9,026**	**14,417**	**14,417**
Exercise of stock options	**-**	**737**	**-**	**-**	**-**	**-**	**-**	**737**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(3,573)**	**-**	**-**	**-**	**(3,573)**
Common shares	**-**	**-**	**-**	**(11,534)**	**-**	**-**	**-**	**(11,534)**
Stock-based compensation	**-**	**-**	**957**	**-**	**-**	**-**	**-**	**957**
Transfer relating to the exercise of stock options	**-**	**143**	**(143)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 197,488**	**$ 5,870**	**$ 830,976**	**$ 2,618**	**$ (11,184)**	**$ (8,566)**	**$ 1,098,325**

					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

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017

With comparative figures for the three and nine month periods ended September 30, 2016

($ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 37,869**	$ 35,230	**$ 120,171**	$ 96,652
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	**640**	(2,479)	**1,989**	(3,488)
Amortization of premiums/discount on investments	**2,775**	114	**7,559**	393
Amortization of capital assets and intangible costs	**2,343**	1,963	**6,516**	5,758
Provision for credit losses	**40**	1,243	**1,156**	1,575
Securitization gains	**(2,504)**	(2,505)	**(8,791)**	(6,018)
Net loss (gain) on sale or redemption of investments	**100**	44	**888**	(703)
Stock-based compensation	**285**	223	**957**	797
Income taxes	**14,602**	12,326	**43,905**	33,585
Changes in operating assets and liabilities:				
Restricted cash	**14,671**	(88,254)	**(149,487)**	(130,957)
Securities purchased under reverse repurchase agreements	**-**	48,146	**199,401**	(82,843)
Mortgages receivable, net of securitizations	**(532,881)**	(821,327)	**(1,029,493)**	(2,381,080)
Securitization retained interests	**6,479**	4,339	**18,088**	11,342
Other assets	**6,849**	(14,713)	**(12,697)**	(14,346)
Deposits	**499,201**	120,927	**837,681**	1,058,964
Securitization liabilities	**(19,227)**	450,708	**(30,901)**	1,149,236
Obligations under repurchase agreements	**(112,898)**	69,290	**203,599**	69,290
Bank facilities	**51,839**	228,909	**143,654**	163,130
Other liabilities	**(37,099)**	4,198	**(28,381)**	(13)
Income taxes paid	**(10,709)**	(2,885)	**(48,330)**	(14,339)
Cash flows (used)/from in operating activities	**(77,625)**	45,497	**277,484**	(43,065)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid on preferred shares	**(1,191)**	(1,191)	**(3,573)**	(3,573)
Dividends paid on common shares	**(3,955)**	(3,270)	**(14,977)**	(9,485)
Proceeds from issuance of common shares	**40**	871	**737**	1,614
Cash flows used in financing activities	**(5,106)**	(3,590)	**(17,813)**	(11,444)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**-**	-	**(40,462)**	(6,783)
Proceeds on sale or redemption of investments	**76**	8,997	**70,219**	32,605
Net change in Canada Housing Trust re-investment accounts	**12**	15	**239**	64
Purchase of capital assets and system development costs	**(4,508)**	(3,368)	**(9,532)**	(10,955)
Cash flows (used)/from investing activities	**(4,420)**	5,644	**20,464**	14,931
Net (decrease)/increase in cash and cash equivalents	**(87,151)**	47,551	**280,135**	(39,578)
Cash and cash equivalents, beginning of period	**811,465**	336,237	**444,179**	423,366
Cash and cash equivalents, end of period	**$ 724,314**	$ 383,788	**$ 724,314**	$ 383,788
Cash flows from operating activities include:				
Interest received	**$ 174,746**	$ 162,889	**$ 520,521**	$ 463,336
Interest paid	**(92,216)**	(89,638)	**(250,221)**	(246,382)
Dividends received	**1,112**	1,604	**3,571**	5,705

See accompanying notes to the interim consolidated financial statements.

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 have been prepared on a condensed basis 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 2016 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 9, 2017.

(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 and its subsidiaries 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.

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, 2016. Refer to Note 3 of the audited consolidated financial statements in the Company's 2016 Annual Report.

Future accounting policies:

Financial Instruments (IFRS 9)

On July 24, 2014, the IASB issued IFRS 9 Financial Instruments, which will replace IAS 39 and covers three broad topics: Classification and Measurement, Impairment and Hedging.

On June 21, 2016, OSFI issued its final guideline on IFRS 9 Financial Instruments and Disclosures. The guideline provides guidance to Federally Regulated Entities on the application of IFRS 9, including the implementation of the expected credit loss framework under IFRS 9. The guideline is consistent with the BCBS Guidance on credit risk and accounting for expected credit losses, issued on December 18, 2015, which sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models. The OSFI guideline will be effective for Equitable Bank beginning on January 1, 2018, consistent with the adoption of IFRS 9.

Implementation approach

The adoption of IFRS 9 is a significant initiative for the Company involving substantial finance, risk management and technology resources. The project is being managed through a governance structure that includes an Executive Steering Committee (EC) comprised of senior levels of management from risk management and finance. The EC is responsible for the overall implementation of IFRS 9, ensuring integration throughout the Company and providing executive review and approval of key decisions made during the transition process. Periodic reporting on the progress against plan is provided to the EC and the Company's Audit Committee.

The Company is in the process of updating its accounting policy manuals and internal control documents, as well as implementing changes to business and financial reporting processes/systems as a result of adoption of IFRS 9. The Company is also updating its existing governance process and educating and training the key stakeholders to support a high quality implementation of the Standard by January 1, 2018. The following is a summary of some of the more significant items in understanding the impact of the implementation of IFRS 9:

Classification and Measurement

The standard considers two criteria when determining the measurement basis for debt instruments held as financial assets; i) the business model for managing those financial assets and ii) the cash flow characteristics of the assets. Based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss. Equity investments are measured at fair value through profit or loss. However, the Company may, at initial recognition of a non-trading equity investment, irrevocably elect to designate the investment in an equity instrument at fair value through OCI, with no subsequent recycling to the Consolidated Statement of Income and dividend income recognized in the Consolidated Statement of Income. This designation is also available to existing non-trading equity investments at the date of adoption of IFRS 9.

Currently, the Company has completed the business model assessment and is in the process of finalizing the assessment of contractual cash flow characteristics of its financial assets.

Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial instruments including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model is forward looking and replaces the current "incurred loss" model of IAS 39. Expected credit losses under IFRS 9 are the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on the extent of increase in risk of default since initial recognition of a financial instrument. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach.

The ECL model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ('SICR') since origination and are not credit impaired. The ECL will be computed using a 12-month probability of default ('PD') that represents the PD occurring over the next 12 months or less in line with the maturity profile of the asset.

Stage 2 – When a financial asset experiences a SICR since origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on a lifetime PD that represents the PD occurring over the remaining lifetime of the financial asset.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses for such loans.

Macroeconomic factors and forward looking indicators are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a SICR since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The assessment of whether there has been a SICR is to be performed at each reporting date.

The Company is currently in the process of refining and testing the application of the ECL methodology for its asset portfolios and conducting a parallel run. This includes testing the processes to forecast and probability weight the forward looking factors used to calculate ECLs and assessing the appropriateness of SICR triggers. The data, processes, systems, models and parameters that support the ECL allowances will undergo further refinement, validation and testing throughout the remainder of the parallel run leading up to the adoption date of IFRS 9. We expect to be able to quantify 2017 ECL under IFRS 9, in our Q4 2017 consolidated financial statements.

Hedging

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.

As permitted by the IFRS 9 hedge accounting guidance, the Company has elected not to adopt the new hedge accounting requirements and instead will retain the IAS 39 hedge accounting requirements. However, the Company will adopt the new hedge accounting disclosure requirements under the amendments to IFRS 7 for the annual accounting period beginning January 1, 2018.

Regulatory developments

On March 29, 2017, the Basel Committee on Banking Supervision (BCBS) issued the Pillar 3 disclosure requirements – consolidated and enhanced framework which builds on the revisions to the Pillar 3 disclosure published by the Committee in January 2015.

On March 29, 2017, the BCBS issued standard "Regulatory treatment of accounting provisions – interim approach and transitional arrangements". In the standard, the BCBS clarified that it will retain its current treatment of provisions under both Standardized Approach and Advanced Internal Ratings Based frameworks during an interim period. Further, the BCBS allows local jurisdictions the option to choose whether to apply a transitional arrangement for the impact of IFRS 9 on regulatory capital. OSFI has issued its draft Capital Adequacy Requirements guidance for consultation which will take effect from November 1, 2017. The Bank will participate with Industry in a response to OSFI's proposed changes.

There are no additional updates to future accounting developments other than those disclosed in Note 3 of the audited consolidated financial statements in the Company's 2016 Annual Report.

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 45 to 56 of the Company's 2016 Annual Report and pages 28 to 29 of the MD&A.

Note 5 – Financial Instruments

The Company's business activities result in a consolidated balance sheets 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, 2017 and December 31, 2016. The tables do not include assets and liabilities that are not financial instruments.

	September 30, 2017						
	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	$ 724,314	$ -	$ -	$ -	$ -	$ 724,314	$ 724,314
Restricted cash	397,365	-	-	-	-	397,365	397,365
Investments	308	-	2,260	109,687	-	112,255	112,255
Mortgages receivable – Core Lending	-	12,978	-	-	11,908,296	11,921,274	11,865,931
Mortgages receivable – Securitization Financing	43,215	-	-	-	6,822,859	6,866,074	6,811,769
Securitization retained interests	-	-	-	102,715	-	102,715	102,715
Other assets:							
Derivative financial instruments:							
bond forwards	549	-	-	-	-	549	549
interest rate swaps	9,800	-	-	-	-	9,800	9,800
total return swaps	2,445	-	-	-	-	2,445	2,445
Other	-	-	-	-	10,648	10,648	10,648
Total financial assets	$ 1,177,996	$ 12,978	$ 2,260	$ 212,402	$ 18,741,803	$ 20,147,439	$ 20,037,791
Financial liabilities:							
Deposits	$ -	$ 10,766	$ -	$ -	$ 10,583,439	$ 10,594,205	$ 10,540,894
Securitization liabilities	-	-	-	-	7,730,776	7,730,776	7,710,318
Obligations under repurchase agreements	-	-	-	-	316,087	316,087	316,087
Other liabilities:							
Derivative financial instruments:							
interest rate swaps	6,694	-	-	-	-	6,694	6,694
total return swaps	509	-	-	-	-	509	509
Mortgage commitment	103	-	-	-	-	103	103
Other	-	-	-	-	155,981	155,981	155,981
Bank facilities	-	-	-	-	193,654	193,654	193,654
Debentures	-	-	-	-	65,000	65,000	64,997
Total financial liabilities	$ 7,306	$ 10,766	$ -	$ -	$ 19,044,937	$ 19,063,009	$ 18,989,237

	December 31, 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	$ 444,179	$ -	$ -	$ -	$ -	$ 444,179	$ 444,179
Restricted cash	247,878	-	-	-	-	247,878	247,878
Securities purchased under reverse repurchase agreements	-	-	-	-	199,401	199,401	199,401
Investments	308	-	2,499	132,911	1,000	136,718	136,718
Mortgages receivable – Core Lending	-	47,283	-	-	10,631,169	10,678,452	10,737,431
Mortgages receivable – Securitization Financing	25,196	-	-	-	7,080,155	7,105,351	7,185,403
Securitization retained interests	-	-	-	88,782	-	88,782	88,782
Other assets:							
Derivative financial instruments:							
bond forwards	456	-	-	-	-	456	456
total return swaps	1,042	-	-	-	-	1,042	1,042
interest rate swaps	3,673	-	-	-	-	3,673	3,673
Mortgage commitments	48	-	-	-	-	48	48
Other	-	-	-	-	12,320	12,320	12,320
Total financial assets	$ 722,780	$ 47,283	$ 2,499	$ 221,693	$ 17,924,045	$ 18,918,300	$ 19,057,331
Financial liabilities:							
Deposits	$ -	$ 43,863	$ -	$ -	$ 9,719,219	$ 9,763,082	$ 9,761,039
Securitization liabilities	-	-	-	-	7,762,632	7,762,632	7,811,834
Obligations under repurchase agreements	-	-	-	-	112,488	112,488	112,488
Other liabilities:							
Derivative financial instruments:							
bond forwards	113	-	-	-	-	113	113
interest rate swaps	158	-	-	-	-	158	158
Other	-	-	-	-	183,602	183,602	183,602
Bank Facilities	-	-	-	-	50,000	50,000	50,000
Debentures	-	-	-	-	65,000	65,000	65,363
Total financial liabilities	$ 271	$ 43,863	$ -	$ -	$ 17,892,941	$ 17,937,075	$ 17,984,597

(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 tables presents the financial instruments recorded at fair value in the consolidated balance sheets, classified using the fair value hierarchy:

				September 30, 2017
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 724,314	$ -	$ -	$ 724,314
Restricted cash	397,365	-	-	397,365
Investments	95,617	-	14,378	109,995
Mortgages receivable – Core Lending	-	12,978	-	12,978
Mortgages receivable – Securitization Financing	-	43,215	-	43,215
Securitization retained interests	-	102,715	-	102,715
Other assets:				
Derivative financial instruments:				
bond forwards	-	549	-	549
interest rate swaps	-	9,720	80	9,800
total return swaps	-	187	2,258	2,445
	$ 1,217,296	$ 169,364	$ 16,716	$ 1,403,376
Financial liabilities:				
Deposits	$ -	$ -	$ 10,765	$ 10,765
Other liabilities:				
Derivative financial instruments:				
interest rate swaps	-	6,694	-	6,694
total return swaps	-	509	-	509
Mortgage Commitments	-	-	103	103
	$ -	$ 7,203	$ 10,868	$ 18,071

				December 31, 2016
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 444,179	$ -	$ -	$ 444,179
Restricted cash	247,878	-	-	247,878
Investments	111,177	-	22,042	133,219
Mortgages receivable − Core Lending	-	47,283	-	47,283
Mortgages receivable − Securitization Financing	-	25,196	-	25,196
Securitization retained interests	-	88,782	-	88,782
Other assets:				
Derivative financial instruments				
bond forwards		456	-	456
interest rate swaps	-	3,478	195	3,673
total return swaps	-	326	716	1,042
Mortgage Commitments	-	-	48	48
	$ 803,234	$ 165,521	$ 23,001	$ 991,756
Financial liabilities:				
Deposits	$ -	$ -	$ 43,863	$ 43,863
Other liabilities:				
Derivative financial instruments				
bond forwards	-	113	-	113
interest rate swaps	-	-	158	158
	$ -	$ 113	$ 44,021	$ 44,134

Note 6 – Investments

Carrying value of investments is as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Equity securities – preferred shares	**$ 95,197**	$ 110,697	$ 116,807
Equity securities – common shares	**420**	480	403
Debt securities guaranteed by Government of Canada	**-**	-	3,945
Debt securities – successor issuer rights	**14,378**	22,042	-
Debt securities – corporate debt	**-**	1,000	1,000
Canada Housing Trust re-investment accounts[1]	**2,260**	2,499	2,330
	$ 112,255	$ 136,718	$ 124,485

[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.*

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

	September 30, 2017	December 31, 2016	September 30, 2016
Equity securities – preferred shares	$ (14,920)	$ (28,251)	$ (35,270)
Equity securities – common shares	15	53	40
Debt securities guaranteed by Government of Canada	-	-	222
Debt securities – successor issuer rights	(109)	(94)	-
	$ (15,014)	$ (28,292)	$ (35,008)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

September 30, 2017	Gross amount	Allowance for credit losses – Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 11,918,102	$ 769	$ 31,890	$ 32,659	$ 11,885,443
Mortgages – Securitization Financing	6,855,187	-	-	-	6,855,187
Accrued interest	47,604	886	-	886	46,718
	$ 18,820,893	$ 1,655	$ 31,890	$ 33,545	$ 18,787,348

December 31, 2016	Gross amount	Allowance for credit losses – Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 10,678,733	$ 1,389	$ 31,890	$ 33,279	$ 10,645,454
Mortgages – Securitization Financing	7,093,828	-	-	-	7,093,828
Accrued interest	45,668	1,147	-	1,147	44,521
	$ 17,818,229	$ 2,536	$ 31,890	$ 34,426	$ 17,783,803

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

Mortgages – Securitization Financing include mortgages classified as held for trading and 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, 2017, mortgage receivable outstanding on these mortgages is $43,484 (December 31, 2016 – $25,318, September 30, 2016 – $29,260) and the fair value adjustment is ($269) (December 31, 2016 – ($122), September 30, 2016 – $43).

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, 2017, mortgage receivable outstanding for these mortgages is $12,828 (December 31, 2016 – $46,451, September 30, 2016 – $46,754) and the fair value adjustment is $150 (December 31, 2016 – $832, September 30, 2016 – $1,129).

Included in Mortgages – Core Lending are commercial loans of $187,481 (December 31, 2016 – $30,721, September 30, 2016 – nil) invested in certain asset-backed structured entities. The Company holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Company does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to

receive interest income from its investments. Consequently, the Company does not control these structured entities and has not consolidated them.

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

	September 30, 2017	September 30, 2016
Net loss in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	**$ (146)**	$ (163)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	**(682)**	(458)

At September 30, 2017, the Company had commitments to fund a total of $1,180,945 (December 31, 2016 – $1,037,929, September 30, 2016 – $1,006,522) 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.

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

			September 30, 2017	December 31, 2016	September 30, 2016
	Gross	**Individual allowance**	**Net**	Net	Net
Mortgages – Core Lending	**$ 25,071**	**$ 769**	**$ 24,302**	$ 36,310	$ 32,173
Mortgages – Core Lending – Insured	**282**	**-**	**282**	519	396
Accrued interest	**889**	**886**	**3**	-	-
	$ 26,242	**$ 1,655**	**$ 24,587**	$ 36,829	$ 32,569

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

				September 30, 2017
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Mortgages – Core Lending	**$ 22,953**	**$ 9,577**	**$ -**	**$ 32,530**
Mortgages – Core Lending – Insured	**771**	**524**	**1,329**	**2,624**
Mortgages – Securitization Financing – Insured	**6,029**	**899**	**1,305**	**8,233**
	$ 29,753	**$ 11,000**	**$ 2,634**	**$ 43,387**

				December 31, 2016
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 24,082	$ 12,350	$ -	$ 36,432
Mortgages – Core Lending – Insured	678	1,324	224	2,226
Mortgages – Securitization Financing – Insured	4,312	1,123	393	5,828
	$ 29,072	$ 14,797	$ 617	$ 44,486

(c) Allowance for credit losses:

						September 30, 2017
	Individual allowance		Collective allowance			Total
Balance, beginning of period	$	2,536	$	31,890	$	34,426
Provision for credit losses		1,156		-		1,156
Realized losses		(2,069)		-		(2,069)
Recoveries		32		-		32
Balance, end of period	$	1,655	$	31,890	$	33,545

						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

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 its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2016 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, 2017		December 31, 2016		September 30, 2016	
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	$ 8,751,166	$ 316,087	$ 8,486,532	$ 112,488	$ 7,815,351	$ 69,290
Carrying amount of associated liability	7,730,776	316,087	7,762,632	112,488	7,258,672	69,290
Carrying amount, net position	$ 1,020,390	$ -	$ 723,900	$ -	$ 556,679	$ -
Fair value of assets	$ 8,687,871	$ 316,087	$ 8,567,106	$ 112,488	$ 8,011,065	$ 69,290
Fair value of associated liability	7,710,320	316,087	7,811,749	112,488	7,411,651	69,290
Fair value, net position	$ 977,551	$ -	$ 755,357	$ -	$ 599,414	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $962,565 (December 31, 2016 – $650,959, September 30, 2016 – $505,532). The fair value of these assets are $944,073 (December 31, 2016 – $644,768, September 30, 2016 – $507,063).

The carrying amount of assets exclude mortgages held for securitization of $319,008 (December 31, 2016 – $463,996, September 30, 2016 – $500,468).

The Company's outstanding securitization liabilities are as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Securitization liability	**$ 7,760,061**	$ 7,795,239	$ 7,280,782
Deferred net discount and issuance costs	**(50,066)**	(47,391)	(39,634)
Accrued interest	**20,781**	14,784	17,524
	$ 7,730,776	$ 7,762,632	$ 7,258,672

Securitization liabilities include $37,549 (December 31, 2016 – $24,634, September 30, 2016 – nil) of liabilities designated in qualifying fair value interest rate hedging relationships and fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the date of designation and the fair value adjustment as at September 30, 2017 is $(954) (December 31, 2016 – $(747), September 30, 2016 – nil).

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

	September 30, 2017	September 30, 2016
Fair value gain recognized in income	**$ 954**	$ -

(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, 2017	September 30, 2016
Mortgages securitized and sold	**$ 941,563**	$ 957,345
Carrying value of Securitization retained interests	**33,100**	36,186
Carrying value of Securitized mortgage servicing liability	**7,513**	9,675
Gains on mortgages securitized and sold	**8,791**	6,018
Gain (loss) from securitization activities and retained interests	**2,472**	(382)

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 $149,049 of multi-residential mortgages and recorded a gain on sale of $431 included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

Note 9 – Derivative Financial Instruments

The Company hedges interest rate risks associated with insured residential mortgages, mortgage commitments intended for securitization as well as certain securitization and deposit liabilities. The Company also hedges the risk of changes in future cash flows related to the Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans by entering into total

return swaps with highly rated counterparties. The Company also enters into total return swaps to exchange cash flows of the CMB for those of the MBS transferred to CHT as part of its CMB activities.

For more information on derivative financial instruments refer to Note 10 to the audited consolidated financial statements in the Company's 2016 Annual Report.

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

	September 30, 2017		December 31, 2016		September 30, 2016	
Derivative instrument and term (years)	**Notional amount**	**Fair Value, Net[(1)]**	Notional amount	Fair Value, Net[(1)]	Notional amount	Fair Value, Net[(1)]
Cash flow hedges:						
Bond forwards – hedge accounting						
1 or less	**$ 31,250**	**$ 218**	$ 234,860	$ 263	$ 154,335	$ (341)
Interest rate swaps – hedge accounting						
1 to 5	**328,069**	**9,720**	312,418	4,216	337,454	(108)
Total return swaps – hedge accounting						
1 or less	**1,533**	**(192)**	1,551	(46)	1,094	(95)
1 to 5	**3,612**	**(317)**	2,777	261	3,335	136
Total return swaps – non-hedge accounting						
1 or less	**1,830**	**187**	1,833	110	1,799	79
Fair value hedges:						
Interest rate swaps – hedge accounting						
1 or less	**205,000**	**(216)**	100,000	195	100,000	378
1 to 5	**529,914**	**(5,528)**	142,000	(205)	-	-
5 and above	**24,634**	**(950)**	24,634	(738)	1,468	(15)
Interest rate swaps – non-hedge accounting						
5 and above	**1,396**	**80**	1,450	48	-	-
Bond forwards – non-hedge accounting						
1 or less	**53,300**	**331**	36,850	80	36,150	(84)
Other derivatives:						
Total return swaps						
1 to 5	**701,261**	**730**	386,511	176	200,192	(176)
5 and above	**639,649**	**1,528**	174,325	541	189,549	422
	$ 2,521,448	**$ 5,591**	$ 1,419,209	$ 4,901	$ 1,025,376	$ 196

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

Cash flow hedges:

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

	September 30, 2017	September 30, 2016
Fair value changes recorded in Other comprehensive income	$ 7,419	$ (1,248)
Fair value changes recorded in Income	(458)	(1,196)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(1,661)	(2,637)
Amounts reclassified from Other comprehensive income to Interest expense – deposits	(49)	(35)
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	(376)	186

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, 2017	September 30, 2016
Interest rate swaps – hedge accounting	$ (6,545)	$ (612)
Interest rate swaps – non-hedge accounting	(106)	-
Bond forwards – non-hedge accounting	251	154
Changes in fair value recognized in income	$ (6,400)	$ (458)

Note 10 – Deposits

	September 30, 2017	December 31, 2016	September 30, 2016
Term and other deposits	$ 10,506,896	$ 9,680,163	$ 9,180,647
Accrued interest	111,641	103,362	106,102
Deferred deposit agent commissions	(24,332)	(20,443)	(18,143)
	$ 10,594,205	$ 9,763,082	$ 9,268,606

Included in Term and other deposits are certain deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. As at September 30, 2017, the designated amount of these deposits is $10,724 (December 31, 2016 – $43,631, September 30, 2016 – $43,697) and the fair value adjustment is $42 (December 31, 2016 – $232, September 30, 2016 – $289).

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

	September 30, 2017	September 30, 2016
Fair value gain recognized in income	$ 190	$ (51)

Term and other deposits also include $674,017 (December 31, 2016 – $242,000, September 30, 2016 – $100,000) of deposits designated in qualifying fair value interest rate hedging relationships and 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, 2017 is ($6,041) (December 31, 2016 – ($93), September 30, 2016 – $346).

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, 2017	September 30, 2016
Fair value gain recognized in income	$ 5,841	$ 600

Note 11 – Bank Facilities

During the period, the Company obtained a two-year $2.0 billion secured backstop funding facility from a syndicate of Schedule I Canadian banks. The terms of the facility include 0.75% commitment fee, 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the lenders' cost of funds plus 1.25%. Any draws on this facility would be secured by a portfolio of mortgages originated and serviced by the Company. The Company has not made any draws on this facility.

The Company has two additional secured funding facilities totaling $600,000 with major Schedule I Canadian banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at September 30, 2017 is $193,654 (December 31, 2016 – $50,000, September 30, 2016 – $398,909). For further details on the Company's bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2016 Annual Report.

Note 12 – 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, 2017			September 30, 2016		
	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, 2017			September 30, 2016		
	Number of shares	Amount	Dividends per share[1]	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of period	16,460,142	$ 196,608		15,538,605	$ 143,690	
Contributions from exercise of stock options	18,892	737		61,052	1,615	
Transferred from contributed surplus relating to the exercise of stock options	-	143		-	389	
Balance, end of period	16,479,034	$ 197,488	$ 0.70	15,599,657	$ 145,694	$ 0.62

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

Note 13 – 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 seven years and vest over a four-year period. As at September 30, 2017, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to February 2024. A summary of the Company's stock option activity and related information for the periods ended September 30, 2017 and September 30, 2016 is as follows:

	September 30, 2017		September 30, 2016	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**557,467**	**$ 46.03**	540,236	$ 40.12
Granted	**110,060**	**70.93**	136,239	53.15
Exercised	**(18,892)**	**39.01**	(61,052)	26.45
Forfeited/cancelled	**(4,461)**	**57.58**	(3,523)	54.39
Outstanding, end of period	**644,174**	**$ 50.41**	611,900	$ 44.31
Exercisable, end of period	**358,861**	**$ 41.92**	316,539	$ 36.07

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $957 (September 30, 2016 – $797) 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, 2017 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	September 30, 2017	September 30, 2016
Risk-free rate	**1.0%**	0.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**28.6%**	25.9%
Expected dividends	**1.4%**	1.3%
Weighted average fair value of each option granted	**$ 13.3**	$ 9.0

(b) Other stock based plans:

The Company has an Employee share purchase ("ESP") plan, a Restricted share unit ("RSU" and "PSU") plan for eligible employees, and a Deferred share unit ("DSU") plan for Directors. For details on the plan, refer to Note 19 to the audited consolidated financial statements in the Company's 2016 Annual Report.

i. Under the ESP plan, the Company expensed $650 (September 30, 2016 – $526) during the period ended September 30, 2017.

ii. Under the DSU plan, the activity for the periods ended September 30, 2017 and September 30, 2016 is as follows:

	September 30, 2017	September 30, 2016
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**32,216**	30,133
Granted	**6,515**	6,332
Dividends reinvested	**334**	326
Exercised	**(3,138)**	(5,022)
Outstanding, end of period	**35,927**	31,769

The liability associated with DSUs outstanding as at September 30, 2017 was $2,017 (September 30, 2016 – $1,886). Compensation expense recorded relating to DSUs outstanding during the nine months ended September 30, 2017 amounted to $231 (September 30, 2016 – $620).

iii. Under the Company's RSU and PSU plan, the activity for the periods ended September 30, 2017 and September 30, 2016 is as follows:

	September 30, 2017	September 30, 2016
	Number of RSUs/PSUs	Number of RSUs/PSUs
Outstanding, beginning of period	**58,126**	42,861
Granted	**27,686**	33,888
Dividends reinvested	**800**	756
Exercised	**(152)**	(380)
Forfeited/cancelled	**(3,788)**	(2,083)
Outstanding, end of period	**82,672**	75,042

The liability associated with RSUs and PSUs outstanding as at September 30, 2017 was $2,656 (September 30, 2016 – $2,228). Compensation expense recorded relating to RSUs and PSUs outstanding during the nine months ended September 30, 2017 amounted to $997 (September 30, 2016 – $1,207).

Note 14 – 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.

For the period ended September 30, 2017, the calculation of the diluted earnings per share excluded 239,570 (September 30, 2016 − 215,360) average options outstanding with a weighted average exercise price of $61.37 (September 30, 2016 − $56.32) as the exercise price of these options was greater than the average price of the Company’s common shares.

	September 30, 2017	September 30, 2016
Earnings per common share – basic:		
Net income	$ 120,171	$ 96,652
Dividends on preferred shares	3,573	3,573
Net income available to common shareholders	$ 116,598	$ 93,079
Weighted average basic number of common shares outstanding	16,473,366	15,557,205
Earnings per common share – basic	$ 7.08	$ 5.98
Earnings per common share – diluted:		
Net income available to common shareholders	$ 116,598	$ 93,079
Weighted average basic number of common shares outstanding	16,473,366	15,557,205
Adjustment to weighted average number of common shares outstanding:		
Stock options	110,532	145,187
Weighted average diluted number of common shares outstanding	16,583,898	15,702,392
Earnings per common share – diluted	$ 7.03	$ 5.93

Note 15 – 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 24-25 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, 2017	December 31, 2016	September 30, 2016
Common Equity Tier 1 Capital ("CET1"):			
Common shares	$ 199,968	$ 199,089	$ 148,175
Contributed surplus	6,962	6,148	6,206
Retained earnings	826,479	721,117	683,583
Accumulated other comprehensive loss[(1)]	(11,577)	(20,210)	(24,133)
Less: Regulatory adjustments	(16,299)	(15,037)	(14,687)
Common Equity Tier 1 Capital	1,005,533	891,107	799,144
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	1,078,087	963,661	871,698
Tier 2 Capital:			
Collective allowance	31,890	31,890	31,890
Subordinated debentures	62,891	65,000	65,000
Tier 2 Capital	94,781	96,890	96,890
Total Capital	$ 1,172,868	$ 1,060,551	$ 968,588

(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 16 – 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, 2017.

								September 30, 2017
	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	**$ 4,428,111 $**	**1,434,100 $**	**4,684,956 $**	**10,547,167 $**	**8,136,919 $**	**1,250,284 $**	**286,835 $**	**20,221,205**
Total liabilities and equity[(2)(3)]	**(217)**	**(6,112,821)**	**(3,322,920)**	**(9,435,958)**	**(8,294,913)**	**(1,136,964)**	**(1,353,370)**	**(20,221,205)**
Off-balance sheet items[(4)]	**-**	**(940,876)**	**246,254**	**(694,622)**	**680,641**	**13,981**	**-**	**-**
Interest rate sensitive gap	**$ 4,427,894 $**	**(5,619,597) $**	**1,608,290 $**	**416,587 $**	**522,647 $**	**127,301 $**	**(1,066,535) $**	**-**
Cumulative gap [(2)]	**$ 4,427,894 $**	**(1,191,703) $**	**416,587 $**	**416,587 $**	**939,234 $**	**1,066,535 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**21.90%**	**(5.89%)**	**2.06%**	**2.06%**	**4.64%**	**5.27%**	**-%**	**-%**

								December 31, 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)]
Cumulative gap[(2)(3)(4)]	$ 3,846,101 $	565,024 $	624,813 $	624,813 $	511,572 $	987,710 $	- $	-
Cumulative gap as a percentage of total assets	20.27%	2.98%	3.29%	3.29%	2.70%	5.21%	-%	-%

								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)]
Cumulative gap[(2)(3)(4)]	$ 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%	-%	-%

(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.

DIRECTORS

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

Johanne Brossard
Corporate Director

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

Kishore Kapoor
Corporate Director

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer of Equitable Group Inc. and Equitable Bank

Rowan Saunders
President and Chief Executive Officer, Economical Mutual Insurance Company

Vincenza Sera
Corporate Director

Michael Stramaglia
Corporate Director and President and Founder of Matrisc Advisory Group Inc., a risk management consulting firm

OFFICERS

Andrew Moor
President and Chief Executive Officer

Ron Tratch
Vice-President and Chief Risk Officer

Tim Wilson
Vice-President and Chief Financial Officer

Aviva Braude
Vice-President, Mortgage Services

Tim Charron
Vice-President and Treasurer

Dan Dickinson
Vice-President and Chief Digital Officer

Isabelle Farella
Vice-President, Internal Audit

Scott Fryer
Vice-President, Deposit Services

Kimberly Kukulowicz
Vice-President, Residential Sales and Partner Relations

Brian Leland
Vice-President, Residential Credit

Darren Lorimer
Vice-President, Commercial Lending

Tamara Malozewski
Vice-President, Finance

Mark McPhail
Vice-President, Risk and Capital Analytics

Alex Prokoudine
Vice-President, Capital Markets

Rajesh Raut
Vice-President and Controller

Dan Ruch
Vice-President and Chief Compliance Officer

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
Vice-President, Risk Policy

Jody Sperling
Vice-President, Human Resources

Nicholas Strube
Vice-President, Treasury

David Yu
Vice-President, Information Technology

SHAREHOLDER AND CORPORATE INFORMATION

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