



EQUITABLE

CANADA'S CHALLENGER BANK™

Third Quarter Report 2019

For the three and nine months ended September 30, 2019



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, 2019

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and nine months ended September 30, 2019. 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, 2019, 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, 2018, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at November 5, 2019. The Company's continuous disclosure materials, including interim filings, annual MD&A 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.

Reporting Changes

Effective Q1 2019, we are reporting the financial results of our businesses based on two portfolios: Retail and Commercial. This reporting structure better aligns our assets with our customer segments and the way in which we manage the businesses. It is also more consistent with market practice. We have updated all historical figures contained in our Q3 2019 MD&A and consolidated financial statements to conform to this new reporting format. Please refer to Note 2(f) to the interim consolidated financial statements for further details.

Adoption of IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") issued by the International Accounting Standards Board ("IASB"), which replaced IAS 17 Leases ("IAS 17"). IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a Right-of-Use ("ROU") asset and a corresponding lease liability. The Company used the modified retrospective approach and recognized a \$0.8 million opening retained earnings adjustment on January 1, 2019, resulting in a \$0.05 reduction in our book value per common share upon adoption. Please refer to Note 3 to the interim consolidated financial statements for a summary of the Company's accounting policies as it relates to IFRS 16. We did not restate the comparative periods, as permitted by the standard. Therefore, current year period disclosures are not directly comparable to prior year period disclosures, although the overall impact is deemed immaterial.

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 2019 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Capital Management – Equitable Bank", "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 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 loan business, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

BUSINESS PROFILE AND OBJECTIVES

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total Assets Under Management⁽¹⁾ of over \$32 billion. We serve retail and commercial customers across Canada with a range of savings solutions and lending products, offered under the Equitable Bank and *EQ Bank* brands. Equitable also serves the Canadian equipment leasing market through Bennington Financial Corp. (“Bennington”), which we acquired on January 1, 2019. Bennington finances a wide range of assets with a focus on transportation, construction and food service equipment, has long-tenured relationships with professional leasing brokers throughout Canada and employs a proven approach to adjudication with emphasis on lease structure, security, and re-marketability. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY – *Canada's Challenger Bank™*

Equitable's strategy is to provide exceptional service and clear value to select segments of Canadian consumers. We concentrate on segments of the market in which we can improve the customer's banking experience or achieve a sustainable competitive advantage. As *Canada's Challenger Bank™*, we rethink conventional approaches to banking, go above and beyond traditional banks in serving our customers, stay nimble so that we can act on new opportunities, and maintain a focused service delivery method. Equitable operates with a highly efficient branchless banking model that allows us to offer competitive products to our customers.

We are excited about our future. As one of a few medium-size banks in Canada with enough scale to make meaningful strategic investments, we are well positioned to innovate and deliver a better banking experience to our customers. Our leading-edge technology platform positions us for success in a competitive, consumer, and regulatory landscape that is changing rapidly. We built our *EQ Bank* platform on Temenos' core banking system and a highly flexible middle tier on which we have layered award-winning interfaces that are available to our customers as an app on their mobile devices. In mid-October 2019, we successfully completed the migration of this technology to Microsoft Azure. We are now hosting our core banking system in the cloud, giving us the advantage of scalability, reduced costs in the long run, enhanced security, and the agility to change our products and services quickly. Through *EQ Bank*, we plan to reach more consumers and to grow both our brand awareness and deposit volumes. This platform will also expand the possibilities for our business by giving us the option to introduce new products and services through this innovative digital channel over time.

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

A differentiating factor in Equitable’s business model as compared to many other challenger banks around the world, is our ability to deploy the deposits that we gather consistently and profitably. We operate an integrated balance sheet and lend across a growing range of retail and commercial asset categories. Equitable’s asset growth is enabled by our extensive partnerships with Canada’s mortgage brokers, mortgage bankers, leasing brokers, and financial planners who provide independent professional advice to their clients. The success of our model is evident in our results: the Bank has generated an average Return on Shareholders’ Equity⁽¹⁾ (“ROE”) of 17.0% over the past decade.

For further information on Equitable’s vision and strategy, culture and values, capabilities, business lines, and key performance indicators please refer to our 2018 annual MD&A.

⁽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)	As at or for three months ended					Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change
RESULTS OF OPERATIONS								
Net income	\$ 54,942	\$ 54,022	2%	\$ 47,806	15%	\$ 150,625	\$ 125,510	20%
Adjusted net income ⁽¹⁾	54,754	54,512	0%	45,662	20%	155,845	127,243	22%
Net income available to common shareholders	53,751	52,831	2%	46,615	15%	147,052	121,937	21%
Net interest income ("NII")	118,147	114,322	3%	93,024	27%	337,821	253,790	33%
Total revenue	293,285	283,625	3%	232,410	26%	848,404	648,154	31%
EPS – basic	3.22	3.17	2%	2.82	14%	8.84	7.38	20%
EPS – diluted	3.18	3.15	1%	2.80	14%	8.75	7.33	19%
Adjusted EPS – diluted ⁽¹⁾	3.17	3.18	(0%)	2.67	19%	9.06	7.44	22%
ROE	16.2%	16.8%	(0.6%)	15.9%	0.3%	15.5%	14.4%	1.1%
Adjusted ROE ⁽¹⁾	16.2%	16.9%	(0.7%)	15.2%	1.0%	16.0%	14.6%	1.4%
Return on average assets ⁽¹⁾	0.8%	0.8%	-%	0.8%	-%	0.8%	0.8%	-%
Net interest margin ("NIM") ⁽¹⁾	1.75%	1.76%	(0.01%)	1.66%	0.09%	1.73%	1.59%	0.14%
Efficiency Ratio ⁽¹⁾⁽²⁾	39.5%	39.5%	-%	36.5%	3.0%	40.0%	39.1%	0.9%
BALANCE SHEET								
Total assets	27,544,976	26,361,201	4%	23,147,614	19%			
Assets Under Management	32,333,820	30,909,183	5%	27,495,398	18%			
Loans receivable	25,960,054	24,867,909	4%	21,671,338	20%			
Loans Under Management ⁽¹⁾	30,640,893	29,321,091	5%	25,935,686	18%			
Shareholders' equity	1,411,522	1,359,646	4%	1,259,875	12%			
CREDIT QUALITY								
Provision for credit losses ⁽³⁾	3,463	1,386	150%	517	570%	14,477	1,455	895%
Provision for credit losses – rate ⁽¹⁾	0.05%	0.02%	0.03%	0.01%	0.04%	0.08%	0.01%	0.07%
Net impaired loans as a % of total loan assets	0.47%	0.42%	0.05%	0.16%	0.31%			
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	-%	0.11%	0.02%			
SHARE CAPITAL								
Common shares outstanding	16,743,253	16,666,896	0%	16,553,113	1%			
Book value per common share ⁽¹⁾⁽⁴⁾	79.97	77.22	4%	71.73	11%			
Common share price – close	103.81	72.59	43%	68.87	51%			
Common share market capitalization	1,738,117	1,209,850	44%	1,140,013	52%			
EQUITABLE BANK CAPITAL RATIOS⁽¹⁾								
CET1 Ratio	13.3%	13.1%	0.2%	13.8%	(0.5%)			
Tier 1 Capital Ratio	14.1%	13.9%	0.2%	14.7%	(0.6%)			
Total Capital Ratio	14.4%	14.2%	0.2%	15.0%	(0.6%)			
Leverage Ratio	4.8%	4.9%	(0.1%)	5.3%	(0.5%)			

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

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

⁽³⁾ Year-to-date provision for credit losses includes \$11.5 million of provisions for equipment leases acquired through the Bennington acquisition.

⁽⁴⁾ The adoption of IFRS 16 resulted in a \$0.05 decrease in our book value per common share as at January 1, 2019.

Q3 2019 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Building on exceptional Q2 results, Equitable continued to demonstrate its franchise value in Q3 by generating record quarterly Adjusted Net Income. Adjusted ROE was 16.2% compared to 15.2% in the same quarter of the prior year and 16.9% in Q2 2019. Adjusted results exclude the positive impact of net mark-to-market gains on certain security investments and derivative transactions. Including these items, reported ROE was 16.2%, compared to 15.9% in Q3 2018 and 16.8% in Q2 2019. As a result of the continued growth and evolution of the Bank, Equitable achieved a milestone in September as it was added to the S&P/TSX Composite Index.

Our primary financial and operating metrics point to strength in the fundamentals of our business and we continued to deliver on our key strategic objectives.

Strategic Objectives for 2019	Accomplishments
Grow our existing businesses with better service and innovation	<ul style="list-style-type: none"> • Grew our Retail loan portfolio by 23% over Q3 2018 • Increased our Commercial loans by 13% over last year, half of which relates to the acquisition and subsequent growth of Bennington • Introduced Equitable Trust term deposits to the broker channel • Achieved a three-fold increase in deposits from strategic partnerships over the past year • Successfully issued a \$200 million 3-year fixed rate deposit note in September on favourable terms and with demand from 38 investors • Announced our intention to develop a covered bond program and have been encouraged by the early investor interest
Further diversify through our leasing, reverse mortgage, and CSV loan businesses	<ul style="list-style-type: none"> • Grew our equipment lease portfolio by \$51 million since acquiring Bennington and have seen momentum build for its higher quality lease offerings • Continued to improve reverse mortgage and CSV line of credit product awareness while refining our offerings in response to market feedback • Broadened our distribution partnerships for our CSV line of credit product by adding BMO Insurance, Empire Life and iA Financial Group
Expand and enhance EQ Bank	<ul style="list-style-type: none"> • Successfully increased our brand awareness through a TV and digital marketing campaign demonstrating the clear value that we bring to Canadian consumers • Grew <i>EQ Bank</i> deposit balances to \$2.5 billion, an increase of 22% from last year
Pursue AIRB and improve the sophistication of our capital management	<ul style="list-style-type: none"> • Continued to work through our AIRB implementation plan • Reported a CET1 Ratio of 13.3%, which is up from last quarter by 20 bps and ahead of most competitive benchmarks
Enhance our capabilities through technology and people	<ul style="list-style-type: none"> • Added to the S&P/TSX Composite Index on September 23, 2019 • Successfully completed the migration of our <i>EQ Bank</i> platform and other applications to the cloud in October 2019 • Sustained an industry leading Efficiency Ratio⁽¹⁾ of 39.5% in Q3 while investing in strategic initiatives • Received DBRS' annual rating confirmation, which was held at 'BBB' but with the trending improving to Positive from Stable

⁽¹⁾ As measured by the Efficiency Ratio for the third quarter of 2019.

ITEMS OF NOTE

Q3 2019 financial results were impacted by the following item, on a pre-tax basis:

- \$0.3 million of net mark-to-market gains on certain security investments and derivative financial instruments related to securitization activities.

Q2 2019 financial results were impacted by the following items, on a pre-tax basis:

- \$1.0 million net reduction in the provision for credit losses for Bennington's lease portfolio as a result of refined assumptions determined during the quarter; and
- \$0.7 million of net mark-to-market losses on certain security investments and derivative financial instruments related to securitization activities.

Q3 2018 financial results were impacted by the following item, on a pre-tax basis:

- \$2.9 million of net mark-to-market gains on certain preferred share investments and derivative financial instruments related to securitization activities.

DIVIDENDS

Common share dividends

On November 5, 2019, the Company's Board of Directors (the "Board") declared a quarterly dividend in the amount of \$0.35 per common share, payable on December 31, 2019, to common shareholders of record at the close of business on December 13, 2019. This dividend represents a 2 cent or 6% increase over the preceding quarter and a 25% increase over dividends declared in November 2018. This increase is in keeping with the Board's plan to increase the dividend at a rate of 20% to 25% over the next five years.

Preferred share dividends

On August 22, 2019, Equitable announced that it did not intend to exercise its right to redeem all or any part of its outstanding non-cumulative redeemable 5-year rate reset Preferred Shares, Series 3 (the "Series 3 Preferred Shares") on September 30, 2019. As a result, holders of Series 3 Preferred Shares had the right, at their option, to convert all or part of their Series 3 Preferred Shares, on a one-for-one basis, into non-cumulative floating rate Preferred Shares, Series 4 ("Series 4 Preferred Shares"). On September 16, 2019, the Company announced that after taking into account all election notices received, less than the minimum 800,000 shares required to give effect to the conversion were tendered. As a result, no Series 4 Preferred Shares were issued and holders of Series 3 Preferred Shares retained their shares.

On September 3, 2019, the Company announced the dividend rate applicable on Series 3 Preferred Shares on September 30, 2019 for the five-year period from, and including, September 30, 2019 to, but excluding, September 30, 2024 would be 5.969% per annum, or \$0.373063 per preferred share per quarter, compared to the previous payout of 6.35% or \$0.396875 per preferred share per quarter.

On November 5, 2019, the Company's Board declared a quarterly dividend in the amount of \$0.373063 per preferred share, payable on December 31, 2019, to preferred shareholders of record at the close of business on December 13, 2019.

BUSINESS OUTLOOK

Equitable believes that our strategy, including our disciplined approach to capital allocation, will continue to deliver value to shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our diversified business model presents profitable growth opportunities. We expect adjusted earnings in the last quarter of 2019 to increase at a year-over-year rate in the range of 16% to 18% due to loan growth, higher margins, and our Bennington acquisition. Sequentially, adjusted earnings should be relatively stable as the positive effects of asset growth and low credit losses are offset by increased levels of marketing and cloud migration expenses. Adjusted ROE should be between 15% and 16% in Q4; a high rate of return but below our ten-year average of 17.0% due to investments that we are making in key strategic initiatives.

Asset Growth

The Bank operates secured lending businesses that span a wide spectrum of asset types. Our diversified asset base improves our long-term growth potential, reduces our risk profile, and increases the depth of our relationships with our customers and distribution partners. This diversification improves our asset growth profile and generates opportunities for us to create greater shareholder value over the long-term.

As a result of our continued emphasis on service quality and the addition of the Bennington leasing business, we expect that loans will grow at a rate between 13% and 15% in 2019. We describe our growth expectations for individual asset categories in detail below.

Summary of Expectations for Asset Growth for 2019

Portfolio	Expectations ⁽¹⁾	Rationale and Assumptions
Retail		
Alternative Single Family	<ul style="list-style-type: none"> Assets grow at a rate between 9% and 11% 	<ul style="list-style-type: none"> Employment will be stable and overall economic growth will be low but positive National housing market activity will be flat to 2018 and prices will be stable across our key markets Originations will be up slightly from 2018 levels as a result of growth in the Alternative market segment and gains in market share Attrition rates should be up slightly from 2018 (Q4 2019 will likely be consistent with Q3 2019)
Prime Single Family	<ul style="list-style-type: none"> Assets grow at a rate of approximately 20% 	<ul style="list-style-type: none"> The economy and housing market perform as indicated above for Alternative Single Family We expect to source up to \$400 million of mortgages through third parties in Q4
Commercial		
Conventional Commercial	<ul style="list-style-type: none"> Assets grow at a rate between 7% and 10% 	<ul style="list-style-type: none"> The market continues to present quality origination opportunities and competition does not intensify Originations are just below the record levels achieved in 2018 while attrition rates are slightly higher
CMHC Insured Multi-Unit Residential ("Multi")	<ul style="list-style-type: none"> Balance sheet assets grow at a rate between 4% and 6% 	<ul style="list-style-type: none"> We will use our fixed rate CMB capacity (approximately \$350 million to \$400 million per quarter) for Multi renewals and originations We will derecognize in the range of \$150 million to \$200 million of securitized Multis each quarter
Equipment Leasing	<ul style="list-style-type: none"> Assets grow at a rate between 11% and 13% 	<ul style="list-style-type: none"> The overall economy and the leasing market will grow modestly Originations will increase as we continue to deliver high quality service to brokers

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

The Bank 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 NII will increase at a year-over-year rate between 28% and 30% in Q4 2019. High levels of mortgage growth and the acquisition of Bennington, as well as an improved NIM, will be the primary contributors to the increase.

NIM should be approximately 1.75% through to the end of the year, up from the levels achieved in 2018 and early 2019. NIM will be supported by the following factors:

- Lower secured backstop facility costs: costs will be approximately \$0.6 million in Q4 2019, which is \$1.7 million or 73% lower than in Q4 of last year, and consistent with the preceding quarter.

- Mortgage spreads: margins on originated and renewed Alternative Single Family and Commercial mortgages should be higher than in 2018, partly due to favourable funding rates.
- Asset mix shift towards lower spread Prime mortgages which has the impact of reducing total asset NIM but is accretive to earnings and ROE.

Quarterly NIM may fluctuate and differ from our expectations due to prepayment income volatility and other factors such as seasonal variations in our liquidity holdings.

Non-Interest Expenses

In the final quarter of 2019, we anticipate that non-interest expenses will increase at year-over-year rates between 35% and 40% as we continue to make investments that build the Bank's franchise and reinforce our high level of customer service. Approximately 40% of this increase is the result of the Bennington acquisition. In addition, we expect to record approximately \$1.5 million of non-recurring expenses in Q4 to migrate part of our technology infrastructure to a cloud-based platform and to upgrade our core banking systems. Our forecast of the total 2019 cloud migration expenses came down to \$3.3 million over the course of 2019 (was originally \$6 million) as we progressed through the project and obtained greater visibility into the costs. The remainder of our expense base will increase at a rate in line with the growth rate of our assets, though may show some volatility due to the timing of our advertising spend. Advertising expenses, in support of an *EQ Bank* customer acquisition campaign and new fee-based product launch, should be approximately \$2 million higher in Q4 than in Q3.

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 will be towards the top end of our 40% and 42% annual range in Q4. This Efficiency Ratio is higher than our historical average due to the effect of strategic investments, an *EQ Bank* marketing campaign, and our Bennington acquisition. The Bennington business is more labour intensive due to its smaller-ticket nature and operates with an Efficiency Ratio in the range of 50% to 55%.

Capital

Our capital ratios increased during Q3 and are within our normal operating range, after they declined temporarily in early 2019 due to the strategic acquisition of Bennington. We remain confident that we will continue to build our capital organically and that our CET1 ratio will return to the mid-point of our target range of 13% to 14% by the end of 2019, while we still invest to grow our business. Even at current levels, our capital ratios are above regulatory standards and the levels of the eight larger, publicly listed Schedule I banks in Canada.

We continue to advance our AIRB initiative with the objective of operationalizing the program by the end of 2020. The benefits of AIRB include improving the sophistication of our risk management, allocating appropriate levels of capital to our risks, and introducing a methodology that allows us to compete more effectively across a broader range of assets. Our initial analysis also indicates that AIRB will have a meaningful impact on our total risk-weighted assets and a potential economic benefit to the Bank.

Dividends

Our franchise has grown and strengthened materially over the past number of years. We have entered new business lines, firmly established our position as *Canada's Challenger Bank™*, maintained a strong capital position and generated high ROEs. Given this improved position, in July 2019 management and the Board announced an intention to increase the growth rate on Equitable's dividend going forward. Even with a faster pace of dividend growth, we expect the Bank to maintain a strong capital position and to retain sufficient capital to support strong business growth.

In keeping with this commitment, the Board today increased Equitable's dividend by \$0.02 for the second consecutive quarter. This represents a 25% increase over the dividend declared in November 2018. We expect to grow our dividend at a rate between 20% and 25% for each of the next five years, up from our previously stated target of more than 10% per year.

Funding

We believe that our current sources of funding – most notably brokered term and *EQ Bank* deposits – will be adequate to support our asset growth. Our deposit balances have grown by 16% over the past 12 months and we believe this trend will continue, even with what we expect to be a heightened level of competition in the deposit market.

Nonetheless, management will continue to diversify the Bank's funding profile for risk management purposes. For example, in Q3 we began building the distribution network and product set for our new subsidiary, Equitable Trust. We also continued to build our deposit note program by successfully issuing a \$200 million deposit note with more investors and at a 15 bps tighter spread than the note we issued earlier in the year.

Credit Quality

Management consistently manages credit risk through the application of prudent lending practices. This approach applies across all of our lending businesses, including leasing.

The Bennington acquisition has caused 2019 arrears rates and provisions for credit losses to increase relative to historical levels. The equipment leasing business has higher expected losses than does our mortgage business, but we earn higher yields to compensate for this cost. We anticipate that the longer-term annualized loss rate on this portfolio will be in the range of 1.5% to 2.0%, a level of loss that is within our risk appetite. Bennington's impaired loan balances should grow over time in-line with the overall lease portfolio.

Recent economic data supports our view that risk in the Canadian residential real estate market has moderated since 2017. Prices have stabilized in most major urban centres and they are now demonstrating balanced supply and demand dynamics. With that backdrop, we expect credit loss provisions in our mortgage book to be low in Q4 2019, assuming that Canadian economic conditions stay within the range of broad market expectations. Mortgage arrears rates should also remain low but will be above the trough levels we achieved last year. Arrears rates have been unusually high since Q1 due to one large commercial loan and we expect them to decrease from that level after the loan is resolved, likely in mid-2020.

Nonetheless, we believe that risks still exist in the mortgage market and we are actively monitoring market activity. Our prudent risk appetite and approach to lending should allow us to effectively manage through any negative changes in market conditions. For example, the low LTV ratios on our uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults caused by higher levels of unemployment. The weighted average LTV ratio of 64% on our uninsured residential mortgage portfolio at the end of Q3 offers us protection against a scenario combining higher defaults and a significant decrease in house prices.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNT)	Three months ended					Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change
Net income	\$ 54,942	\$ 54,022	2%	\$ 47,806	15%	\$ 150,625	\$ 125,510	20%
Adjusted net income	54,754	54,512	0%	45,662	20%	155,845	127,243	22%
EPS – diluted	3.18	3.15	1%	2.80	14%	8.75	7.33	19%
Adjusted EPS – diluted	3.17	3.18	(0%)	2.67	19%	9.06	7.44	22%
Net interest income	118,147	114,322	3%	93,024	27%	337,821	253,790	33%
Provision for credit losses	3,463	1,386	150%	517	570%	14,477	1,455	895%
Non-interest expenses	50,489	48,496	4%	37,797	34%	145,096	110,130	32%

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

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended			
	Sep 30, 2019		Jun 30, 2019		Sep 30, 2018		Sep 30, 2019		Sep 30, 2018	
	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⁾
<i>Revenues derived from:</i>										
Cash and equivalents	\$ 7,319	1.94%	\$ 7,289	2.04%	\$ 4,979	1.77%	\$ 20,987	2.00%	\$ 12,948	1.51%
Equity securities ⁽²⁾	1,705	5.66%	1,519	4.93%	1,481	4.04%	4,600	4.95%	4,026	4.12%
Alternative single family mortgages	138,443	4.90%	133,183	4.85%	115,614	4.58%	397,974	4.85%	327,347	4.52%
Prime single family mortgages	37,447	2.43%	34,835	2.42%	22,914	2.17%	105,085	2.41%	62,945	2.10%
Other retail loans	192	5.86%	118	5.99%	25	6.22%	381	5.97%	56	8.56%
Total Retail loans	176,082	4.03%	168,136	4.02%	138,553	3.87%	503,440	4.00%	390,348	3.81%
Conventional commercial loans	58,208	5.98%	57,409	6.05%	49,136	5.70%	173,972	6.04%	134,010	5.59%
Equipment leases ⁽³⁾	13,128	11.05%	13,537	12.00%	N/A	N/A	38,880	11.63%	N/A	N/A
Insured multi-unit residential mortgages	27,141	3.07%	27,262	3.13%	27,787	3.31%	81,462	3.14%	78,695	3.31%
Total Commercial loans	98,477	4.98%	98,208	5.08%	76,923	4.52%	294,314	5.07%	212,705	4.45%
Average interest earning assets	283,583	4.20%	275,152	4.23%	221,936	3.96%	823,341	4.22%	620,027	3.88%
<i>Expenses related to:</i>										
Deposits	97,169	2.64%	96,280	2.64%	76,666	2.41%	285,812	2.65%	206,559	2.29%
Secured backstop funding facility ⁽⁴⁾	632	N/A	1,441	N/A	2,289	N/A	4,322	N/A	18,581	N/A
Securitization liabilities	64,858	2.55%	62,653	2.55%	47,581	2.44%	190,414	2.58%	135,968	2.40%
Others	2,777	2.02%	456	4.57%	2,376	2.17%	4,972	2.56%	5,129	2.14%
Average interest bearing liabilities	165,436	2.60%	160,830	2.63%	128,912	2.46%	485,520	2.64%	366,237	2.45%
Net interest income and margin	\$ 118,147	1.75%	\$ 114,322	1.76%	\$ 93,024	1.66%	\$ 337,821	1.73%	\$ 253,790	1.59%

⁽¹⁾ Average rates are calculated based on the daily average balances outstanding during the period.

⁽²⁾ Effective January 1, 2019, the revenues from Equity securities are presented excluding a Taxable equivalent basis ("TEB") adjustment. Prior period comparatives have been restated.

⁽³⁾ The revenue derived from and the average rate on Equipment leases represents earnings on the Bennington equipment lease portfolio. Bennington was consolidated as of January 1, 2019.

⁽⁴⁾ Since its establishment in June 2017, there have been no draws on the secured backstop funding facility.

Q3 2019 v Q3 2018

NII was up 27% year-over-year due to growth in our average asset balances of 21% and a 9 bp increase in our NIM. The increase in NIM was primarily driven by the addition of higher spread equipment leases that we acquired in Q1 2019 and higher spreads on Commercial lending originations over the past year.

Table 4(a): Factors affecting Q3 2019 v Q3 2018 NIM

	Impact (in bps)	Drivers of change
Equipment leases	10	<ul style="list-style-type: none">• Addition of higher spread equipment leases acquired in Q1 2019
Rates/spread ⁽¹⁾	5	<ul style="list-style-type: none">• Higher spreads on recent Commercial lending originations
Backstop funding facility fees	3	<ul style="list-style-type: none">• Lower fees associated with our downsized secured backstop funding facility
Business mix	(10)	<ul style="list-style-type: none">• Mix shift toward lower spread Prime mortgages, which was affected by the high volumes sourced in Q3 2019 and Q4 2018
Loan prepayment income	(1)	<ul style="list-style-type: none">• Lower level of early discharges in Alternative Single Family
Other	2	
Change in Total NIM	9	

⁽¹⁾ The rate effect is calculated after adjusting for the impact business mix changes.

Q3 2019 v Q2 2019

NII increased 3% from last quarter as a result of asset growth and a stable NIM.

Table 4(b): Factors affecting Q3 2019 v Q2 2019 NIM

	Impact (in bps)	Drivers of change
Backstop funding facility fees	1	<ul style="list-style-type: none">• Lower fees associated with our downsized secured backstop funding facility
Loan prepayment income	1	<ul style="list-style-type: none">• Slightly higher levels of early discharges in Alternative Single Family
Rates/spread ⁽¹⁾	1	<ul style="list-style-type: none">• High spreads on recent Retail and Commercial lending originations
Business mix	(1)	<ul style="list-style-type: none">• Mix shift toward lower spread Prime mortgages, which was affected by the high volumes sourced in the current quarter
Other	(3)	<ul style="list-style-type: none">• Number of days in the quarter and other adjustments
Change in Total NIM	(1)	

⁽¹⁾ The rate effect is calculated after adjusting for the impact of business mix changes.

YTD 2019 v YTD 2018

NII increased by 33% from last year mainly driven by 22% growth in average assets and a 14 bp increase in our NIM.

Table 4(c): Factors affecting YTD 2019 v YTD 2018 NIM

	Impact (in bps)	Drivers of change
Equipment leases	10	• Addition of higher spread equipment leases acquired in Q1 2019
Backstop funding facility fees	6	• Lower fees associated with our downsized secured backstop funding facility
Backstop funding facility write-down	4	• The \$5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility in Q2 2018
Rates/spread ⁽¹⁾	2	• Higher spreads on our Commercial portfolio
Business mix	(8)	• Mix shift toward lower spread Prime mortgages, which was affected by the high volumes sourced in Q3 2019 and Q4 2018
Loan prepayment income	(1)	• Reduced levels of early discharges in Alternative Single Family
Other	1	
Change in Total NIM	14	

⁽¹⁾ The rate effect is calculated after adjusting for the impact of business mix changes.

PROVISION FOR CREDIT LOSSES

Table 5: Provision for credit losses ("PCL")

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019			Jun 30, 2019	Change	Three months ended	
	Equitable	Bennington	Consolidated			Sep 30, 2018	Change
Stage 1 and 2 provision	\$ 711	\$ 309	\$ 1,020	\$ (400)	355%	\$ 250	308%
Stage 3 provision	671	1,772	2,443	1,786	37%	267	815%
Provision for credit losses	\$ 1,382	\$ 2,081	\$ 3,463	\$ 1,386	150%	\$ 517	570%
Provision for credit losses – rate	0.02%	1.74%	0.05%	0.02%	0.03%	0.01%	0.04%
Allowance for credit losses	\$ 26,573	\$ 7,923	\$ 34,496	\$ 33,119	4%	\$ 24,930	38%

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019			Sep 30, 2018	Change
	Equitable	Bennington	Consolidated		
Stage 1 and 2 provision	\$ 593	\$ 557	\$ 1,150	\$ 1,313	(12%)
Stage 3 provision	2,382	5,196	7,578	142	5,237%
Provision for Credit Losses – Normalized	2,975	5,753	8,728	1,455	500%
One-time Bennington acquisition related	-	5,749	5,749	-	N/A
Provision for credit losses – Reported	\$ 2,975	\$ 11,502	\$ 14,477	\$ 1,455	895%
Provision for credit losses – Normalized rate	0.02%	1.66%	0.05%	0.01%	0.04%
Provision for credit losses – Reported rate	0.02%	3.31%	0.08%	0.01%	0.07%

The credit quality of our loan portfolio continued to be strong in Q3 2019. The PCL during the third quarter was \$3.5 million, \$2.1 million above Q2 2019 and \$2.9 million higher than in the same quarter of 2018. During the quarter, we recorded \$1.0 million of Stage 1 and 2 provisions compared to \$0.4 million of reversals in Q2 2019 as a result of adverse changes in forward-looking macroeconomic assumptions, resulting in a \$1.4 million sequential change. \$1.8 million or 73% of the Stage 3 PCL recorded in the third quarter related to our lease portfolio. The equipment leasing business has higher expected losses than does our traditional mortgage business but earns a higher margin to compensate for this cost. The total PCL on our mortgage portfolio was \$1.4 million or 0.02% of average mortgage principal, in-line with our historical PCL rates.

The amount of provision may vary from period to period based on impaired loan balances, the credit quality of our unimpaired loans, estimates of the likely credit losses on all loans, and both current and forward looking economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: the aggregate amount of reserves is represented by the allowance for credit losses on our consolidated interim balance sheet (see *Credit Quality and Allowance for Credit Losses* discussion below).

OTHER INCOME

Table 6: Other income

(\$ THOUSANDS)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Fees and other income:									
Fees and other income	\$ 5,812	\$ 5,482	6%	\$ 3,798	53%	\$ 16,335	\$ 12,949	26%	
Income from successor issuer activities	298	418	(29%)	1,045	(71%)	1,319	3,818	(65%)	
Net (loss) gain on investments	(327)	76	(530%)	131	(350%)	(1,072)	(101)	(961%)	
Securitization activities:									
Gains on securitization and income from retained interests	3,337	3,071	9%	2,716	23%	8,594	7,837	10%	
Fair value gains (losses) on derivative financial instruments	582	(574)	201%	2,784	(79%)	(113)	3,624	(103%)	
Total	\$ 9,702	\$ 8,473	15%	\$ 10,474	(7%)	\$ 25,063	\$ 28,127	(11%)	

Q3 2019 v Q3 2018

Other income decreased compared with Q3 2018, mainly due to:

- A decrease in net mark-to-market gains on derivative financial instruments related to securitization activities; and
- Reduced income from successor issuer activities, representing income earned on certain assets that we acquired from Maple Bank in Q4 2016 and which is expected to be recurring on a diminishing basis through 2020;

Offset by:

- Higher fees and other income, primarily from the equipment leasing portfolio that we acquired in Q1 2019; and
- An increase in gains on securitization and income from retained interests, driven by higher derecognition volumes and despite a lower gain of sale margin.

Q3 2019 v Q2 2019

Other income increased compared to the preceding quarter primarily because of the net unrealized fair value gains recorded on derivative financial instruments during the quarter.

YTD 2019 v YTD 2018

Other income decreased on a year-to-date basis largely due to:

- Mark-to-market losses on derivative financial instruments and certain security holdings; and
- A decrease in income from successor issuer activities;

Offset by:

- An increase in fees and other income, the majority of which related to Bennington's lease portfolio; and
- An increase in gains on securitization and income from retained interests, due to higher derecognition volumes and a higher gain of sale margin.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

(\$ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	Three months ended					Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change
Compensation and benefits	\$ 25,696	\$ 25,751	(0%)	\$ 19,406	32%	\$ 75,731	\$ 57,041	33%
Technology and system costs	8,254	7,617	8%	6,137	34%	23,300	16,789	39%
Regulatory, legal and professional fees	5,136	4,447	15%	3,780	36%	14,257	9,646	48%
Marketing and corporate expenses	4,801	4,776	1%	3,509	37%	13,231	12,167	9%
Product costs	4,339	3,645	19%	3,278	32%	11,826	9,710	22%
Premises	2,263	2,260	0%	1,687	34%	6,751	4,777	41%
Total non-interest expenses	\$ 50,489	\$ 48,496	4%	\$ 37,797	34%	\$ 145,096	\$ 110,130	32%
Efficiency Ratio ⁽¹⁾	39.5%	39.5%	-%	36.5%	3.0%	40.0%	39.1%	0.9%
Full-time employee ("FTE") – period average	839	820	2%	640	31%	818	620	32%

⁽¹⁾ Efficiency Ratio are reported excluding TEB adjustments.

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. Overall, non-interest expenses were \$2.0 million or 4% higher than in the prior quarter and up \$12.7 million or 34% from a year ago. Bennington contributed \$5.8 million of expenses in the quarter (YTD 2019 – \$17.2 million), \$3.3 million of which related to compensation and benefits (YTD 2019 – \$9.8 million).

Q3 2019 v Q3 2018

Excluding Bennington's operating expenses, total non-interest expenses increased \$6.9 million or 18% from last year mainly because of:

- Higher Compensation and benefits costs which resulted from several factors including 10% growth in our FTE and annual inflationary salary adjustments;
- An increase in Technology and system costs mainly for support, maintenance, and enhancement of our core banking systems. We also expensed \$1.0 million in Q3 to migrate our *EQ Bank* platform to the cloud;
- Higher Regulatory, legal and professional fees largely due to CDIC premiums on our growing deposit balances; and
- Higher corporate expenses because of a sales tax recovery that occurred in the third quarter of 2018.

Q3 2019 v Q2 2019

Expenses were up by \$2.2 million or 5%, excluding Bennington, primarily because of:

- Growth in Technology and system costs as a result of our cloud migration and as we continued to invest in technology development and advancement of our core banking system;
- An increase in Marketing expenses as we launched a campaign to promote our *EQ Bank* platform; and
- An increase in Regulatory, legal and professional fees driven by CDIC premiums on our growing deposit base and professional services rendered for general corporate matters;

Offset by:

- A decrease in Corporate expenses, due to the timing of annual Deferred Share Units ("DSU") grants that occurred in the previous quarter.

YTD 2019 v YTD 2018

Total year-to-date non-interest expenses increased largely due to the same reasons cited above when comparing Q3 2019 to Q3 2018.

INCOME TAXES

Q3 2019 v Q3 2018

Our statutory income tax rate for the quarter was 26.5%, 0.1% lower than last year. Our effective income tax rate for the quarter decreased to 25.7% from 26.7% a year ago mainly due to a decrease in the tax rate in Alberta and other adjustments.

Q3 2019 v Q2 2019

Our effective income tax rate decreased to 25.7% from 26.0% in the preceding quarter, primarily due to a tax rate decline in Alberta, which was partly offset by lower tax-exempt dividend income and other adjustments.

YTD 2019 v YTD 2018

Our year-to-date effective income tax rate was 25.9%, 0.4 percentage points lower than 26.3% recorded in the same period of 2018 due to the reasons cited above when comparing Q3 2019 with the prior year quarter.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019	Jun 30, 2019	Change	Dec 31, 2018	Change	Sep 30, 2018	Change
Total assets	\$ 27,544,976	\$ 26,361,201	4%	\$ 25,037,145	10%	\$ 23,147,614	19%
Loan Principal – Retail	17,947,471	16,915,910	6%	16,102,163	11%	14,609,034	23%
Loan principal – Commercial	7,904,578	7,857,199	1%	7,324,529	8%	6,978,868	13%
Deposit principal	14,904,198	14,532,042	3%	13,522,012	10%	12,894,384	16%
Total liquid assets as a % of total assets ⁽¹⁾	5.2%	6.0%	(0.8%)	5.6%	(0.4%)	6.2%	(1.0%)

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

Equitable continued to generate strong growth in Q3 2019, with Total assets increasing by \$1.2 billion or 4% from the previous quarter. The increase was primarily driven by loan growth in our Prime single family portfolio, which was offset in part by planned seasonal reductions in our liquidity portfolio.

TOTAL LOAN PRINCIPAL

Our strategy is to maintain a diverse portfolio of loan assets in order to optimize our ROE and maintain credit risk at an acceptable level. Table 9 presents our loan principal by lending business and Table 10 provides continuity schedules for our on-balance sheet loan assets.

Table 9: Loan Principal by lending business

(\$ THOUSANDS)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Alternative single family mortgages	\$ 11,346,539	\$ 11,155,609	2%	\$ 10,225,608	11%
Prime single family mortgages	6,586,036	5,749,924	15%	4,381,735	50%
Other retail loans	14,896	10,377	44%	1,691	781%
Total Retail – on Balance Sheet	17,947,471	16,915,910	6%	14,609,034	23%
Conventional commercial loans	3,916,484	3,810,649	3%	3,628,951	8%
Equipment leases	488,716	469,271	4%	-	N/A
Insured multi-unit residential mortgages	3,499,378	3,577,279	(2%)	3,349,917	4%
Total Commercial – on Balance Sheet	7,904,578	7,857,199	1%	6,978,868	13%
Total Loans – on Balance Sheet	25,852,049	24,773,109	4%	21,587,902	20%
Insured multi-unit residential mortgages – derecognized	4,788,844	4,547,982	5%	4,347,784	10%
Total Loans – off Balance Sheet	4,788,844	4,547,982	5%	4,347,784	10%
Total Loans Under Management	\$ 30,640,893	\$ 29,321,091	5%	\$ 25,935,686	18%

Table 10: On-Balance Sheet loan principal continuity schedule

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended September 30, 2019		
	Retail	Commercial	Total
Q2 2019 closing balance	\$ 16,915,910	\$ 7,857,199	\$ 24,773,109
Originations	2,121,911	935,660	3,057,571
Derecognition	-	(293,037)	(293,037)
Net repayments	(1,090,350)	(595,244)	(1,685,594)
Q3 2019 closing balance	\$ 17,947,471	\$ 7,904,578	\$ 25,852,049
% Change from Q2 2019	6%	1%	4%
Net repayments percentage ⁽¹⁾	6.4%	7.6%	6.8%

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended September 30, 2018		
	Retail	Commercial	Total
Q2 2018 closing balance	\$ 13,790,085	\$ 6,580,358	\$ 20,370,443
Originations	1,509,311	876,209	2,385,520
Derecognition	-	(196,858)	(196,858)
Net repayments	(690,362)	(280,841)	(971,203)
Q3 2018 closing balance	\$ 14,609,034	\$ 6,978,868	\$ 21,587,902
% Change from Q2 2018	6%	6%	6%
Net repayments percentage ⁽¹⁾	5.0%	4.3%	4.8%

⁽¹⁾ Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.

Q3 2019 v Q3 2018

Total loan principal increased by \$4.3 billion or 20%, driven by growth in both our Retail and Commercial businesses.

Within our Retail business, Alternative single family mortgages grew 11% due to strong origination volumes and despite slightly higher attrition rates. Growth in Prime single family was 50%, driven by originations sourced through third parties, growing levels of mortgages originated internally, and relatively low attrition levels.

Our Commercial business also grew significantly year-over-year with loan principal increasing by 13%. This growth was driven by a variety of Commercial asset classes and the addition of Bennington's equipment lease portfolio at the beginning of the year. Conventional commercial loans grew \$288 million or 8% while Insured Multi-unit residential mortgages were up by \$149 million or 4%. The increase in Commercial reflects our strategic decision to deploy additional capital into this business during 2018 and our continued success in growing the breadth and depth of our relationships with brokers and business partners.

Q3 2019 v Q2 2019

During the quarter, total loan principal increased \$1.1 billion primarily because of growth in our Retail business.

The growth in our Retail portfolio was driven by high levels of Prime mortgage originations, much of which was sourced through a third-party originator. Retail growth was also helped by the high level of Alternative Single Family originations.

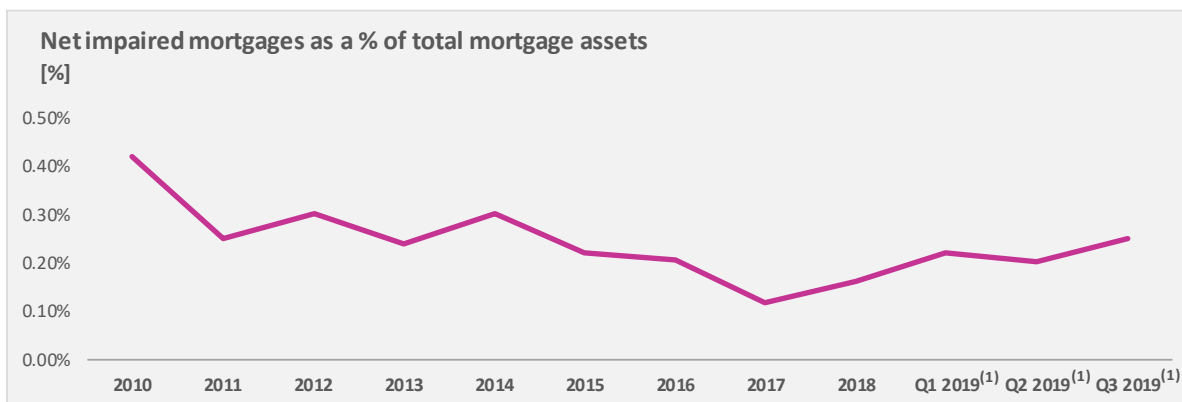
The increase in our Commercial portfolio was primarily the result of Conventional commercial mortgage and leasing growth, driven by high originations in those businesses. Insured multi-unit residential mortgages declined slightly as a result of a lower CMB allocation and higher levels of mortgage derecognition in the quarter.

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 real estate values and economic 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 loan originations, while continuing to maintain a low credit-risk profile.

Impaired loans at the end of the quarter were \$126 million, up \$17 million and \$91 million from Q2 2019 and Q3 2018, respectively. Included in this balance were \$22.3 million of impaired equipment leases, up \$5.3 million from \$17.0 million at the end of Q2, largely as a result of refinements to our risk modelling assumptions (resulting in lower write-downs and a higher net book value). The equipment leasing business has higher expected losses than our traditional mortgage business but earns a wider margin to compensate for this cost. Impaired loans also continued to include a \$40 million commercial mortgage that defaulted in Q1 2019. This loan is secured by a high-quality commercial property in Vancouver and has a current LTV of 39%, and accordingly management does not expect to realize a loss on this property. The remainder of the quarter-over-quarter increase in impaired loans was largely the result of an \$11 million net increase in defaulted Single Family Residential loans which have an average LTV of 74%. At the date of this report, \$2.3 million of these newly defaulted Single Family Residential loans had already been resolved.

Adjusting for the one large commercial loan, the impairment rate on our mortgage portfolio was only 25 bps, up slightly from the 20 bps reported in Q2. The following graph highlights that even at 25 bps, our impairment rate is still below historical levels, even though it may be above the trough levels of the past two years.



⁽¹⁾ Excludes the impact of a \$40 million impaired Commercial loan that defaulted in Q1 2019 on which management does not expect to realize a loss.

Our loan credit metrics are summarized in the following table. We believe that these measures reflect the continued health of the Company’s loan portfolio and indicate that our allowances adequately provide for the risk of loss.

Table 11: Loan credit metrics

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Gross impaired loan assets	\$ 126,248	\$ 109,208	16%	\$ 35,517	255%
Net impaired loan assets	122,423	105,740	16%	34,286	257%
Net impaired loan assets as a % of total loan assets	0.47%	0.42%	0.05%	0.16%	0.31%
Allowance for credit losses	34,496	33,119	4%	24,930	38%
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	-%	0.11%	0.02%
Allowances for credit losses as a % of gross impaired loan assets	27%	30%	(3%)	70%	(43%)

Q3 2019 v Q3 2018

In aggregate, our loan portfolio remained healthy and within our risk appetite in Q3 2019:

- Impaired loan balances grew by \$90.7 million from the same quarter of the previous year mainly as a result of the reasons cited above.
- The allowance for credit losses increased in both dollar terms and as a percentage of total loan assets, primarily because of a \$7.9 million allowance recorded on equipment leases in 2019. The allowance for credit losses remains sufficient in the opinion of management and well above the Company's 10-year average loss rate on its mortgage book of 5 bps.
- Allowances for credit losses as a percentage of gross impaired loan assets declined from the prior year as a result of the increase in gross impaired assets discussed above and management's belief that there will not be a corresponding increase in credit losses. This view is supported by our normal and extensive review of impaired loans, the low LTVs on our mortgages, and the quality of the collateral underpinning these loans.

Q3 2019 v Q2 2019

Our key credit risk metrics remained relatively stable when compared to the prior quarter with the exception of impaired loans which increased by \$17.0 million. The increase was primarily driven by additions to our Alternative Single Family balances and risk modelling assumption changes on our equipment lease portfolio as discussed above.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management believes that funding markets are currently stable and that the Company holds sufficient liquid assets. We maintain liquid asset balances at a level to ensure that we can meet our upcoming obligations even through a disruption in the financial markets.

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. Further, we apply a strategic approach to liquidity management through rigorous asset-liability matching analysis and stress testing. Even with this liquidity risk management framework, a significant or protracted disruption to funding markets could require the Company to take further liquidity protection measures. Please refer to the Risk Management section of this document for more detail on the Company's Liquidity and Funding Risk policies and procedures.

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) to yield tax-preferred dividend income. This portfolio could be liquidated in the event of financial stress.

Table 12: Liquid assets

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Eligible deposits with regulated financial institutions ⁽¹⁾	\$ 373,720	\$ 423,830	(12%)	\$ 755,799	(51%)
Debt securities	76,293	71,945	6%	2,432	3,037%
Government of Canada issued or guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	250,079	125,069	100%	-	N/A
Investments in Mortgage backed securities	24,386	-	N/A	-	N/A
Loans held in the form of debt securities ⁽²⁾ , net of obligations under repurchase agreements	595,103	860,238	(31%)	539,846	10%
Liquid assets held for regulatory purposes	1,319,581	1,481,082	(11%)	1,298,077	2%
Other deposits with regulated financial institutions	184	592	(69%)	153	20%
Equity securities ⁽³⁾	112,175	110,451	2%	141,164	(21%)
Total liquid assets	\$ 1,431,940	\$ 1,592,125	(10%)	\$ 1,439,394	(1%)
Total assets held for regulatory purposes as a % of total					
Equitable Bank assets	4.8%	5.6%	(0.8%)	5.6%	(0.8%)
Total liquid assets as a % of total assets	5.2%	6.0%	(0.8%)	6.2%	(1.0%)

⁽¹⁾ Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held at major Canadian financial institutions and excludes \$8.1 million (June 30, 2019 – \$8.3 million, September 30, 2018 – \$8.8 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and \$400.5 million (June 30, 2019 – \$454.2 million, September 30, 2018 – \$350 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

⁽²⁾ Loans held in the form of debt securities represent loans securitized and retained by the Company and are reported in our Loans 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 and exclude privately held investments.

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, 2019, our LCR was well in excess of the regulatory minimum of 100%.

Liquid asset balances were \$1.4 billion at Q3 2019, down \$160 million from Q2 2019 and consistent with Q3 2018. This lower level of liquid asset holdings reflects the seasonality of our funding needs, the use of cash to purchase third-party sourced Prime loans at the end of the quarter, and a lower level of demand deposit funding.

DEPOSITS

Table 13: Deposit principal

(\$ THOUSANDS)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Brokered deposits:					
Term	\$ 10,943,430	\$ 11,097,490	(1%)	\$ 9,839,929	11%
Demand	573,261	597,664	(4%)	714,291	(20%)
	11,516,691	11,695,154	(2%)	10,554,220	9%
EQ Bank deposits:					
Term	912,049	549,593	66%	278,940	227%
Demand	1,604,372	1,701,405	(6%)	1,791,139	(10%)
	2,516,421	2,250,998	12%	2,070,079	22%
Strategic partnerships	520,948	435,423	20%	120,085	334%
Deposit notes	350,138	150,467	133%	150,000	133%
Total	\$ 14,904,198	\$ 14,532,042	3%	\$ 12,894,384	16%

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

Total deposit principal was up by \$372 million or 3% from Q2 2019 and \$2.0 billion or 16% over the previous year.

A significant portion of the year-over-year growth was in brokered term deposits. We have strong relationships with our deposit agents and brokers, and our distribution network remains as broad as that of any non-big 6 bank. Compared to the first half of 2019, balances have declined as a result of increased usage of other funding sources over that period.

Also contributing to the growth of our deposits was our award-winning *EQ Bank* platform. Balances grew to \$2.5 billion, up \$265 million or 12% from the prior quarter and \$446 million or 22% from a year ago. Growth in *EQ Bank* deposit principal was driven by our growing customer base which increased to over 88,000 customers at the end of Q3 2019. We expect to continue growing our customer base and balances as we enhance the platform by adding more services, maintain a highly competitive deposit rate, and provide superior service.

We continued to strengthen our funding profile by deepening our Strategic partnerships. The more stable deposits obtained through these channels grew to \$521 million at quarter end, with \$86 million added in Q3 2019 alone. These relationships demonstrate the success of our fintech partnership strategy, have allowed us to reach new customers across Canada, and further diversify our deposit sources.

Brokered demand deposits remain a small and declining share of our overall funding base as a result of our decision to de-emphasize their growth. We will continue to offer these deposits with a competitive rate but aim to encourage account stability.

We are also committed to building our deposit note program over the long-term. During Q3 2019, the Bank issued a \$200 million 3-year fixed rate deposit note that ranks equally and ratably with all present and future unsecured and unsubordinated liabilities of the Company and has a maturity date of September 26, 2022. The deposit note was priced at 145 bps over comparable term Government of Canada bonds, 15 bps tighter than the levels achieved on our last deposit note issuance and with broader investor participation.

CAPITAL MANAGEMENT – EQUITABLE BANK

Management believes that the Bank's current level of capital and earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Equitable Bank's Capital Ratios at Q3 2019 exceeded regulatory minimums and were within our target range. Our Capital Ratios continued to improve as expected mainly due to the organic growth in our capital and a strategic reduction in Commercial originations in the first half of the year. Despite a high rate of capital retention, our Capital Ratios are below last year's levels as a result of Commercial asset growth in 2018 and the acquisition of Bennington in early 2019.

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 4.8% at the end of Q3 2019 and the Bank was fully compliant with our regulatory requirements.

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

Table 14: Capital measures of Equitable Bank

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Total risk-weighted assets ("RWA")	\$ 9,586,356	\$ 9,373,293	2%	\$ 8,389,236	14%
Common Equity Tier 1 Capital:					
Common shares	211,528	207,376	2%	203,237	4%
Contributed surplus	7,990	8,223	(3%)	7,799	2%
Retained earnings	1,142,589	1,093,402	4%	976,500	17%
Accumulated other comprehensive (loss) income ("AOCI") ⁽¹⁾	(20,687)	(20,320)	(2%)	(6,516)	(217%)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(63,240)	(61,883)	(2%)	(19,520)	(224%)
Common Equity Tier 1 Capital	1,278,180	1,226,798	4%	1,161,500	10%
Additional Tier 1 capital:					
Non-cumulative preferred shares	72,554	72,554	-%	72,554	-%
Tier 1 Capital	1,350,734	1,299,352	4%	1,234,054	9%
Tier 2 Capital:					
Eligible Stage 1 and 2 allowance	30,671	29,651	3%	23,699	29%
Tier 2 Capital	30,671	29,651	3%	23,699	29%
Total Capital	\$ 1,381,405	\$ 1,329,003	4%	\$ 1,257,753	10%
Capital ratios:					
CET1 Ratio	13.3%	13.1%	0.2%	13.8%	(0.5%)
Tier 1 Capital Ratio	14.1%	13.9%	0.2%	14.7%	(0.6%)
Total Capital Ratio	14.4%	14.2%	0.2%	15.0%	(0.6%)
Leverage Ratio	4.8%	4.9%	(0.1%)	5.3%	(0.5%)

⁽¹⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of the CET1 in its entirety, however, the amount of cash flow hedge reserves that relate to the hedging of items that are not fair valued is 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 15: Summary of quarterly results

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019 ⁽¹⁾			2018 ⁽¹⁾				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
RESULTS OF OPERATIONS								
Net income	\$ 54,942	\$ 54,022	\$ 41,661	\$ 40,116	\$ 47,806	\$ 37,537	\$ 40,167	\$ 40,446
Adjusted net income	54,754	54,512	46,579	45,535	45,662	41,510	40,071	40,807
Net income available to common shareholders	53,751	52,831	40,470	38,926	46,615	36,346	38,976	39,256
Net interest income	118,147	114,322	105,352	94,591	93,024	79,496	81,270	79,697
Total revenue	293,285	283,625	271,494	239,568	232,410	214,958	200,786	197,648
EPS – basic ⁽²⁾	3.22	3.17	2.44	2.35	2.82	2.20	2.36	2.38
EPS – diluted ⁽²⁾	3.18	3.15	2.42	2.33	2.80	2.19	2.34	2.36
Adjusted EPS – diluted ⁽²⁾	3.17	3.18	2.72	2.66	2.67	2.43	2.34	2.38
ROE	16.2%	16.8%	13.4%	12.9%	15.9%	13.0%	14.5%	14.9%
Adjusted ROE	16.2%	16.9%	15.0%	14.7%	15.2%	14.4%	14.5%	15.0%
Return on average assets	0.8%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%
NIM	1.75%	1.76%	1.67%	1.58%	1.66%	1.50%	1.60%	1.56%
Efficiency Ratio	39.5%	39.5%	41.1%	41.7%	36.5%	43.2%	37.9%	37.5%
BALANCE SHEET								
Total assets	27,544,976	26,361,201	26,327,464	25,037,145	23,147,614	21,944,721	21,054,763	20,634,250
Assets Under Management	32,333,820	30,909,183	30,830,162	29,410,999	27,495,398	26,142,735	25,259,152	24,652,969
Loans receivable	25,960,054	24,867,909	24,446,452	23,526,404	21,671,338	20,455,377	19,676,690	19,298,548
Loans Under Management	30,640,893	29,321,091	28,848,831	27,800,546	25,935,686	24,568,457	23,794,216	23,233,420
Shareholders' equity	1,411,522	1,359,646	1,313,968	1,280,027	1,259,875	1,212,952	1,181,472	1,138,117
Liquid assets	1,431,940	1,592,125	2,046,896	1,406,592	1,439,394	1,782,905	1,775,459	1,479,429
CREDIT QUALITY								
Provision for credit losses	3,463	1,386	9,628	628	517	168	770	387
Provision for credit losses – rate	0.05%	0.02%	0.16%	0.01%	0.01%	0.003%	0.02%	0.01%
Net impaired loans as a % of total loan assets	0.47%	0.42%	0.49%	0.16%	0.16%	0.13%	0.13%	0.12%
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	0.13%	0.11%	0.11%	0.12%	0.13%	0.17%

⁽¹⁾ Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. 2017 period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, 2019 and 2018 period disclosures are not directly comparable to 2017 periods.

⁽²⁾ Annual EPS may not equal to the sum of quarterly EPS as a result of rounding and the computation of the in-the-money options for the year versus the quarter.

Table 15: Summary of quarterly results (continued)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019 ⁽¹⁾			2018 ⁽¹⁾				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	16,705,416	16,650,635	16,573,522	16,553,212	16,528,351	16,517,020	16,507,603	16,486,677
Weighted average diluted	16,920,557	16,770,276	16,702,520	16,672,512	16,654,209	16,603,186	16,629,832	16,625,927
Book value per common share	79.97	77.22	74.59	72.94	71.73	69.03	67.14	64.57
Common share price – close	103.81	72.59	64.73	59.12	68.87	59.56	53.68	71.50
Common share market capitalization	1,738,117	1,209,850	1,077,281	978,674	1,140,013	983,968	886,538	1,179,996
Dividends declared per: ⁽²⁾								
Common share	0.33	0.31	0.30	0.28	0.27	0.27	0.26	0.25
Preferred share – Series 3	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
EQUITABLE BANK CAPITAL RATIOS								
CET1 Ratio	13.3%	13.1%	12.9%	13.5%	13.8%	14.3%	14.7%	14.8%
Tier 1 Capital Ratio	14.1%	13.9%	13.7%	14.3%	14.7%	15.3%	15.7%	15.9%
Total Capital Ratio	14.4%	14.2%	14.0%	14.5%	15.0%	15.6%	16.0%	16.3%
Leverage Ratio	4.8%	4.9%	4.7%	5.0%	5.3%	5.4%	5.5%	5.4%

⁽¹⁾ Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. 2017 period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, 2019 and 2018 period disclosures are not directly comparable to 2017 periods.

⁽²⁾ Annual dividends declared per share may not equal the sum of the quarterly dividends per share due to 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 2019 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2018, except for the adoption of IFRS 16 and the adoption of new accounting policies as a result of the acquisition of a subsidiary, effective January 1, 2019. Please refer to Note 3 to the interim consolidated financial statements for further discussion.

CRITICAL ACCOUNTING ESTIMATES

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. 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 loans, impairment of other financial instruments, 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.

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 interim 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.

Refer to Note 2(d) to the Q3 2019 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 loan originations (see Note 23 to the audited consolidated financial statements in the Company's 2018 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 loan principal that qualified for derecognition totalled \$4.8 billion at September 30, 2019 (June 30, 2019 – \$4.5 billion, September 30, 2018 – \$4.3 billion). The securitization liabilities associated with these transferred assets were approximately \$4.8 billion at September 30, 2019 (June 30, 2019 – \$4.5 billion, September 30, 2018 – \$4.3 billion). The securitization retained interests recorded with respect to certain securitization transactions were \$132.7 million at September 30, 2019 (June 30, 2019 – \$124.6 million, September 30, 2018 – \$111.2 million) and the associated servicing liability was \$27.8 million at September 30, 2019 (June 30, 2019 – \$27.0 million, September 30, 2018 – \$26.4 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$2.1 billion of loans in the ordinary course of business at September 30, 2019 (June 30, 2019 – \$2.0 billion, September 30, 2018 – \$1.7 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 \$24.4 million were outstanding at September 30, 2019 (June 30, 2019 – \$24.5 million, September 30, 2018 – \$13.9 million), none of which were drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have transacted with the Company and/or invested in deposits, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 24 to the audited consolidated financial statements in the Company's 2018 Annual Report for further details.

RISK MANAGEMENT

Through Equitable Bank and its wholly-owned subsidiaries, the Company is exposed to risks that are similar to those of other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect our business, financial condition and operating results. These factors may also influence an investor's decision to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board plays an active role in monitoring the Company's key risks and in determining the policies, practices, controls and other mechanisms 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 in the Company's 2018 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 it if counterparties fail to honour their obligations to the Company. Credit risk arises principally from the Company's lending activities and our investment in debt and equity securities. The Company's exposure to credit risk is monitored by senior management, the Enterprise Risk Management Committee, as well as the Risk and Capital Committee of the Board, which also undertakes the approval and monitoring of the Company's investment and lending policies.

The Company's primary lending business is providing first mortgages on real estate located across Canada. The Company also provides other forms of secured financing which mainly include equipment leasing. 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.

The Company invests in corporate bonds to diversify its liquidity holdings and to generate higher returns. These investments also expose the Company to credit risk, should the issuer of these securities be unable to make timely interest payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to this credit risk, the Company establishes policies with exposure limits based on credit rating and investment type. Securities rated BBB- and higher (which is considered "low risk") comprised 100% of the Company's corporate bond portfolio at September 30, 2019 (December 31, 2018 – 100%, September 30, 2018 - nil).

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 \$47 million of the total equity securities portfolio at September 30, 2019, compared to 44% or \$60 million a year earlier. Preferred share securities rated P-3 or higher comprised 98% of the total equity securities portfolio at the end of Q3 2019.

Table 16: Credit risk exposure ratings scale

	Low risk	Standard risk	High risk
Cash and cash equivalents, investments, and derivatives:			
S&P equivalent grade	AAA – BBB-	BB+ – B	B – CC
Loans receivable:			
Loans risk rating	0 – 3	4 – 5	6 – 8

Management has assessed the credit quality of the Company's assets as at September 30, 2019 on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

The table below provides the gross carrying amount of all the debt instruments of the Company, for which a loss allowance is calculated, including contractual amounts of undrawn loan commitments, based on the Company's credit risk exposure rating scale.

Table 17: Credit quality analysis

(\$ THOUSANDS)	September 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Low risk	\$ 11,735,254	\$ 619,744	\$ -	\$ 12,354,998
Standard risk	10,539,586	2,644,232	-	13,183,818
High risk	187,979	141,507	-	329,486
Impaired	-	-	126,248	126,248
Total	22,462,819	3,405,483	126,248	25,994,550
Less allowance	(19,859)	(10,684)	(3,825)	(34,368)
	\$ 22,442,960	\$ 3,394,799	\$ 122,423	\$ 25,960,182
Loan commitments:				
Low risk	\$ 245,358	\$ -	\$ -	\$ 245,358
Standard risk	951,352	194,910	-	1,146,262
High risk	-	2,134	-	2,134
Total	1,196,710	197,044	-	1,393,754
Less allowance	(100)	(28)	-	(128)
	\$ 1,196,610	\$ 197,016	\$ -	\$ 1,393,626

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. Redemption 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 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, 2019, see Note 18 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and its NII. The table below illustrates the results of management's sensitivity modelling 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, 2019. 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 18: Net interest income shock

(\$ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
<i>Impact on net interest income</i>	\$ 12,258	\$ (2,488)
<i>Impact on EVE</i>	(9,644)	15,280
<i>EVE impact as a % of common shareholders' equity</i>	(0.7%)	1.1%
200 basis point shift		
<i>Impact on net interest income</i>	\$ 22,134	\$ (2,954)
<i>Impact on EVE</i>	(17,226)	44,850
<i>EVE impact as a % of common shareholders' equity</i>	(1.3%)	3.4%

⁽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, composition, and quality of the portfolio. This information is also reviewed by a Committee of the Board quarterly.

UPDATED SHARE INFORMATION

At November 5, 2019, the Company had 16,743,965 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 626,247 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$36.7 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, 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 2019 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.

Reconciliation of Adjusted net income

(\$ THOUSANDS)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Net income	\$ 54,942	\$ 54,022	2%	\$ 47,806	15%	\$ 150,625	\$ 125,510	20%	
Adjustments on an after-tax basis:									
Provision for credit losses on equipment leases at Bennington’s acquisition date	-	-	N/A	-	N/A	4,226	-	N/A	
Fair value adjustments related to securities and derivatives	(188)	490	(138%)	(2,144)	91%	994	(2,590)	138%	
Backstop funding facility write-down	-	-	N/A	-	N/A	-	4,323	N/A	
Adjusted net income	\$ 54,754	\$ 54,512	0%	\$ 45,662	20%	\$ 155,845	\$ 127,243	22%	

Reconciliation of Adjusted EPS – diluted

(\$ THOUSANDS)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
EPS – diluted	\$ 3.18	\$ 3.15	1%	\$ 2.80	14%	\$ 8.75	\$ 7.33	19%	
Adjustments on an after-tax basis:									
Provision for credit losses on equipment leases at Bennington’s acquisition date	-	-	N/A	-	N/A	0.26	-	N/A	
Fair value adjustments related to securities and derivatives	(0.01)	0.03	(133%)	(0.13)	92%	0.05	(0.15)	133%	
Backstop funding facility write-down	-	-	N/A	-	N/A	-	0.26	N/A	
Adjusted EPS – diluted	\$ 3.17	\$ 3.18	(0%)	\$ 2.67	19%	\$ 9.06	\$ 7.44	22%	

Reconciliation of Adjusted Return on shareholders' equity

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Net income available to common shareholders	\$ 53,751	\$ 52,831	2%	\$ 46,615	15%	\$ 147,052	\$ 121,937	21%	
Adjustments on an after-tax basis:									
Provision for credit losses on equipment leases at Bennington's acquisition date	-	-	N/A	-	N/A	4,226	-	N/A	
Fair value adjustments related to securities and derivatives	(188)	490	(138%)	(2,144)	91%	994	(2,590)	138%	
Backstop funding facility write-down	-	-	N/A	-	N/A	-	4,323	N/A	
Adjusted income available to common shareholders	\$ 53,563	\$ 53,321	0%	\$ 44,471	20%	\$ 152,272	\$ 123,670	23%	
Adjusted weighted average common equity	1,312,774	1,264,190	4%	1,162,468	13%	1,274,643	1,130,330	13%	
Adjusted return on shareholders' equity	16.2%	16.9%	(0.7%)	15.2%	1.0%	16.0%	14.6%	1.4%	

- **Assets Under Management ("AUM"):** is the sum of total assets reported on the consolidated balance sheet and loan principal derecognized but still managed by the Company.

(\$ THOUSANDS)	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Total assets on the consolidated balance sheet	\$ 27,544,976	\$ 26,361,201	4%	\$ 23,147,614	19%
Loan principal derecognized	4,788,844	4,547,982	5%	4,347,784	10%
Assets Under Management	\$ 32,333,820	\$ 30,909,183	5%	\$ 27,495,398	18%

- **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, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change
Shareholders' equity	\$ 1,411,522	\$ 1,359,646	4%	\$ 1,259,875	12%
Preferred shares	(72,557)	(72,557)	-%	(72,557)	-%
Common shareholders' equity	\$ 1,338,965	\$ 1,287,089	4%	\$ 1,187,318	13%
Common shares outstanding	16,743,253	16,666,896	0%	16,553,113	1%
Book value per common share	\$ 79.97	\$ 77.22	4%	\$ 71.73	11%

- **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 by the 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 by the 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 eligible Stage 1 and 2 allowance. 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 in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 14 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 net interest income because it captures all interest rate mismatches across all terms.
- **Efficiency Ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower Efficiency Ratio reflects a more efficient cost structure.

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Non-interest expenses	\$ 50,489	\$ 48,496	4%	\$ 37,797	34%	\$ 145,096	\$ 110,130	32%	
Net revenue	127,849	122,795	4%	103,498	24%	362,884	281,917	29%	
Efficiency Ratio	39.5%	39.5%	-%	36.5%	3.0%	40.0%	39.1%	0.9%	

- **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.
- **Liquidity Coverage Ratio ("LCR"):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Bank'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.
- **Loans Under Management ("LUM"):** is the sum of loan principal reported on the consolidated balance sheet and loan principal derecognized but still managed by the Company. A detailed calculation can be found in Table 9 of this MD&A.
- **Net interest margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income 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, and other income.

(\$ THOUSANDS)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Net interest income	\$ 118,147	\$ 114,322	3%	\$ 93,024	27%	\$ 337,821	\$ 253,790	33%	
Other income	9,702	8,473	15%	10,474	(7%)	25,063	28,127	(11%)	
Net revenue	\$ 127,849	\$ 122,795	4%	\$ 103,498	24%	\$ 362,884	\$ 281,917	29%	

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

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Provision for credit losses	\$ 3,463	\$ 1,386	150%	\$ 517	570%	\$ 14,477	\$ 1,455	895%	
Divided by: average loan principal	25,312,579	24,559,621	3%	20,979,173	21%	24,858,419	20,401,302	22%	
Provision for credit losses – rate	0.05%	0.02%	0.03%	0.01%	0.04%	0.08%	0.01%	0.07%	

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

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Net income	\$ 54,942	\$ 54,022	2%	\$ 47,806	15%	\$ 150,625	\$ 125,510	20%	
Average total assets	27,112,180	26,337,074	3%	22,490,018	21%	26,399,669	21,598,469	22%	
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.

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Nine months ended		
	Sep 30, 2019	Jun 30, 2019	Change	Sep 30, 2018	Change	Sep 30, 2019	Sep 30, 2018	Change	
Net income available to common shareholders	\$ 53,751	\$ 52,831	2%	\$ 46,615	15%	\$ 147,052	\$ 121,937	21%	
Weighted average common equity	1,312,868	1,263,945	4%	1,163,540	13%	1,272,033	1,129,463	13%	
Return on shareholders' equity	16.2%	16.8%	(0.6%)	15.9%	0.3%	15.5%	14.4%	1.1%	

- **Risk-weighted assets ("RWA"):** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT SEPTEMBER 30, 2019

With comparative figures as at December 31, 2018 and September 30, 2018

(\$ THOUSANDS)

	Note	September 30, 2019	December 31, 2018	September 30, 2018
Assets:				
Cash and cash equivalents		\$ 373,904	\$ 477,243	\$ 755,952
Restricted cash		408,635	327,097	359,283
Securities purchased under reverse repurchase agreements		250,079	250,000	-
Investments	7	250,927	193,399	159,034
Loans – Retail ⁽¹⁾	8, 9	18,059,496	16,203,137	14,692,346
Loans – Commercial ⁽¹⁾	8, 9	7,900,558	7,323,267	6,978,992
Securitization retained interests		132,683	115,331	111,202
Other assets	10	168,694	147,671	90,805
		\$ 27,544,976	\$ 25,037,145	\$ 23,147,614
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	11	\$ 15,111,948	\$ 13,668,521	\$ 13,021,485
Securitization liabilities	9	10,294,459	9,236,045	8,175,776
Obligations under repurchase agreements	9	463,071	342,010	299,028
Deferred tax liabilities	12	63,284	42,610	38,990
Other liabilities	13	200,692	177,961	178,946
Bank facilities	14	-	289,971	173,514
		26,133,454	23,757,118	21,887,739
Shareholders' equity:				
Preferred shares		72,557	72,557	72,557
Common shares		210,794	200,792	200,760
Contributed surplus		6,898	7,035	6,707
Retained earnings		1,144,628	1,014,559	980,272
Accumulated other comprehensive loss		(23,355)	(14,916)	(421)
		1,411,522	1,280,027	1,259,875
		\$ 27,544,976	\$ 25,037,145	\$ 23,147,614

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2 (f)). Prior period presentation has been updated accordingly.

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019

With comparative figures for the three and nine month periods ended September 30, 2018

(\$THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest income:					
Loans – Retail ⁽¹⁾		\$ 176,082	\$ 138,553	\$ 503,440	\$ 390,347
Loans – Commercial ⁽¹⁾		98,477	76,923	294,314	212,706
Investments		2,304	1,496	6,209	4,042
Other		6,720	4,964	19,378	12,932
		283,583	221,936	823,341	620,027
Interest expense:					
Deposits		98,872	77,908	288,848	209,584
Securitization liabilities		64,858	47,581	190,414	135,968
Bank facilities		1,706	3,423	6,258	20,685
		165,436	128,912	485,520	366,237
Net interest income		118,147	93,024	337,821	253,790
Provision for credit losses	8	3,463	517	14,477	1,455
Net interest income after provision for credit losses		114,684	92,507	323,344	252,335
Other income:					
Fees and other income		6,110	4,843	17,654	16,767
Net (loss)/gain on investments		(327)	131	(1,072)	(101)
Gains on securitization activities and income from securitization retained interests	9	3,919	5,500	8,481	11,461
		9,702	10,474	25,063	28,127
Net interest and other income		124,386	102,981	348,407	280,462
Non-interest expenses:					
Compensation and benefits		25,696	19,406	75,731	57,041
Other		24,793	18,391	69,365	53,089
		50,489	37,797	145,096	110,130
Income before income taxes		73,897	65,184	203,311	170,332
Income taxes:					
Current	12	14,524	17,124	45,961	43,848
Deferred		4,431	254	6,725	974
		18,955	17,378	52,686	44,822
Net income		\$ 54,942	\$ 47,806	\$ 150,625	\$ 125,510
Dividends on preferred shares		1,191	1,191	3,573	3,573
Net income available to common shareholders		\$ 53,751	\$ 46,615	\$ 147,052	\$ 121,937
Earnings per share:					
Basic	16	\$ 3.22	\$ 2.82	\$ 8.84	\$ 7.38
Diluted		\$ 3.18	\$ 2.80	\$ 8.75	\$ 7.33

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its interest income relating to loan products (refer to Note 2 (f)). Prior period presentation has been updated accordingly.

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, 2019

With comparative figures for the three and nine month periods ended September 30, 2018

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income	\$ 54,942	\$ 47,806	\$ 150,625	\$ 125,510
Other comprehensive income – items that will be reclassified subsequently to income:				
Debt instruments at Fair Value through Other Comprehensive Income:				
Net unrealized (losses)/gains from change in fair value	(71)	(4)	474	(30)
Reclassification of net (gains)/losses to income	-	17	(162)	17
Other comprehensive income – items that will not be reclassified subsequently to income:				
Equity instruments designated at Fair Value through Other Comprehensive Income:				
Net unrealized (losses)/gains from change in fair value	(425)	831	(3,924)	603
Reclassification of net (gains)/losses to retained earnings	-	14	(638)	8
Income tax recovery/(expense)	(496)	858	(4,250)	598
	128	(228)	1,127	(159)
	(368)	630	(3,123)	439
Cash flow hedges:				
Net unrealized gains/(losses) from change in fair value	582	3,533	(5,863)	2,564
Reclassification of net (gains)/losses to income	(1,496)	(4)	(1,373)	1,441
	(914)	3,529	(7,236)	4,005
Income tax recovery/(expense)	240	(936)	1,920	(1,062)
	(674)	2,593	(5,316)	2,943
Total other comprehensive (loss)/income	(1,042)	3,223	(8,439)	3,382
Total comprehensive income	\$ 53,900	\$ 51,029	\$ 142,186	\$ 128,892

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, 2019

With comparative figures for the three month period ended September 30, 2018

(\$ THOUSANDS)

	September 30, 2019							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Accumulated other comprehensive income (loss)		Total
						Financial instruments at FVOCI	Total	
Balance, beginning of period	\$ 72,557	\$ 206,039	\$ 7,132	\$ 1,096,231	\$ (1,993)	\$ (20,320)	\$ (22,313)	\$ 1,359,646
Net income	-	-	-	54,942	-	-	-	54,942
Transfer of losses on sale of equity instruments	-	-	-	169	-	(169)	(169)	-
Other comprehensive loss, net of tax	-	-	-	-	(674)	(199)	(873)	(873)
Exercise of stock options	-	4,132	-	-	-	-	-	4,132
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(5,523)	-	-	-	(5,523)
Stock-based compensation	-	-	389	-	-	-	-	389
Transfer relating to the exercise of stock options	-	623	(623)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 210,794	\$ 6,898	\$ 1,144,628	\$ (2,667)	\$ (20,688)	\$ (23,355)	\$ 1,411,522

	September 30, 2018							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Accumulated other comprehensive income (loss)		Total
						Financial instruments at FVOCI	Total	
Balance, beginning of period	\$ 72,557	\$ 199,305	\$ 6,612	\$ 938,122	\$ 3,503	\$ (7,147)	\$ (3,644)	\$ 1,212,952
Net income	-	-	-	47,806	-	-	-	47,806
Other comprehensive income, net of tax	-	-	-	-	2,593	630	3,223	3,223
Exercise of stock options	-	1,229	-	-	-	-	-	1,229
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(4,465)	-	-	-	(4,465)
Stock-based compensation	-	-	321	-	-	-	-	321
Transfer relating to the exercise of stock options	-	226	(226)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 200,760	\$ 6,707	\$ 980,272	\$ 6,096	\$ (6,517)	\$ (421)	\$ 1,259,875

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, 2019

With comparative figures for the nine month period ended September 30, 2018

(\$ THOUSANDS)

	September 30, 2019							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Accumulated other comprehensive income (loss)		Total
						Financial instruments at FVOCI	Total	
Balance, beginning of period	\$ 72,557	\$ 200,792	\$ 7,035	\$ 1,014,559	\$ 2,649	\$ (17,565)	\$ (14,916)	\$ 1,280,027
Cumulative effect of adopting IFRS 16 ⁽¹⁾	-	-	-	(840)	-	-	-	(840)
Restated balance as at January 1, 2019	72,557	200,792	7,035	1,013,719	2,649	(17,565)	(14,916)	1,279,187
Net income	-	-	-	150,625	-	-	-	150,625
Transfer of losses on sale of equity instruments	-	-	-	(469)	-	469	469	-
Other comprehensive loss, net of tax	-	-	-	-	(5,316)	(3,592)	(8,908)	(8,908)
Exercise of stock options	-	8,664	-	-	-	-	-	8,664
Dividends:								
Preferred shares	-	-	-	(3,573)	-	-	-	(3,573)
Common shares	-	-	-	(15,674)	-	-	-	(15,674)
Stock-based compensation	-	-	1,201	-	-	-	-	1,201
Transfer relating to the exercise of stock options	-	1,338	(1,338)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 210,794	\$ 6,898	\$ 1,144,628	\$ (2,667)	\$ (20,688)	\$ (23,355)	\$ 1,411,522

	September 30, 2018							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Accumulated other comprehensive income (loss)		Total
						Financial instruments at FVOCI	Total	
Balance, beginning of period	\$ 72,557	\$ 198,660	\$ 6,012	\$ 866,109	\$ 3,153	\$ (8,374)	\$ (5,221)	\$ 1,138,117
Cumulative effect of adopting IFRS 9	-	-	-	5,450	-	1,418	1,418	6,868
Restated balance as at January 1, 2018	72,557	198,660	6,012	871,559	3,153	(6,956)	(3,803)	1,144,985
Net income	-	-	-	125,510	-	-	-	125,510
Transfer of losses on sale of equity instruments	-	-	-	(6)	-	-	-	(6)
Other comprehensive income, net of tax	-	-	-	-	2,943	439	3,382	3,382
Exercise of stock options	-	1,754	-	-	-	-	-	1,754
Dividends:								
Preferred shares	-	-	-	(3,573)	-	-	-	(3,573)
Common shares	-	-	-	(13,218)	-	-	-	(13,218)
Stock-based compensation	-	-	1,041	-	-	-	-	1,041
Transfer relating to the exercise of stock options	-	346	(346)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 200,760	\$ 6,707	\$ 980,272	\$ 6,096	\$ (6,517)	\$ (421)	\$ 1,259,875

⁽¹⁾ The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognized in opening retained earnings at the date of initial application. The adjustment of \$840 is net of tax (refer Note 3 – Changes in accounting policies).

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, 2019

With comparative figures for the three and nine month periods ended September 30, 2018

(\$ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 54,942	\$ 47,806	\$ 150,625	\$ 125,510
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	4,715	(416)	9,938	(4,136)
Amortization of premiums/discount on investments	483	1,873	2,075	6,410
Amortization of capital assets and intangible costs	4,454	2,431	12,538	7,190
Provision for credit losses	3,463	517	14,477	1,455
Securitization gains	(2,861)	(5,500)	(7,221)	(11,461)
Stock-based compensation	389	321	1,201	1,041
Income taxes	18,955	17,378	52,686	44,822
Securitization retained interests	7,930	7,055	22,969	20,755
Changes in operating assets and liabilities:				
Restricted cash	53,802	(11,998)	(38,961)	6,755
Securities purchased under reverse repurchase agreements	(125,011)	-	(79)	-
Loans, net of securitizations	(1,107,255)	(1,214,589)	(2,046,715)	(2,366,993)
Other assets	(6,234)	(3,138)	38,095	12,118
Deposits	393,648	544,511	1,427,120	1,909,474
Securitization liabilities	270,452	591,449	668,621	610,542
Obligations under repurchase agreements	463,071	96,101	121,061	(152,972)
Bank facilities	-	(77,297)	(320,421)	44,643
Other liabilities	(4,769)	(5,733)	(25,080)	(25,879)
Income taxes paid	(11,328)	(15,485)	(37,019)	(49,183)
Cash flows from/(used in) operating activities	18,846	(24,714)	45,910	180,091
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common shares	4,132	1,229	8,664	1,754
Dividends paid on preferred shares	(1,191)	(1,191)	(3,573)	(3,573)
Dividends paid on common shares	(5,523)	(4,461)	(20,309)	(12,879)
Cash flows used in financing activities	(2,582)	(4,423)	(15,218)	(14,698)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(37,325)	(4,847)	(70,708)	(57,469)
Acquisition of subsidiary	-	-	(46,772)	-
Proceeds on sale or redemption of investments	43	-	22,591	45
Net change in Canada Housing Trust re-investment Accounts	(24,363)	(12)	(24,208)	26
Purchase of capital assets and system development costs	(5,137)	(3,740)	(14,301)	(12,973)
Cash flows used in investing activities	(66,782)	(8,599)	(133,398)	(70,371)
Net (decrease)/increase in cash and cash equivalents	(50,518)	(37,736)	(102,706)	95,022
Cash and cash equivalents, beginning of period	424,422	793,688	476,610	660,930
Cash and cash equivalents, end of period	\$ 373,904	\$ 755,952	\$ 373,904	\$ 755,952
Cash flows from operating activities include:				
Interest received	\$ 276,761	\$ 210,403	\$ 791,791	\$ 601,246
Interest paid	(173,966)	(67,545)	(379,096)	(211,782)
Dividends received	1,505	1,517	5,119	4,091

See accompanying notes to the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

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 and its subsidiaries offer savings and lending products to retail and commercial customers across Canada.

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company’s 2018 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 5, 2019.

(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 profit and loss and fair value through other comprehensive income.

(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 periods. 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 loans, impairment of other financial instruments, 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.

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 interim 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.

Allowance for credit losses under IFRS 9

The expected credit loss (“ECL”) model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgement to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECLs.

(e) Consolidation:

The interim consolidated financial statements as at and for the nine months ended September 30, 2019 and September 30, 2018 include the assets, liabilities, and results of operations of the Company and its subsidiaries, after the elimination of intercompany transactions and balances. The Company has control of its subsidiaries as it is exposed to and has rights to variable returns from its involvement with the subsidiaries and it has the ability to affect those returns through its power over their relevant activities.

(f) Change in presentation:

Effective January 1, 2019, the Company has changed the presentation of its loan products based on Retail and Commercial lending. In the prior periods, the Company presented these loans as Mortgages based on Core lending and Securitization financing. A similar change has been made in the Consolidated Statements of Income for presenting related interest income. Prior period presentation has also been updated accordingly. This change in presentation better aligns the Company's loan products with its customer segments and the way it manages its business.

Note 3 – Significant Accounting Policies

The significant 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, 2018 as described in Note 3 of the audited consolidated financial statements in the Company's 2018 Annual Report, except for:

- i) changes in the accounting policies resulting from the adoption of International Financial Reporting Standards 16, Leases ("IFRS 16"); and
- ii) adoption of new accounting policies as a result of acquisition of a subsidiary in the current period (refer to Note 5).

As a result, the Company has changed its accounting policies and adopted new accounting policies as outlined below.

Changes in accounting policies

IFRS 16 - As a Lessee

The Company adopted IFRS 16 effective January 1, 2019. Prior to adoption of IFRS 16, premises leased by the Company were classified as operating leases under IAS 17, Leases. IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a Right-of-Use ("ROU") asset and a corresponding lease liability. As a result of adoption of the new standard, the Company changed its accounting policies relating to its operating leases. As permitted by the transition provisions of IFRS 16, the Company elected to use the modified retrospective approach and not to restate comparative period results, therefore all comparative period information is presented in accordance with our previous accounting policies. Adjustments relating to the recognition of ROU assets and related liabilities, at the date of initial application have been recognized in opening retained earnings for the current period. New disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

Identification of a lease

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if the contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly in the contract, and is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not considered as identified;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing the purpose of the asset use throughout the period of use.

Recognition

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Company's incremental borrowing rate.

Subsequent measurement

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end on the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortized cost using effective interest method. The liability is remeasured if there are changes to the lease rates, or changes to the Company's assessment of whether it will exercise the extension or termination options per the lease contracts.

After the commencement date, if a lease is remeasured, an adjustment is made to the ROU asset. In case the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining amount is recognized in the income statement.

The ROU assets and corresponding lease liabilities are included in Other Assets and Other Liabilities, on the Company's Consolidated Balance Sheets.

Short-term leases and leases of low-value assets

The Company has elected not to recognize an ROU asset and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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New accounting policies adopted

The Company acquired a new equipment leasing line of business on January 1, 2019 (refer Note 5). Accordingly, the Company has adopted the following new accounting policies:

IFRS 16 - As a Lessor

Identification of a lease

At the inception of each lease, the Company assesses if it is a finance lease or an operating lease. The assessment is based on substantially transferring all the risks and rewards to the lessee. If substantially all of the risks and rewards incidental to ownership are transferred to the lessee, then the lease is a finance lease, else it is an operating lease.

Recognition

At the lease commencement date, the Company includes assets held under a finance lease in Loans – Commercial, on its Consolidated Balance Sheets at an amount equal to the net investment in the finance lease. The investment in finance lease is initially measured at the present value of the lease payments that are not received at the commencement date, discounted using the interest rate implicit in the lease, which is adjusted for all the initial direct costs associated with the origination of finance lease that are factored into the determination of the interest rate implicit in the lease. Lease payments included in the measurement of investment in finance lease include fixed and variable lease payments, less incentives payable.

Subsequent measurement

The net investment in finance leases includes gross minimum lease payments receivable, less the unamortized portion of unearned finance income, security deposits held, and the allowance for credit losses. The finance income earned is included in Interest income – Commercial Loans in the Consolidated Statements of Income on a basis that reflects a constant periodic rate of return on the gross investment in finance lease receivables.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities. Goodwill represents the excess purchase price paid over the fair value of identifiable net assets and liabilities acquired in a business combination on the date of acquisition.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually and when an event or change in circumstances indicates that the carrying amount may be impaired. Goodwill is carried at cost less accumulated impairment losses and is included in Other assets on the Consolidated Balance Sheets.

Purchased loans

All purchased financial assets are initially measured at fair value on the date of acquisition. As a result, no allowance for credit losses is recognized in the purchase price equation at the acquisition date.

Fair value of loans is determined by estimating the principal and interest cash flows expected to be collected and discounting those cash flows at a market rate of interest. The fair value adjustment set up for these loans on the date of acquisition is amortized over the life of these loans and included in Interest income – Loans – Commercial in the Consolidated Statements of Income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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On the date of acquisition, purchased performing loans follow the same accounting treatment as originated performing loans, and are included in Stage 1. As a result, immediately after the date of acquisition, a 12 month allowance is recorded in provision for credit losses in the Consolidated Statements of Income. Subsequent to the acquisition date, ECL allowances are estimated in a manner consistent with our impairment policies that we apply to loans that we originate.

Purchased credit impaired loans are reflected in Stage 3 and are subject to lifetime allowance for credit losses. Any changes in expected cash flows since the date of acquisition are recorded as a charge/recovery in the provision for credit losses in the Consolidated Statements of Income.

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 48 to 61 of the Company's 2018 Annual Report.

Note 5 – Business Combination

On January 1, 2019, the Company acquired 100% ownership in Bennington Financial Corp. ("Bennington"), a privately owned company serving the brokered equipment leasing market in Canada. Bennington was founded in Oakville, Ontario in 1996 and finances a wide range of assets with a focus on transportation, construction, and food service equipment and has long-tenured relationships with professional leasing brokers throughout Canada. The Company's acquisition of Bennington diversifies it into adjacent markets and complements its other secured lending businesses and broker-led distribution model.

During the quarter, the Company refined the purchase price allocation, resulting in a decrease in goodwill by \$2,080. The purchase price allocation may be further refined as the Company completes its valuation of the fair value of assets acquired and liabilities assumed. The following table presents the estimated fair values of the assets and liabilities acquired as of the date of acquisition.

	January 1, 2019
Assets:	
Restricted cash	\$ 42,578
Loans – Commercial: Finance leases	432,218
Capital and intangible assets	9,412
Other assets	5,761
	489,969
Liabilities:	
Securitization liabilities	388,147
Deferred tax liabilities	14,412
Bank facilities	31,083
Accounts payable and accrued liabilities	24,634
	458,276
Fair value of identifiable net assets acquired	31,693
Goodwill	15,079
Total purchase consideration	\$ 46,772

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

NINE MONTH PERIOD ENDED September 30, 2019

Note 6 – 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 at FVOCI and FVTPL

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) Loans

The estimated fair value of loans receivable is determined using a discounted cash flow calculation and the market interest rates offered for loans 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) 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.

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NINE MONTH PERIOD ENDED September 30, 2019

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at September 30, 2019 and December 31, 2018. The tables do not include assets and liabilities that are not financial instruments.

	September 30, 2019					
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 373,904	\$ 373,904	\$ 373,904
Restricted cash	-	-	-	408,636	408,636	408,636
Securities purchased under reverse repurchase agreements	-	-	-	250,079	250,079	250,079
Investments	51,211	55,579	89,497	54,640	250,927	250,927
Loans – Retail ⁽¹⁾	-	-	-	18,059,496	18,059,496	18,058,036
Loans – Commercial ⁽¹⁾⁽²⁾	229,151	-	-	7,190,614	7,419,765	7,421,338
Securitization retained interests	-	-	-	132,683	132,683	134,223
Other assets:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	23,026	-	-	-	23,026	23,026
Total return swaps	6,594	-	-	-	6,594	6,594
Bond forwards	865	-	-	-	865	865
Loan commitments	3,654	-	-	-	3,654	3,654
Other	-	-	-	17,570	17,570	17,570
Total financial assets	\$ 314,501	\$ 55,579	\$ 89,497	\$ 26,487,622	\$ 26,947,199	\$ 26,948,852
Financial liabilities:						
Deposits	\$ -	\$ -	\$ -	\$ 15,111,948	\$ 15,111,948	\$ 15,146,317
Securitization liabilities	-	-	-	10,294,459	10,294,459	10,349,407
Obligations under repurchase agreements	-	-	-	463,071	463,071	463,071
Other liabilities:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	3,998	-	-	-	3,998	3,998
Total return swaps	10,243	-	-	-	10,243	10,243
Bond forwards	5,005	-	-	-	5,005	5,005
Other	-	-	-	177,977	177,977	177,977
Total financial liabilities	\$ 19,246	\$ -	\$ -	\$ 26,047,455	\$ 26,066,701	\$ 26,156,018

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

	December 31, 2018					
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 477,243	\$ 477,243	\$ 477,243
Restricted cash	-	-	-	327,097	327,097	327,097
Securities purchased under reverse repurchase agreements	-	-	-	250,000	250,000	250,000
Investments	30,823	58,311	100,607	3,658	193,399	193,399
Loans – Retail ⁽¹⁾	-	-	-	16,203,138	16,203,138	16,141,054
Loans – Commercial ⁽¹⁾⁽²⁾	243,854	-	-	7,079,412	7,323,266	7,311,118
Securitization retained interests	-	-	-	115,331	115,331	115,048
Other assets:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	16,315	-	-	-	16,315	16,315
Total return swaps	1,704	-	-	-	1,704	1,704
Loan commitments	55	-	-	-	55	55
Other	-	-	-	12,983	12,983	12,983
Total financial assets	\$ 292,751	\$ 58,311	\$ 100,607	\$ 24,468,862	\$ 24,920,531	\$ 24,846,016
Financial liabilities:						
Deposits	\$ -	\$ -	\$ -	\$ 13,668,521	\$ 13,668,521	\$ 13,653,490
Securitization liabilities	-	-	-	9,236,045	9,236,045	9,218,609
Obligations under repurchase agreements	-	-	-	342,010	342,010	342,010
Bank facilities	-	-	-	289,971	289,971	289,971
Other liabilities:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	7,265	-	-	-	7,265	7,265
Total return swaps	3,707	-	-	-	3,707	3,707
Bond forwards	2,331	-	-	-	2,331	2,331
Other	-	-	-	164,451	164,451	164,451
Total financial liabilities	\$ 13,303	\$ -	\$ -	\$ 23,700,998	\$ 23,714,301	\$ 23,681,834

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2(f)). Prior period presentation has been updated accordingly.

⁽²⁾ Loans – Commercial does not include \$461,878 (December 31, 2018 – \$nil) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9.

⁽³⁾ Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

(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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
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that would have been determined by market participants acting at arm's length. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the fair value hierarchy of all financial instruments, whether or not measured at fair value on the Consolidated Balance Sheets, except for certain financial instruments whose carrying amount always approximates their fair values due to their short-term in nature:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 193,149	\$ 50,909	\$ 6,869	\$ 250,927
Loans – Retail ⁽¹⁾	-	-	18,058,036	18,058,036
Loans – Commercial ⁽¹⁾	-	229,151	7,192,187	7,421,338
Securitization retained interests	-	134,223	-	134,223
Other assets:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	23,026	-	23,026
Total return swaps	-	6,231	363	6,594
Bond forwards	-	865	-	865
Loan commitments	-	-	3,654	3,654
Other	-	17,570	-	17,570
Total financial assets	\$ 193,149	\$ 461,975	\$ 25,261,109	\$ 25,916,233
Financial liabilities:				
Deposits	\$ -	\$ 15,146,317	\$ -	\$ 15,146,317
Securitization liabilities	-	9,301,174	1,048,234	10,349,407
Other liabilities:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	3,998	-	3,998
Total return swaps	-	-	10,243	10,243
Bond forwards	-	5,005	-	5,005
Other	-	177,977	-	177,977
Total financial liabilities	\$ -	\$ 24,634,471	\$ 1,058,477	\$ 25,692,947

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

NINE MONTH PERIOD ENDED September 30, 2019

				December 31, 2018
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 182,015	\$ 2,315	\$ 9,069	\$ 193,399
Loans – Retail ⁽¹⁾	-	-	16,141,054	16,141,054
Loans – Commercial ⁽¹⁾	-	243,854	7,067,264	7,311,118
Securitization retained interests	-	115,048	-	115,048
Other assets:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	16,315	-	16,315
Total return swaps	-	350	1,354	1,704
Loan commitments	-	-	55	55
Other	-	12,983	-	12,983
Total financial assets	\$ 182,015	\$ 390,865	\$ 23,218,796	\$ 23,791,676
Financial liabilities:				
Deposits	\$ -	\$ 13,653,490	\$ -	\$ 13,653,490
Securitization liabilities	-	8,409,095	809,514	9,218,609
Other liabilities:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	7,265	-	7,265
Total return swaps	-	99	3,608	3,707
Bond forwards	-	2,331	-	2,331
Other	-	164,451	-	164,451
Total financial liabilities	\$ -	\$ 22,236,731	\$ 813,122	\$ 23,049,853

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2(f)). Prior period presentation has been updated accordingly.

⁽²⁾ Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

Note 7 – Investments

Carrying value of investments is as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Equity securities measured at FVOCI	\$ 89,497	\$ 100,607	\$ 115,937
Equity securities measured at FVTPL	1,113	292	300
Debt securities measured at FVTPL	50,098	30,531	33,757
Debt securities measured at AMC	54,640	3,658	3,575
Debt securities measured as at FVOCI	55,579	58,311	5,465
	\$ 250,927	\$ 193,399	\$ 159,034

The Company has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the period ended September 30, 2019, the Company earned dividends of \$4,129 (September 30, 2018 – \$3,299) on these Equity securities. During the period, the Company has sold Equity securities of \$5,829 (September 30, 2018 – \$nil) and recognized a loss of \$638 in Retained earnings.

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

NINE MONTH PERIOD ENDED September 30, 2019

Net unrealized (losses)/gains on investments measured as at FVOCI and FVTPL are as follows:

	September 30, 2019	September 30, 2018
Equity securities measured at FVOCI	\$ (4,562)	\$ 611
Equity securities measured at FVTPL	(268)	-
Debt securities measured at FVOCI	312	(13)
Debt securities measured at FVTPL	(1,953)	(100)

Note 8 – Loans

(a) Loans receivable:

	September 30, 2019						
	Gross amount	Allowance for credit losses				Total	Net amount
		Stage 1	Stage 2	Stage 3	Total		
Loans – Retail	\$ 18,066,569	\$ 2,726	\$ 2,260	\$ 2,087	\$ 7,073	\$ 18,059,496	
Loans – Commercial	7,927,981	17,233	8,452	1,738	27,423	7,900,558	
	\$ 25,994,550	\$ 19,959	\$ 10,712	\$ 3,825	\$ 34,496	\$ 25,960,054	

	December 31, 2018						
	Gross amount	Allowance for credit losses				Total	Net amount
		Stage 1	Stage 2	Stage 3	Total		
Loans – Retail	\$ 16,208,928	\$ 2,068	\$ 2,210	\$ 1,513	\$ 5,791	\$ 16,203,137	
Loans – Commercial	7,342,774	12,528	6,966	13	19,507	7,323,267	
	\$ 23,551,702	\$ 14,596	\$ 9,176	\$ 1,526	\$ 25,298	\$ 23,526,404	

	September 30, 2018						
	Gross amount	Allowance for credit losses				Total	Net amount
		Stage 1	Stage 2	Stage 3	Total		
Loans – Retail	\$ 14,697,760	\$ 1,947	\$ 2,236	\$ 1,231	\$ 5,414	\$ 14,692,346	
Loans – Commercial	6,998,508	12,472	7,044	-	19,516	6,978,992	
	\$ 21,696,268	\$ 14,419	\$ 9,280	\$ 1,231	\$ 24,930	\$ 21,671,338	

As at September 30, 2019, Loans – Commercial include certain loans measured as at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at September 30, 2019, the carrying value of these loans is \$125,331 (December 31, 2018 – \$122,456, September 30, 2018 – \$71,553) and includes fair value adjustment of \$276 (December 31, 2018 – \$1,027, September 30, 2018 – (\$399)).

Loans – Commercial also include certain loans measured as at FVTPL with changes in fair value included in Interest income – Commercial. As at September 30, 2019, the carrying amount of these loans is \$103,820 (December 31, 2018 – \$121,398, September 30, 2018 – \$128,217) and includes fair value adjustment of (\$186) (December 31, 2018 – \$774, September 30, 2018 – (\$23)).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

The impact of changes in fair value for loans measured as at fair value through income is as follows:

	September 30, 2019	September 30, 2018
Net (losses)/gains in fair values for loans measured as at FVTPL included		
in gains on securitization activities	\$ (751)	\$ 4
Net gains/(losses) in fair values for loans measured as at FVTPL and recognized in interest income – commercial	545	(89)

Loans – Commercial include loans of \$157,334 (December 31, 2018 – \$181,404, September 30, 2018 – \$179,229) 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 these investments. Consequently, the Company does not control these structured entities and does not consolidate them.

Loans – Commercial also include the Company’s net investment in finance leases of \$480,793 (December 31, 2018 – \$nil, September 30, 2018 – \$nil).

At September 30, 2019, the Company had commitments to fund a total of \$2,106,043 (December 31, 2018 – \$1,544,683, September 30, 2018 – \$1,737,957) loans in the ordinary course of business.

(b) Impaired and past due loans:

Outstanding impaired loans, net of specific allowances are as follows:

	September 30, 2019			December 31, 2018	September 30, 2018
	Gross	Allowance for credit losses	Net	Net	Net
Loans – Retail	\$ 61,459	\$ 2,087	\$ 59,372	\$ 36,956	\$ 34,014
Loans – Commercial	64,789	1,738	63,051	449	272
	\$ 126,248	\$ 3,825	\$ 122,423	\$ 37,405	\$ 34,286

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

	September 30, 2019			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 44,973	\$ 15,674	\$ -	\$ 60,647
Loans – Commercial	14,384	8,527	-	22,911
	\$ 59,357	\$ 24,201	\$ -	\$ 83,558

	December 31, 2018			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 38,454	\$ 18,708	\$ -	\$ 57,162
Loans – Commercial	845	2,479	-	3,324
	\$ 39,299	\$ 21,187	\$ -	\$ 60,486

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

NINE MONTH PERIOD ENDED September 30, 2019

	September 30, 2018			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 39,188	\$ 12,977	\$ -	\$ 52,165
Loans – Commercial	6,318	185	-	6,503
	\$ 45,506	\$ 13,162	\$ -	\$ 58,668

(c) Allowance for credit losses:

	September 30, 2019			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance, beginning of period	\$ 14,596	\$ 9,176	\$ 1,526	\$ 25,298
Provision for credit losses:				
Transfers to (from) Stage 1	1,042	(548)	(494)	-
Transfers to (from) Stage 2	(601)	723	(122)	-
Transfers to (from) Stage 3	(3)	(16)	19	-
Re-measurement ⁽¹⁾	(869)	(192)	2,979	1,918
Originations	1,286	-	-	1,286
Discharges	(155)	(74)	-	(229)
Finance leases	4,663	1,643	5,196	11,502
Write-offs	-	-	(3,579)	(3,579)
Realized losses	-	-	(1,804)	(1,804)
Recoveries	-	-	104	104
Balance, end of period	\$ 19,959	\$ 10,712	\$ 3,825	\$ 34,496

	September 30, 2018			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	Total
	Stage 1	Stage 2	Stage 3	
Balance, beginning of period	\$ 13,930	\$ 9,627	\$ 1,327	\$ 24,884
Provision for credit losses:				
Transfers to (from) Stage 1	1,199	(1,010)	(189)	-
Transfers to (from) Stage 2	(668)	750	(82)	-
Transfers to (from) Stage 3	(2)	(7)	9	-
Re-measurement ⁽¹⁾	(1,031)	17	1,575	561
Originations	1,062	-	-	1,062
Discharges	(71)	(97)	-	(168)
Realized losses	-	-	(1,467)	(1,467)
Recoveries	-	-	58	58
Balance, end of period	\$ 14,419	\$ 9,280	\$ 1,231	\$ 24,930

⁽¹⁾ Includes movement as a result of significant increase or decrease in credit risk and changes in credit risk due to model inputs/assumptions that did not result in a transfer between stages.

The Stage 1 and 2 allowance for credit losses includes allowances on loan commitments amounting to \$128 (September 30, 2018 – \$127).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

Note 9 – 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 11 to the audited consolidated financial statements in the Company's 2018 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, 2019		December 31, 2018		September 30, 2018	
	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	\$ 10,351,035	\$ 463,071	\$ 9,365,527	\$ 342,010	\$ 8,227,422	\$ 299,028
Carrying amount of associated liability	10,294,459	463,071	9,236,045	342,010	8,175,776	299,028
Carrying amount, net position	\$ 56,576	\$ -	\$ 129,482	\$ -	\$ 51,646	\$ -
Fair value of assets	\$ 10,341,240	\$ 463,071	\$ 9,315,515	\$ 342,010	\$ 8,108,717	\$ 299,028
Fair value of associated liability	10,349,407	463,071	9,218,609	342,010	8,093,594	299,028
Fair value, net position	\$ (8,167)	\$ -	\$ 96,906	\$ -	\$ 15,123	\$ -

The carrying amount of assets includes \$200,506 (December 31, 2018 – \$nil, September 30, 2018 – \$nil) of the Company's net investment in finance leases that were securitized and not transferred to third parties.

The Company's outstanding securitization liabilities are as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Securitization principal	\$ 10,333,173	\$ 9,283,989	\$ 8,207,469
Deferred net discount and issuance costs	(65,631)	(68,921)	(54,536)
Accrued interest	26,917	20,977	22,843
	\$ 10,294,459	\$ 9,236,045	\$ 8,175,776

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

(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 were derecognized in their entirety during the period:

	September 30, 2019	September 30, 2018
Loans securitized and sold	\$ 709,761	\$ 675,388
Carrying value of Securitization retained interests	40,321	26,960
Carrying value of Securitized loan servicing liability	6,390	6,119
Gains on loans securitized and sold	7,221	6,525
Gains from securitization activities and retained interests	1,260	4,936

Note 10 – Other Assets

	September 30, 2019	December 31, 2018	September 30, 2018
Intangible assets	\$ 51,078	\$ 34,068	\$ 31,170
Receivable relating to securitization activities	18,679	12,026	11,357
Property and equipment	17,922	17,519	16,178
Goodwill	15,079	-	-
Right-of-use assets	13,990	-	-
Prepaid expenses and other	13,962	58,743	10,580
Accrued interest and dividends on non-loan assets	1,947	1,174	827
Real estate owned	1,417	1,368	1,146
Deferred cost – Contingent liquidity facility	481	1,864	3,065
Income taxes receivable	-	2,835	-
Derivative financial instruments:			
Interest rate swaps	23,026	16,315	10,764
Total return swaps	6,594	1,704	4,638
Bond forwards	865	-	1,080
Loan commitments	3,654	55	-
	\$ 168,694	\$ 147,671	\$ 90,805

Intangible assets include system and software development costs relating to the Company's information systems.

The Company has recognized right-of-use assets for its leased office premises located in Toronto, Oakville, Calgary, Montreal and Vancouver, and for its leased data centres as follows:

	September 30, 2019
Carrying amount of right-of-use assets	\$ 13,990
Depreciation on right-of-use assets for the period	1,940
Cash outflows for leases	1,980
Interest expense on lease liabilities	621

Prepaid expenses and other include a net of \$3,100 (December 31, 2018 – \$3,100, September 30, 2018 \$3,100) related to an alleged fraud that was identified in 2011. The Company is currently pursuing a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

Note 11 – Deposits

	September 30, 2019	December 31, 2018	September 30, 2018
Term and other deposits	\$ 14,904,198	\$ 13,522,012	\$ 12,894,384
Accrued interest	238,819	178,028	158,272
Deferred deposit agent commissions and issuance costs	(31,069)	(31,519)	(31,171)
	\$ 15,111,948	\$ 13,668,521	\$ 13,021,485

Note 12 – Income Taxes

(a) Income tax provision:

	September 30, 2019	September 30, 2018
Current tax expense:		
Current year	\$ 45,895	\$ 44,140
Adjustment for prior years	66	(292)
	45,961	43,848
Deferred tax expense:		
Reversal of temporary differences	7,205	711
Adjustment for prior years	(80)	239
Changes in tax rates	(400)	24
	6,725	974
Total income tax expense	\$ 52,686	\$ 44,822

The provision for income taxes shown in the Consolidated Statements of Income differs from that obtained by applying statutory income tax rates to income before provision for income taxes due to the following reasons:

	September 30, 2019	September 30, 2018
Canadian statutory income tax rate	26.5%	26.6%
Increase/(decrease) resulting from:		
Tax-exempt income	(0.7%)	(0.7%)
Rate differential	(0.2%)	0.0%
Non-deductible expenses and other	0.3%	0.4%
Effective income tax rate	25.9%	26.3%

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	September 30, 2019	December 31, 2018	September 30, 2018
Deferred income tax assets:			
Tax losses	\$ 18,154	\$ -	\$ -
Allowance for credit losses	6,458	6,356	6,329
Share issue expenses	125	198	310
Other	2,669	1,436	1,707
	27,406	7,990	8,346
Deferred income tax liabilities:			
Securitization activities	37,968	33,304	31,645
Leasing activities	32,640	-	-
Deposit agent commissions	7,936	8,364	8,262
Net origination fees	7,952	4,361	2,503
Intangible costs	2,314	2,666	2,830
Other	1,880	1,905	2,096
	90,690	50,600	47,336
Net deferred income tax liabilities	\$ 63,284	\$ 42,610	\$ 38,990

Note 13 – Other Liabilities

	September 30, 2019	December 31, 2018	September 30, 2018
Accounts payable and accrued liabilities	\$ 130,110	\$ 79,242	\$ 104,276
Securitized mortgage servicing liability	27,789	26,822	26,400
Loan realty taxes	20,599	58,594	26,251
Income taxes payable	2,948	-	3,325
Derivative financial instruments :			
Total return swaps	10,243	3,707	1,041
Bond forwards	5,005	2,331	-
Interest rate swaps	3,998	7,265	17,619
Loan Commitments	-	-	34
	\$ 200,692	\$ 177,961	\$ 178,946

Accounts payable and accrued liabilities include \$32,549 (December 31, 2018 – \$39,356, September 30, 2018 – \$59,504) relating to obligations associated with the purchase of the Maple portfolio in 2016.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

Note 14 – Bank Facilities

During the nine months period, the Company reduced its secured backstop funding facility to \$400,000 from \$850,000 and renewed this facility for an additional 2 years. The annualized cost of the facility is 60 basis points if undrawn, and the interest rate on any draws would be equal to 3 month CDOR plus 1.25%. The Company has not made any draws on this facility since its inception.

Note 15 – 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, 2019, the maximum number of common shares authorized for issuance under the plan is 2,000,000. The outstanding options expire on various dates to August 2026. A summary of the Company's stock option activity and related information for the periods ended September 30, 2019 and September 30, 2018 is as follows:

	September 30, 2019		September 30, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	671,332	\$ 52.59	619,771	\$ 50.80
Granted	140,967	68.12	121,159	55.66
Exercised	(166,747)	41.89	(49,676)	35.29
Forfeited/cancelled	(18,593)	65.60	(17,503)	59.82
Outstanding, end of period	626,959	\$ 58.54	673,751	\$ 52.58
Exercisable, end of period	331,763	\$ 54.07	394,628	\$ 47.61

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$1,201 (September 30, 2018 – \$1,041) 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, 2019 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	September 30, 2019	September 30, 2018
Risk-free rate	1.8%	2.1%
Expected option life (years)	4.8	4.8
Expected volatility	27.8%	26.2%
Expected dividends	1.8%	1.5%
Weighted average fair value of each option granted	\$ 14.99	\$ 13.67

(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 plans, refer to Note 20 to the audited consolidated financial statements in the Company's 2018 Annual Report.

Under the DSU plan, the activity for the periods ended September 30, 2019 and September 30, 2018 was as follows:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

	September 30, 2019	September 30, 2018
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	42,697	32,915
Granted	10,014	9,457
Dividends reinvested	780	441
Paid out	-	(1,871)
Outstanding, end of period	53,491	40,942

The liability associated with DSUs outstanding as at September 30, 2019 was \$5,521 (September 30, 2018 – \$2,807). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the nine months ended September 30, 2019 amounted to \$793 (September 30, 2018 – \$563).

Under the Company's RSU and PSU plan, the activity for the periods ended September 30, 2019 and September 30, 2018 was as follows:

	September 30, 2019	September 30, 2018
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	67,180	56,762
Granted	45,241	44,021
Dividends reinvested	1,626	1,130
Vested and paid out	(1,306)	(1,858)
Forfeited/cancelled	(4,916)	(2,978)
Outstanding, end of period	107,825	97,077

The liability associated with RSUs and PSUs outstanding as at September 30, 2019 was \$5,528 (September 30, 2018 – \$3,413). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the nine months ended September 30, 2019 amounted to \$1,401 (September 30, 2018 – \$1,783).

Note 16 – Earnings Per Share

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

	September 30, 2019	September 30, 2018
Earnings per common share – basic:		
Net income	\$ 150,625	\$ 125,510
Dividends on preferred shares	3,573	3,573
Net income available to common shareholders	\$ 147,052	\$ 121,937
Weighted average basic number of common shares outstanding	16,643,674	16,517,734
Earnings per common share – basic	\$ 8.84	\$ 7.38
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 147,052	\$ 121,937
Weighted average basic number of common shares outstanding	16,643,674	16,517,734
Adjustment to weighted average number of common shares outstanding:		
Stock options	154,909	111,438
Weighted average diluted number of common shares outstanding	16,798,583	16,629,172
Earnings per common share – diluted	\$ 8.75	\$ 7.33

For the nine month period ended September 30, 2019, the calculation of the diluted earnings per share excluded 154,246 (September 30, 2018 – 180,547) average options outstanding with a weighted average exercise price of \$69.47 (September

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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30, 2018 – \$65.23) as the exercise price of these options was greater than the year to date average price of the Company's common shares.

Note 17 – 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 22-23 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 nine months ended September 30, 2019, Equitable Bank complied with all internal and external capital requirements.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Common Equity Tier 1 Capital ("CET1"):			
Common shares	\$ 211,528	\$ 203,270	\$ 203,237
Contributed surplus	7,990	8,127	7,799
Retained earnings	1,142,589	1,011,052	976,500
Accumulated other comprehensive loss ⁽¹⁾	(20,687)	(17,565)	(6,516)
Less: Regulatory adjustments	(63,240)	(20,684)	(19,520)
Common Equity Tier 1 Capital	1,278,180	1,184,200	1,161,500
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	1,350,734	1,256,754	1,234,054
Tier 2 Capital:			
Eligible stage 1 and 2 allowance	30,671	23,772	23,699
Tier 2 Capital	30,671	23,772	23,699
Total Capital	\$ 1,381,405	\$ 1,280,526	\$ 1,257,753

⁽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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

NINE MONTH PERIOD ENDED September 30, 2019

Note 18 – 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, 2019.

	September 30, 2019							
	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	\$ 5,700,462	\$ 2,893,482	\$ 6,703,313	\$ 15,297,257	\$ 10,595,313	\$ 1,113,331	\$ 539,075	\$ 27,544,976
Total liabilities and equity ⁽²⁾	(167)	(7,963,861)	(5,704,143)	(13,668,171)	(11,137,553)	(838,026)	(1,901,226)	(27,544,976)
Off-balance sheet items ⁽³⁾	-	(1,005,976)	(46,972)	(1,052,948)	971,330	81,618	-	-
Interest rate sensitive gap	\$ 5,700,295	\$ (6,076,355)	\$ 952,198	\$ 576,138	\$ 429,090	\$ 356,923	\$ (1,362,151)	\$ -
Cumulative gap	\$ 5,700,295	\$ (376,060)	\$ 576,138	\$ 576,138	\$ 1,005,228	\$ 1,362,151	\$ -	\$ -
Cumulative gap as a percentage of total assets	20.69%	(1.37%)	2.09%	2.09%	3.65%	4.95%	-%	-%

	December 31, 2018							
	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	\$ 5,837,496	\$ (490,256)	\$ 468,480	\$ 468,480	\$ 911,722	\$ 1,163,529	\$ -	\$ -
Cumulative gap as a percentage of total assets	23.32%	(1.96%)	1.87%	1.87%	3.64%	4.65%	-%	-%

	September 30, 2018							
	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	\$ 5,150,002	\$ (848,558)	\$ 354,631	\$ 354,631	\$ 1,018,322	\$ 1,220,549	\$ -	\$ -
Cumulative gap as a percentage of total assets	22.25%	(3.67%)	1.53%	1.53%	4.40%	5.27%	-%	-%

⁽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⁾ 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.

SHAREHOLDER AND CORPORATE INFORMATION

Corporate Head Office

Equitable Bank Tower
30 St. Clair Avenue West, Suite 700
Toronto, Ontario, Canada, M4V 3A1

Regional Offices:

Montreal

1411 Peel Street, Suite 501
Montreal, Quebec, Canada, H3A 1S5

Calgary

906 12th Street S.W, Suite 700
Calgary, Alberta, Canada, T2R 1K7

Vancouver

777 Hornby Street, Suite 1240
Vancouver, British Columbia, Canada, V6Z 1S4

Halifax

1959 Upper Water Street, Suite 1300
Halifax, Nova Scotia, Canada, B3J 3N

Website

www.equitablebank.ca

Stock Listings

TSX: EQB and EQB.PR.C

Auditors

KPMG LLP
Toronto, Ontario

Quarterly Conference Call and Webcast

Wednesday, November 6, 2019, 8:30 a.m.
EST

Live: 647.427.7450

Replay: 416.849.0833 (code 5565699)

Archive: www.equitablebank.ca

Investor Relations

Tim Wilson
Senior Vice-President and Chief Financial
Officer
416.515.7000
investor@equitablegroupinc.com

Transfer Agent and Registrar

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada, M5J 2Y1
1.800.564.6253

Dividend Reinvestment Plan

The Company's dividend reinvestment plan allows common shareholders to reinvest their cash dividends to purchase additional common shares from treasury at an applicable discount. No commissions, service charges or brokerage fees are payable by participants under this plan and all administrative costs are borne by the Company.

For more information, shareholders may contact the Company's plan agent, Computershare Trust Company of Canada.