

EQUITABLE

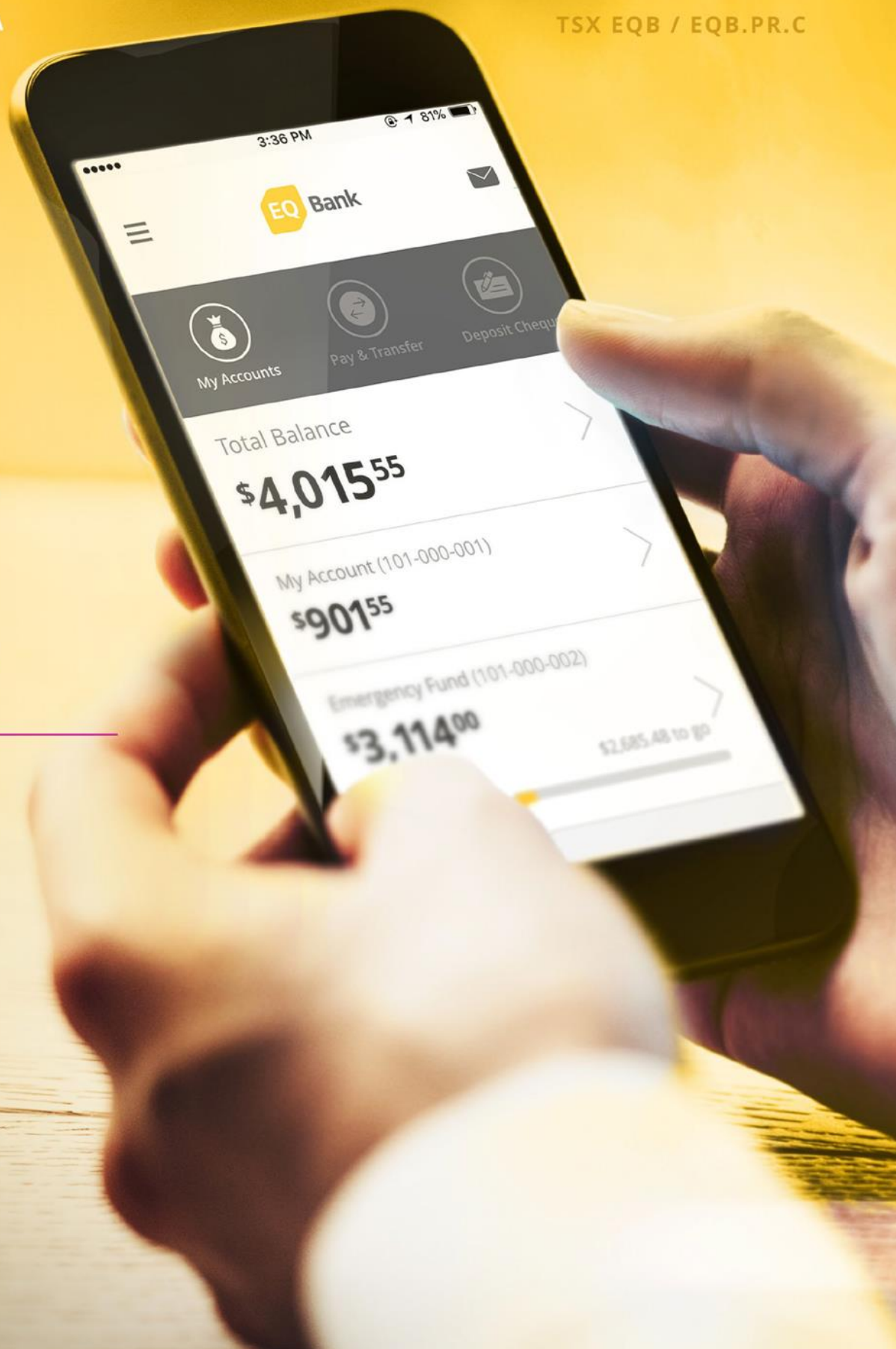
EQUITABLEBANK.CA

TSX EQB / EQB.PR.C

Second Quarter Report

For the three and
six months ended
June 30, 2016

2016



EQUITABLE GROUP INC.

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

For the three and six months ended June 30, 2016

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and six months ended June 30, 2016. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2016, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at August 11, 2016. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q2 2016 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total Assets Under Management⁽¹⁾ of approximately \$20 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products, offered under the Equitable Bank and *EQ Bank* brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

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

Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadians with various saving options that offer security and competitive interest rates, including Guaranteed Investment Certificates (“GIC”s), High Interest Savings Accounts (“HISA”s), and deposit notes. We generally serve these customers through our extensive partnerships with Canada’s mortgage brokers, mortgage bankers, deposit agents, investment dealers and financial planners who provide independent professional advice to their clients. Equitable recently started providing select deposit products directly to Canadian savers through our digital banking platform, *EQ Bank*. We intend to expand the range of savings products and services that we offer through *EQ Bank* in future years, while at the same time maintaining a strong commitment to our broker partners.

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

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended					Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change
RESULTS OF OPERATIONS								
Net income	\$ 33,410	\$ 28,012	19%	\$ 33,520	(0%)	\$ 61,422	\$ 62,981	(2%)
Net income available to common shareholders	32,219	26,821	20%	32,330	(0%)	59,040	60,600	(3%)
Net interest income ⁽¹⁾	67,010	63,594	5%	60,995	10%	130,604	117,332	11%
Total revenue ⁽¹⁾	162,861	151,691	7%	145,595	12%	314,552	282,874	11%
EPS – basic	\$ 2.07	\$ 1.73	20%	\$ 2.09	(1%)	\$ 3.80	\$ 3.92	(3%)
EPS – diluted	\$ 2.05	\$ 1.71	20%	\$ 2.06	(0%)	\$ 3.76	\$ 3.87	(3%)
ROE ⁽²⁾	17.1%	14.7%	2.4%	19.8%	(2.7%)	15.9%	18.4%	(2.5%)
Return on average assets ⁽²⁾	0.8%	0.7%	0.1%	1.0%	(0.2%)	0.7%	0.9%	(0.2%)
NIM – TEB – total assets ⁽²⁾	1.62%	1.63%	(0.01%)	1.79%	(0.17%)	1.62%	1.76%	(0.14%)
Efficiency Ratio – TEB ⁽²⁾⁽³⁾	38.2%	43.2%	(5.0%)	32.8%	5.4%	40.6%	32.6%	8.0%
BALANCE SHEET								
Total assets	17,147,854	16,411,221	4%	14,329,824	20%			
Assets under Management ⁽²⁾	19,709,617	18,616,018	6%	16,214,123	22%			
Mortgages receivable	16,244,106	15,540,241	5%	13,216,267	23%			
Mortgages under Management ("MUM") ⁽²⁾	18,723,056	17,668,821	6%	15,059,846	24%			
Shareholders' equity	843,924	816,049	3%	750,149	13%			
CREDIT QUALITY								
Provision for credit losses	105	227	(54%)	830	(87%)	332	1,644	(80%)
Net impaired mortgages as a % of total mortgage assets ⁽⁴⁾	0.20%	0.22%	(0.02%)	0.18%	0.02%			
Allowance for credit losses as a % of total mortgage assets	0.20%	0.21%	(0.01%)	0.26%	(0.06%)			
COMMON SHARE INFORMATION								
Shares outstanding	15,566,465	15,551,865	-%	15,469,787	1%			
Book value per share ⁽²⁾	\$ 49.55	\$ 47.81	4%	\$ 43.80	13%			
Share price – close	\$ 55.99	\$ 50.76	10%	\$ 61.27	(9%)			
Market capitalization	871,566	789,413	10%	947,834	(8%)			
EQUITABLE BANK CAPITAL RATIOS⁽²⁾								
CET1 Capital Ratio	13.5%	13.5%	-%	13.5%	-%			
Total Capital Ratio	16.5%	16.7%	(0.2%)	17.2%	(0.7%)			
Leverage Ratio	5.0%	5.0%	-%	5.3%	(0.3%)			

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

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

⁽³⁾ Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

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

Q2 2016 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Q2 2016 marked another strong quarter for Equitable, punctuated by continued origination growth and successful delivery on our key strategic priorities:

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	- Increased MUM⁽¹⁾ by 24% from Q2 2015 and 6% from last quarter - Grew our portfolio of Alternative Single Family assets by 20% and doubled the size of our Prime Single Family mortgage portfolio from last year - Originated an all-time record \$953 million of Alternative Single Family Lending mortgages, 49% higher than in the same quarter of last year
Build our capabilities and brand	- Further developed our presence and brand with both brokers and consumers in the Prime Single Family lending market - Grew <i>EQ Bank Savings Plus Account</i> balances by 25% from Q1 2016, to \$996 million at the end of the quarter - Increased our brokered HISA balances by 65%, to \$1.1 billion from \$653 million a year ago
Consistently create shareholder value	- Delivered EPS of \$2.05, up 20% over last quarter, and one cent lower than last year - Produced an ROE of 17.1%, just below our 5-year average of 17.7% - Increased book value per share by 13% from Q2 of last year - Declared a common share dividend of \$0.21 per share in August, 11% higher than the declaration in August 2015
Maintain a low risk profile	- Maintained a loan-to-value ratio of 70% on our residential mortgage portfolio - Maintained a low level of credit losses, recording a provision of \$0.1 million - Reported a CET1 Ratio⁽¹⁾ of 13.5%, which was well ahead of regulatory minimums and most competitive benchmarks

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

ITEMS OF NOTE

There were no items of note in our financial results for Q2 2016.

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

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

Our Q1 2016 financial results were impacted by the following items:

- fair value losses of \$1.2 million on derivative financial instruments related to securitization activities, resulting in a \$0.06 reduction in our diluted EPS
- Several other factors including \$2.6 million of advertising spending to support the launch of our *EQ Bank* platform

DIVIDENDS

On August 11, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.21 per common share, payable on October 3, 2016, to common shareholders of record at the close of business on September 15, 2016. This dividend represents an 11% increase over dividends declared in August 2015.

In addition, on August 11, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on September 30, 2016, to preferred shareholders of record at the close of business on September 15, 2016.

BUSINESS OUTLOOK

We expect that our strategy, including our disciplined approach to capital allocation, will lead to EPS growth and returns on our equity that are more consistent with our long-term average throughout the remaining quarters of the year.

Asset Growth

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

As a result of market growth and our continued emphasis on service quality, we expect that year-over-year growth of our Mortgages Under Management ("MUM")⁽¹⁾ will be at rates in the range of 20 to 25% in the final two quarters of 2016. Balance sheet assets should grow at slightly lower levels due to the derecognition of between \$1.0 and \$1.2 billion of securitized mortgages.

⁽¹⁾ When discussing performance of our businesses, we generally refer to Mortgages Under Management rather than balance sheet assets because some of our securitized mortgages have been derecognized. In the opinion of management, MUM is a better indicator of the performance of our franchise.

Summary of Expectations for Mortgage Portfolio Growth: Q3 and Q4 2016

Portfolio	Expectations ⁽¹⁾	Rationale and Assumptions ⁽¹⁾
Core Lending: Alternative Single Family	Asset growth rate in the range of 17 to 20%	- The Bank's market share continues to improve due to our consistently high levels of service - Broker channel and Alternative mortgage segments' share of the overall mortgage market both remain stable - Residential housing sales volumes and the mortgage market grow at mid-single digit rates - Employment rates are stable and overall economic growth in Canada remains low - Interest rates, competitive conditions, and government policy are unchanged
Core Lending: Commercial	Asset growth rate in the high single digits	- Enhanced focus on key borrower segments leads to strong originations - Attrition rates likely increase from Q2 levels more in-line with rates experienced in recent quarters, due to maturity of some construction financing facilities on completed projects - Competition in the commercial market remains high
Securitization Financing: Prime Single Family	MUM and balance sheet assets both more than double	- Our presence in the prime market improves further, leading to high origination growth - The economy and housing market grow as indicated above for Alternative Single Family
Securitization Financing: Multi-Unit Residential ("Multis")	- MUM growth rate in the low single digits - Balance sheet assets will decline due to high levels of asset derecognition	- Mortgages are renewed and originated in sufficient volume to use our quarterly CMB capacity - Quarterly CMB capacity remains at approximately \$300 million - Approximately \$400-\$500 million of Multis will be derecognized from the balance sheet each quarter - We will choose to execute transactions to derecognize Multis rather than Prime Single Family assets due to the relative cost efficiency of the transactions

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

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, the regulatory environment, the housing market, or general economic conditions change, or if any of the other assumptions outlined in the table do not materialize in the amount or within the timeframes specified.

Revenue

Management believes that throughout the second half of 2016, Net Interest Income ("NII") should increase at year-over-year rates in the low to mid-teens due to continued growth of the Bank's assets. We expect our total balance sheet assets to grow at year-over-year rates in the range of 18 to 22%, with growth of the individual asset categories described in detail above. The positive impacts of this asset growth will be offset slightly by an up to five basis point decrease over the period in our overall Net Interest Margin ("NIM").

Total revenue growth will also be supported by Gains on Sale related to our securitization activities. When Securitization Financing assets are derecognized from our Balance Sheet, we cease recording NII on those mortgages and instead record an up-front gain on sale. The continued success of our businesses will cause us to increase the level of asset derecognition going forward in order to effectively manage our capital position. As a result, our Gains on Sale will also increase.

Summary of Expectations for Key Revenue Drivers: Q3 and Q4 2016

Driver	Expectations	Rationale and Assumptions
NIM: Core Lending	Will remain around Q2 levels for the remainder of the year	- The Government of Canada overnight rate and the Prime Lending rate do not change through the end of the year - Margins within Single Family and Commercial are consistent; price competition does not increase - The portfolio mix shifts slightly more towards lower spread but higher ROE Single Family assets, but the shift will not be significant enough over the next two quarters to have an impact on NIM <i>EQ Bank</i> deposit balances grow moderately. We maintain a highly attractive interest rate though may adjust it downward over time depending on market conditions and balance growth. - Prepayment income is consistent from Q2 to Q3, then falls slightly in Q4 (tends to be a seasonal revenue stream)
NIM: Securitization Financing	Will increase from Q2 levels	- Prime and Multi margins are both consistent with current levels through the end of the year - The mix of the portfolio shifts towards the higher margin Prime Single Family product, which benefits the overall NIM of the Securitization Financing portfolio. The derecognition of Multis in more significant volumes accelerates this mix shift and further benefits margins.
NIM: Total	Will decline by up to 5 bps from Q2 levels	- The growth rate of the Securitization Financing portfolio outpaces the growth rate of Core Lending - The shift in our total assets towards the lower margin Securitization Financing portfolio causes a decrease in total NIM
Securitization Gains on Sale	May increase by more than 50% from Q2 levels	- Securitization and derecognition activity increases to between \$400 and \$500 million in Q3 and Q4 - The incremental derecognition volume is generated through transactions that shift the residual risks of the securitized mortgages to third parties - Overall gain on sale margins are approximately at Q2 levels

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

Non-Interest Expenses

We anticipate that over the next two quarters, non-interest expenses will increase at year-over-year rates in line with the growth of the overall business, as we continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. These investments reduce our efficiency in the near-term but build a foundation for growth and productivity that will benefit our shareholders over the longer-term. We expect ROE to remain high even throughout this period of investment.

The Bank will also continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model, and particularly taking into account the relative scale of our operations. Our Efficiency Ratio will improve further in Q3 and Q4, though will remain in the mid to high 30 percent range throughout the year.

Strategic Initiatives

In the second half of 2016, management will continue to pursue our key strategic initiatives. We will invest to: further diversify our sources of funding, in particular to grow *EQ Bank* balances; enhance the capabilities of our digital banking platform; build our presence in the Prime Single Family market; and explore migrating to the Advanced Internal Ratings Based (“AIRB”) approach to improve the sophistication of our capital and risk management. We expect that all of these initiatives will deliver meaningful long-term value for our shareholders.

Credit Quality

The Bank consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our arrears rates and credit loss provisions to be low throughout the remaining quarters of 2016, assuming that Canadian economic conditions stay within the range of broad market expectations. Loss and arrears rates may return to more normal levels from the exceptionally low rates experienced over the past several years, partly due to the challenging economic conditions in Alberta and Saskatchewan.

We discuss the details of our Alberta and Saskatchewan portfolios in the Credit Quality and Allowance for Credit Losses section of this report and have provided additional data regarding on our mortgage portfolios in Table 20 of our Q2 2016 Supplemental Information and Regulatory Disclosures Report found on the Company’s website at www.equitablebank.ca. Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

Regulatory and Market Developments

Regulators at the Federal and Provincial levels, as well as politicians, continue to have a heightened sensitivity to the housing market and mortgage lending activities. At both levels, regulators have recently made statements or enacted changes directed at those concerns. For example, OSFI has issued letters to reinforce its expectations that regulated financial institutions maintain prudent underwriting practices and to request that banks using the standardized approach conduct additional credit risk stress tests. Equitable supports these regulatory measures and believes that our prudent underwriting practices align well with current regulatory expectations. As a result of the regulators’ concerns, however, there is increased risk of additional regulatory intervention that could negatively impact the level of market activity and Equitable’s business growth. We will continue to engage with regulators, on our own and through our industry associations, in order to influence potential changes and to ensure that they do not unduly impact the competitiveness of Canada’s smaller banks.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended					Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change
Net income	\$ 33,410	\$ 28,012	19%	\$ 33,520	(0%)	\$ 61,422	\$ 62,981	(2%)
EPS – diluted	\$ 2.05	1.71	20%	2.06	(0%)	\$ 3.76	3.87	(3%)
Net interest income ⁽¹⁾	67,010	63,594	5%	60,995	10%	130,604	117,332	11%
Provision for credit losses	105	227	(54%)	830	(87%)	332	1,644	(80%)
Non-interest expenses	28,372	29,378	(3%)	21,710	31%	57,750	41,410	39%
Income taxes	11,545	9,714	19%	9,490	22%	21,259	19,659	8%

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

NET INTEREST INCOME

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

Table 3: Net interest income

(\$ THOUSANDS)	Three months ended						Six months ended			
	Jun 30, 2016		Mar 31, 2016		Jun 30, 2015		Jun 30, 2016		Jun 30, 2015	
	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾
Core Lending:										
<i>Revenues derived from:</i>										
Mortgages	\$ 107,544	4.63%	\$ 101,419	4.59%	\$ 98,146	4.84%	\$ 208,963	4.61%	\$ 191,479	4.82%
Liquidity investments	1,573	1.09%	1,161	1.04%	1,700	1.28%	2,734	1.07%	2,776	1.26%
Equity securities – TEB ⁽²⁾	2,520	7.77%	2,159	6.66%	2,595	7.00%	4,679	7.26%	4,642	6.22%
	111,637	4.47%	104,739	4.45%	102,441	4.66%	216,376	4.46%	198,897	4.66%
<i>Expenses related to:</i>										
Deposits and bank facilities	42,066	2.10%	40,017	2.10%	41,819	2.18%	82,258	2.10%	82,321	2.21%
Debentures	950	5.88%	950	5.86%	1,269	5.99%	1,900	5.88%	2,546	6.04%
Securitization liabilities	3,646	1.45%	3,466	1.57%	1,112	1.73%	7,112	1.50%	1,896	1.87%
	46,662	2.05%	44,433	2.07%	44,200	2.21%	91,270	2.07%	86,763	2.24%
Net interest income – TEB ⁽²⁾⁽³⁾	64,975	2.59%	60,306	2.55%	58,241	2.65%	125,106	2.57%	112,134	2.62%
Taxable Equivalent Basis – adjustment ⁽²⁾	(838)		(624)		(660)		(1,462)		(1,284)	
Core Lending	\$ 64,137		\$ 59,682		\$ 57,581		\$ 123,644		\$ 110,850	
Securitization Financing:										
<i>Revenues derived from:</i>										
Mortgages	\$ 45,296	2.73%	\$ 43,607	2.79%	\$ 39,066	3.21%	\$ 88,903	2.76%	\$ 76,362	3.20%
Liquidity investments	344	1.31%	232	1.20%	193	0.93%	576	1.27%	537	1.28%
	45,640	2.71%	43,839	2.77%	39,259	3.22%	89,479	2.74%	76,899	3.17%
<i>Expenses related to:</i>										
Securitization liabilities	37,708	2.62%	35,719	2.60%	33,008	3.02%	73,427	2.61%	65,226	3.05%
Deposits and secured funding facility	5,059	2.16%	4,208	2.13%	2,837	2.21%	9,092	2.11%	5,191	2.20%
	42,767	2.56%	39,927	2.54%	35,845	2.94%	82,519	2.55%	70,417	2.97%
Securitization Financing	\$ 2,873	0.17%	\$ 3,912	0.25%	\$ 3,414	0.28%	\$ 6,960	0.21%	\$ 6,482	0.25%
Total – TEB ⁽²⁾⁽³⁾	\$ 67,848	1.62%	\$ 64,218	1.63%	\$ 61,655	1.79%	\$ 132,066	1.62%	\$ 118,616	1.76%

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

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

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

Q2 2016 v Q2 2015

Net interest income was up 10% due to growth in average asset balances in both the Core Lending and Securitization Financing businesses. Total NIM declined by 17 bps as a result of a decline in Core Lending NIM and a shift in the asset mix towards the lower yielding Securitization Financing business.

Table 4(a): Factors affecting Q2 v Q2 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(2)	• Lower levels of early discharges as a proportion of the portfolio
Asset mix	(3)	• A shift towards our lower yielding but higher ROE Single Family business
Funding mix	3	• Growth of our low rate brokered deposits and new low cost funding facilities • Partly offset by the successful launch of our higher cost <i>EQ Bank</i> deposit product
Rates/spread ⁽¹⁾	(3)	• Change in rates on Single Family mortgages slightly outpaced the change in average rates on fixed term deposits
Other ⁽²⁾	(1)	
Change in Core Lending NIM	(6)	
Securitization Financing NIM:		
Mortgage prepayment income	(4)	• Mortgage prepayment income is inherently volatile and the impact on NIM can vary meaningfully quarter to quarter
Other ⁽²⁾	(7)	• Margins are narrow and can be affected significantly by the timing of originations and securitization transactions, which are typically sizeable • Some rate compression due to volatility of Prime Single Family margins
Change in Securitization NIM	(11)	
Change in Total NIM ⁽³⁾	(17)	

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

⁽²⁾ Other may include the effects of various factors not separately noted in the table such as the timing of new originations and renewals, the number of days in the period, and the timing of securitizations.

⁽³⁾ Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

Q2 2016 v Q1 2016

Net interest income increased 6% sequentially due to growth in average assets and despite a 1 bp drop in NIM. The decrease in our overall NIM was mainly the result of a shift in asset mix towards the lower margin Securitization Financing business and a decline in the NIM within that business.

Table 4(b): Factors affecting Q2 v Q1 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	7	Seasonal increase in Single Family mortgage prepayment income
Asset mix	(4)	Seasonal increase in low yield liquid asset balances
Funding mix	(5)	Successful growth of our higher rate <i>EQ Bank</i> deposits
Rates/spreads ⁽¹⁾	5	75 bp rate reduction on <i>EQ Bank</i> deposits during the current quarter
Other ⁽²⁾	1	
Change in Core Lending NIM	4	
Securitization Financing NIM:		
Mortgage prepayment income	1	Mortgage prepayment income is inherently volatile and the impact on NIM can vary meaningfully quarter to quarter
Asset mix	(1)	Growth of low yield liquid asset balances
Other ⁽²⁾	(8)	- Margins are narrow and can be affected significantly by the timing of originations and securitization transactions, which are typically sizeable - Some rate compression due to volatility of Prime Single Family margins
Change in Securitization NIM	(8)	
Change in Total NIM ⁽³⁾	(1)	

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

⁽²⁾ Other may include the effects of various factors not separately noted in the table such as the timing of new originations and renewals, the number of days in the period, and the timing of securitizations.

⁽³⁾ Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

YTD 2016 v YTD 2015

Net interest income was up 11% due to an increase in average assets balances, offset in part by a reduction in our NIM. Total NIM decreased as the asset mix shifted towards the lower margin Securitization Financing business and we experienced lower margins within that business and Core Lending.

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

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Mortgage prepayment income	(1)	Similar levels of early discharges and prepayment penalties relative to size of the mortgage portfolio
Asset mix	(5)	A shift towards our lower yielding but higher ROE Single Family business
Funding mix	2	- Growth of our low rate brokered deposits and new low cost funding facilities - Partly offset by the successful launch of our higher cost <i>EQ Bank</i> deposit product
Rates/spreads ⁽¹⁾	(1)	On YTD basis, spreads were relatively consistent
Change in Core Lending NIM	(5)	
Securitization Financing NIM:		
Mortgage prepayment income	(1)	Mortgage prepayment income is inherently volatile
Other ⁽²⁾	(3)	- Margins are narrow and can be affected significantly by the timing of originations and securitization transactions, which are typically sizeable - Some rate compression due to volatility of Prime Single Family margins
Change in Securitization NIM	(4)	
Change in Total NIM ⁽³⁾	(14)	

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

⁽²⁾ Other may include the effects of various factors such as the timing of new originations and renewals, the number of days in the period, and the timing of securitizations not separately noted in the table.

⁽³⁾ Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons including asset mix shifts between the two mortgage portfolios.

PROVISION FOR CREDIT LOSSES

The credit quality of our mortgage portfolio continued to be strong. Our provision for credit losses during the quarter was \$0.1 million, \$0.7 million lower than in the same quarter of last year and \$0.1 million lower than in Q1 2016. The provision for credit losses as an annualized percentage of the average mortgage portfolio outstanding was less than 1 bp, down 3 bps from Q2 2015 and 1 bp from Q1 2016.

This low level of provision for credit losses reflects the health of our mortgage assets and low loss expectations on newly impaired loans (consistent with our past experience). Management determined that this amount of provision would maintain our allowances at an appropriate level.

Based on our normal extensive review of mortgage assets and credit allowances, management concluded that additions to our collective allowance were not necessary during the quarter. The provision for credit losses in Q1 2016 and Q2 2015 included nil and \$0.7 million, respectively, of additions to the collective allowance.

OTHER INCOME

Table 5: Other income

(\$ THOUSANDS)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change		Jun 30, 2016	Jun 30, 2015	% Change
Fees and other income	\$ 3,781	\$ 3,177	19%	\$ 2,534	49%		\$ 6,958	\$ 4,842	44%
Net gain (loss) on investments	747	-	N/A	(247)	N/A		747	(450)	266%
Securitization activities:									
Gains on securitization and income from retained interests	2,048	1,797	14%	1,984	3%		3,845	3,782	2%
Fair value (losses) gains on derivative financial instruments	(154)	(1,237)	88%	284	(154%)		(1,391)	188	(840%)
Total	\$ 6,422	\$ 3,737	72%	\$ 4,555	41%		\$ 10,159	\$ 8,362	21%

Q2 2016 v Q2 2015

Other income increased 41% compared with Q2 2015, mainly due to:

- \$1.2 million increase in fees and other income driven by growth in our mortgage assets and higher net gains on foreclosed assets; and
- \$1.0 million increase in net gain on investments.

Q2 2016 v Q1 2016

Other income increased compared with Q1 2016, mainly due to:

- \$1.1 million decrease in losses on derivative financial instruments related to securitization activities. During Q1 2016, we recorded a \$1.2 million accounting hedge loss because we did not execute a securitization transaction as planned (see Q1 Management's Discussion and Analysis for further details);
- \$0.7 million increase in net gain on investments; and
- \$0.6 million increase in fees and other income driven by growth in our mortgage assets and higher net gains on foreclosed assets.

YTD 2016 v YTD 2015

Other income increased 21% on a year over year basis primarily because of the reasons stated above in comparing Q2 2016 to Q2 2015 and despite the \$1.2 million derivative loss in Q1 2016.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and Efficiency Ratio

(\$ THOUSANDS, EXCEPT FTE)	Three months ended					Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change
Growth of our franchise:								
Compensation and benefits	\$ 14,529	\$ 13,555	7%	\$ 12,277	18%	\$ 28,084	\$ 23,112	22%
Premises, equipment, and system costs	3,619	3,494	4%	2,879	26%	7,113	5,465	30%
Other	2,403	2,347	2%	2,238	7%	4,750	4,255	12%
Licenses, regulatory fees and insurance	1,611	1,337	20%	1,181	36%	2,948	2,191	35%
Mortgage servicing	886	980	(10%)	1,018	(13%)	1,866	2,017	(7%)
Marketing and travel	726	780	(7%)	630	15%	1,506	1,133	33%
Amortization	1,174	1,146	2%	823	43%	2,320	1,480	57%
Non-interest expenses before strategic investments	\$ 24,948	\$ 23,639	6%	\$ 21,046	19%	\$ 48,587	\$ 39,653	23%
Investments in our future:								
Compensation and benefits	1,353	1,423	(5%)	527	157%	2,776	1,078	158%
Other	2,071	4,316	(52%)	137	1412%	6,387	679	841%
Total investments in our future ⁽¹⁾	\$ 3,424	\$ 5,739	(40%)	\$ 664	416%	\$ 9,163	\$ 1,757	422%
Total non-interest expenses	\$ 28,372	\$ 29,378	(3%)	\$ 21,710	31%	\$ 57,750	\$ 41,410	39%
Efficiency Ratio – TEB ⁽¹⁾	38.2%	43.2%	(5.0%)	32.8%	5.4%	40.6%	32.6%	8.0%
Full-time employee ("FTE") – period average	528	507	4%	430	23%	516	421	23%

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

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, although our Efficiency Ratio increased to 38.2% from 32.8% a year ago.

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

Without our strategic investments, our adjusted Efficiency Ratio and diluted EPS in Q2 2016 would have been 33.6% and \$2.21 respectively (Q1 2016 – 35.0% and \$1.98, Q2 2015 – 31.8% and \$2.09).

Q2 2016 v Q2 2015

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

Growth of Our Franchise: \$3.9 million or 58% of the net increase

- \$3.0 million of compensation and related costs (such as premises and equipment) which were up because of growth in FTE to support our existing businesses and an office expansion to accommodate our growing team; and
- \$0.4 million in amortization expenses related to renovating and expanding our office space.

Investments in Our Future: \$2.8 million or 42% of the net increase

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

- \$1.2 million increase for digital banking systems support and maintenance costs;
- \$0.8 million increase in compensation related to growth of our digital banking and prime lending teams. We also expensed all digital banking related compensation in the quarter, whereas we had capitalized the majority of these costs in the pre-launch phase last year; and
- \$0.7 million increase in amortization expenses, as we began to amortize previously capitalized digital banking investments in Q1, mainly over a 10 year period.

Q2 2016 v Q1 2016***Growth of Our Franchise: \$1.3 million increase***

- \$0.7 million of compensation and related costs (such as premises and equipment) which were up because of growth in FTE to support our existing businesses and an office expansion to accommodate our growing team. We also incurred \$0.4 million of incremental costs related to annual Director Share Unit (“DSU”) grants that occurred in the quarter.

Investments in Our Future: \$2.3 million decrease

The decrease in expenses was driven by:

- \$2.5 million of lower marketing expenses. We spent \$2.6 million in Q1 to support the successful public launch of *EQ Bank* in Q1 and as expected reduced the level of spend in Q2.

YTD 2016 v YTD 2015***Growth of Our Franchise: \$8.9 million or 55% of the net increase***

The increase was a result of the same factors discussed above when comparing Q2 2016 to Q2 2015.

Investments in Our Future: \$7.4 million or 45% of the net increase

The higher expenses were due to the factors cited above when comparing Q2 to Q2 of last year in addition to marketing costs incurred in Q1 2016 for the launch of *EQ Bank*.

INCOME TAXES***Q2 2016 v Q2 2015***

Our effective income tax rate for the quarter was 25.7%, 3.7% higher than the same quarter of last year, mainly due to an investment transaction in Q2 2015 that reduced the tax provision in that quarter. Excluding the impact of the investment, our effective tax rate would have been consistent across both quarters.

Q2 2016 v Q1 2016

Our effective income tax rate for the quarter was unchanged from the preceding quarter.

YTD 2016 v YTD 2015

Our year-to-date effective income tax rate increased to 25.7% from 23.8% in the same period of 2015, largely due to the impact of the abovementioned investment transaction in Q2 2015.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	% Change	Dec 31, 2015	% Change	Jun 30, 2015	% Change
Total assets	\$ 17,147,854	\$ 16,411,221	4%	\$ 15,527,584	10%	\$ 14,329,824	20%
Mortgage principal – Core Lending	9,592,792	9,064,350	6%	8,679,129	11%	8,236,323	16%
Mortgage principal – Securitization Financing	6,568,501	6,399,674	3%	5,955,318	10%	4,939,224	33%
Deposit principal	9,048,465	8,732,113	4%	8,115,483	11%	8,128,474	11%
Total liquid assets as a % of total assets ⁽¹⁾	6.0%	5.7%	0.3%	5.8%	0.2%	8.7%	(2.7%)

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

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize our ROE, while focusing our strategic growth efforts on both our Alternative and Prime Single Family Lending businesses. The following tables provide mortgage principal continuity schedules by lending portfolio for Q2 2016 and Q2 2015:

Table 8: Mortgage principal continuity schedule

(\$ THOUSANDS)	Three months ended June 30, 2016						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q1 2016 closing balance	\$ 6,751,013	\$ 2,313,337	\$ 9,064,350	\$ 6,399,674	\$ 15,464,024	\$ 2,204,797	\$ 8,604,471
Originations	952,937	323,061	1,275,998	745,409	2,021,407	-	745,409
Securitization derecognized	-	-	-	(378,519)	(378,519)	378,519	-
Net repayments	(548,704)	(198,852)	(747,556)	(198,063)	(945,619)	(21,553)	(219,616)
Q2 2016 closing balance	\$ 7,155,246	\$ 2,437,546	\$ 9,592,792	\$ 6,568,501	\$ 16,161,293	\$ 2,561,763	\$ 9,130,264
% Change from Q1 2016	6%	5%	6%	3%	5%	16%	6%
% Change from Q2 2015	20%	6%	16%	33%	23%	36%	34%
Net repayments percentage ⁽³⁾	8.1%	8.6%	8.2%	3.1%	6.1%	1.0%	2.6%

(\$ THOUSANDS)	Three months ended June 30, 2015						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q1 2015 closing balance	\$ 5,691,465	\$ 2,328,651	\$ 8,020,116	\$ 4,730,163	\$ 12,750,279	\$ 1,687,364	\$ 6,417,527
Originations	641,095	199,977	841,072	555,272	1,396,344	-	555,272
Securitization derecognized	-	-	-	(214,098)	(214,098)	214,098	-
Net repayments	(386,096)	(238,769)	(624,865)	(132,113)	(756,978)	(17,163)	(149,276)
Q2 2015 closing balance	\$ 5,946,464	\$ 2,289,859	\$ 8,236,323	\$ 4,939,224	\$ 13,175,547	\$ 1,884,299	\$ 6,823,523
% Change from Q1 2015	4%	(2%)	3%	4%	3%	12%	6%
Net repayments percentage ⁽³⁾	6.8%	10.3%	7.8%	2.8%	5.9%	1.0%	2.3%

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

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

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

Q2 2016 v Q2 2015

Total MUM increased 24%, driven by 16% growth in Core Lending balances and 34% growth in Securitization Financing MUM.

The increase in Core Lending was mainly attributable to Alternative Single Family and the high level of originations in that business. Commercial Lending balances also increased, at a rate higher than expected, as a result of origination growth and lower attrition rates.

Securitization Financing MUM was up largely due to our Prime Single Family business, which reached \$2.9 billion of assets at quarter end, more than double the level of a year ago.

Q2 2016 v Q1 2016

Total MUM increased 6% as a result of growth in both Core Lending balances and Securitization Financing MUM.

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

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

Please refer to the Supplemental Information and Regulatory Disclosures Report available on our website for additional quantitative disclosures related to our mortgage portfolio.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly with our residential mortgage products, and as such we do not focus on sequential origination comparisons. The table below provides our mortgage originations for Q2 2016 and the comparable period in 2015:

Table 9: Mortgage originations – by lending business

(\$ THOUSANDS)	Three months ended						Six months ended					
	Jun 30, 2016			Jun 30, 2015			Jun 30, 2016			Jun 30, 2015		
	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change	Mortgage principal funded	% of total		Mortgage principal funded	% of total	% Change
Core Lending:												
Single Family Lending	\$ 952,937	47%		\$ 641,095	46%	49%	\$ 1,627,354	45%		\$ 1,209,373	46%	35%
Commercial Lending	323,061	16%		199,977	14%	62%	524,910	15%		407,744	15%	29%
	1,275,998	63%		841,072	60%	52%	2,152,264	60%		1,617,117	61%	33%
Securitization Financing:												
Multi-unit residential	245,677	12%		175,585	13%	40%	494,450	14%		452,893	17%	9%
Prime single family residential	499,732	25%		379,687	27%	32%	944,086	26%		571,101	22%	65%
	745,409	37%		555,272	40%	34%	1,438,536	40%		1,023,994	39%	40%
Total mortgage originations	\$ 2,021,407	100%		\$ 1,396,344	100%	45%	\$ 3,590,800	100%		\$ 2,641,111	100%	36%

Q2 2016 v Q2 2015

The Company delivered record quarterly mortgage origination volumes in Q2 2016.

Core Lending origination volumes grew mainly as a result of consistently strong performance in our Alternative Single Family Lending business, which was attributable to the strength of the Canadian real estate market and our consistently high levels of service quality. Commercial Lending originations were up due to our increased market focus, our recent rebranding efforts, and the strength of our distribution partnerships.

Securitization Financing originations were up in the quarter due to our success in building our Prime Single Family mortgage business. Of the \$500 million of Prime loans that we originated in Q2, \$192 million was originated internally and the remaining \$308 million was sourced through third-party partners. Multi origination volumes were also up 40% compared to the same quarter of the prior year due to lower renewal volumes. We aim to originate Multis such that we utilize the full amount of our CMB capacity each quarter, after considering our renewal volumes and inventory on-hand.

YTD 2016 v YTD 2015

Total mortgage originations increased for the reasons that we discussed above when comparing Q2 to the same period of 2015.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. If the securitized mortgages and the transaction structure meet specific criteria, the mortgages may qualify for full or partial balance sheet derecognition and an upfront gain on sale. In some cases, we retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

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

Table 10: Securitization and derecognition activity

(\$ THOUSANDS)	Three months ended					Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change
Securitization derecognized – non-prepayable Multis	\$ 125,432	\$ 151,544	(17%)	\$ 214,098	(41%)	\$ 276,976	\$ 394,851	(30%)
Securitization derecognized – prepayable mortgages ⁽¹⁾	253,087	-	N/A	-	N/A	253,087	-	N/A
Total principal derecognized	\$ 378,519	\$ 151,544	150%	\$ 214,098	77%	\$ 530,063	\$ 394,851	34%
Gains on sale	\$ 1,894	\$ 1,619	17%	\$ 1,703	11%	\$ 3,513	\$ 3,233	9%
Gains on sale margin ⁽²⁾	0.50%	1.07%	(0.57%)	0.79%	(0.29%)	0.66%	0.82%	(0.16%)

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

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

Q2 2016 v Q2 2015

Gains on sale increased from last year due to an increase in the volume of mortgages derecognized and despite a lower gain on sale margin. Derecognition volumes were up this year because we executed several transactions that transferred the risks and rewards of securitized *prepayable* mortgages to third parties and allowed us to effect derecognition of the assets. These transactions resulted in the derecognition of \$253 million of prepayable Multis and a gain on sale of \$0.5 million (gain on sale margin of 0.18%).

The gain on sale margin was lower than in Q2 2015 largely due to the costs of the transactions that we executed to derecognize the prepayable Multis and because the mortgages on which we chose to execute these transactions had a lower spread.

Q2 2016 v Q2 2015

Gains on sale were up due to the reasons discussed above in the Q2 2016 to Q2 2015 comparison.

YTD 2016 v YTD 2015

Gains on sale increased due to the same reasons cited above when comparing Q2 2016 to the same quarter last year.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

The Company's active management of credit risk and our workout efforts continue to yield positive results. The success of our credit management strategies is highlighted in the metrics in Table 11 below. We believe that these measures reflect the health of the Company's mortgage portfolio and indicate that our allowances adequately provide for the risk of loss.

Table 11: Mortgage credit metrics

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	Jun 30, 2015
Provision for credit losses	\$ 105	\$ 227	\$ 830
Provision for credit losses – rate ⁽¹⁾	0.00%	0.01%	0.03%
Gross impaired mortgage assets ⁽²⁾	33,531	36,048	27,566
Net impaired mortgage assets ⁽²⁾⁽³⁾	32,181	34,783	24,382
Net impaired mortgage assets as a % of total mortgage assets ⁽²⁾⁽³⁾	0.20%	0.22%	0.18%
Allowance for credit losses	33,240	33,155	34,007
Allowance for credit losses as a % of total mortgage assets	0.20%	0.21%	0.26%
Allowances for credit losses as a % of gross impaired mortgage assets	99%	92%	123%

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

⁽²⁾ Uninsured mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.

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

Q2 2016 v Q2 2015

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q2 2016:

- Our provision for credit losses was less than 1 bp of mortgage principal outstanding, down from 3 bps from Q2 2015. The provision was lower partly because management determined that credit loss allowances were sufficient and as a result did not add to the collective allowance during the quarter.
- Impaired mortgages increased in both dollar terms and relative to total mortgage assets, largely because a \$7.3 million commercial loan, which was delinquent at the end of this quarter but was resolved subsequently. Impairment rates remained low by historical standards and we continue to believe that they may return to more normalized levels in future quarters.
- The allowance for credit losses as a percentage of total assets remains sufficient in the opinion of management. The allowance declined relative to total assets partly because insured mortgages grew to represent a greater proportion of our balance sheet than a year ago and we do not typically set-up an allowance against insured assets.

Q2 2016 v Q1 2016

Our key credit risk metrics were generally consistent with the prior quarter. Impaired mortgage balances improved as a \$1.5 million commercial loan became current during this quarter.

Alberta and Saskatchewan

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

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

- \$2.8 billion or 17% of the Company's total mortgage principal is in these two provinces
 - \$1.6 billion or 58% of those assets are insured. \$0.8 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
 - \$1.2 billion of the assets are uninsured, with \$0.9 billion of that total being single family residential and \$0.3 billion being commercial. These uninsured assets represent only 7% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, \$1.0 billion or 87% are in the cities of greater Edmonton and Calgary. Similarly, \$73 million or 6% are in Regina and Saskatoon. Those cities have diversified economies and real estate markets that would be more resilient in the face of economic shocks.
- The average loan to value of our uninsured single family residential mortgages in these provinces is 67%
- Impaired mortgages in Alberta and Saskatchewan were \$9.0 million or only 0.06% of our total mortgage principal outstanding at quarter-end, compared to \$9.1 million in the preceding quarter and \$6.1 million in the prior year
- Early stage delinquencies in Alberta and Saskatchewan were \$16.6 million or 0.10% of our total mortgage principal outstanding at the end of Q2 2016, compared to \$19.0 million in the preceding quarter and \$7.5 million in the prior year.

Overall, the Alberta and Saskatchewan portfolios have performed better than we had expected to date. Actual losses have been only \$78 thousand to date in 2016. Arrears increased in the first quarter of the year but did not increase further in Q2 and remain small relative to the overall portfolio. The table below provides our Alberta and Saskatchewan arrears figures for the past eight quarters:

Alberta and Saskatchewan Delinquencies

(\$ THOUSANDS)	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Early stage delinquencies ⁽¹⁾	\$ 16,573	\$ 19,030	\$ 9,666	\$ 8,602	\$ 7,461	\$ 14,946	\$ 7,413	\$ 8,564
Impaired mortgages ⁽²⁾	8,911	9,066	7,103	7,765	6,126	6,060	5,390	3,089
Total Delinquencies	\$ 25,484	\$ 28,096	\$ 16,769	\$ 16,367	\$ 13,587	\$ 21,006	\$ 12,803	\$ 11,653
Delinquencies as a % of total mortgage principal	0.16%	0.18%	0.11%	0.12%	0.10%	0.16%	0.10%	0.10%
Impaired mortgages as a % of total mortgage principal	0.06%	0.06%	0.05%	0.06%	0.05%	0.05%	0.04%	0.03%

⁽¹⁾ Early stage delinquencies consist of principal of both uninsured mortgages in arrears between 30 and 89 days and insured mortgage in arrears between 30 and 365 days.

⁽²⁾ Impaired mortgages include principal of both uninsured mortgages in arrears greater than 89 days and insured mortgage in arrears 365 days or more.

Given the low oil price environment and the expected economic impact thereof, we anticipate that our arrears rates in Alberta and Saskatchewan could rise through the remaining quarters of the year. Due to our conservative underwriting approach, our focus on lending in larger urban centres such as Calgary and Edmonton, and our robust workout process, we expect losses to be manageable in the overall context of the Bank's financial position.

In order to arrive at our view on these potential losses, management conducts regular stress tests on our loan portfolio. The results of our most recent *residential housing market* stress tests for Alberta and Saskatchewan indicate that realized loan losses would be manageable under all scenarios tested. The scenarios were informed by economic forecasts published by seven major Canadian financial institutions, which indicate unemployment rates in the range of 7% and house price declines of approximately 2-3%. We have also developed several more stressed scenarios internally. In the most severe scenario tested (house prices fall by 30%; unemployment escalates to 10.5% from the current 8.1% by the end of 2016), provisions for credit losses could be up to \$1 million in 2016 and up to \$2 million in 2017, equivalent to \$0.05 and \$0.10 of EPS respectively. All provision scenarios and forecasts represent management estimates, based on our current mortgage portfolio and business conditions, and actual results may differ due to a variety of known and unknown factors. These scenarios do not contemplate any increases to our Collective Allowance, which management may make if we deem that overall market conditions have deteriorated meaningfully.

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

- **Insurance:** over half of our lending portfolio in Alberta and Saskatchewan is insured.
- **Secured Lending:** all of our lending in these provinces is secured by high-quality residential and commercial real estate. We have no unsecured exposure in either province.
- **Loan-to-Value Ratios:** the low average loan-to-value ratio of our uninsured residential portfolio in Alberta and Saskatchewan provides us with substantial downside protection against a drop in real estate prices.
- **Market Positioning:** We maintain strict lending policies that govern our activity in the upper and lower ends of the house price spectrum because we view those segments of the market as inherently more risky. As such, we believe that our residential mortgage portfolio, which is weighted to the relatively more stable middle market, will be less impacted by any market instability.
- **Geographic Focus:** Our portfolio is focused on the major urban centres of Calgary, Edmonton, Regina, and Saskatoon. Those cities have relatively diversified economies and liquid real estate markets, which allows Equitable to more quickly realize the value of any collateral.

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

Details of our Alberta and Saskatchewan lending portfolios can be found in our Q2 2016 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

Table 12: Liquid assets⁽¹⁾

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	Jun 30, 2015
Eligible deposits with regulated financial institutions ⁽²⁾	\$ 336,195	\$ 427,580	\$ 631,775
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	150,906	30,346	100,295
Debt securities guaranteed by Government of Canada	3,968	16,246	20,585
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽³⁾	419,067	330,524	527,317
Obligations under repurchase agreements	-	-	(167,767)
Liquid assets held for regulatory purposes	910,136	804,696	1,112,205
Other deposits with regulated financial institutions	42	220	142
Equity securities ⁽⁴⁾	123,456	134,775	139,346
Total liquid assets ⁽¹⁾	\$ 1,033,634	\$ 939,691	\$ 1,251,693
Total assets held for regulatory purposes as a % of total Equitable Bank assets	5.3%	4.9%	7.8%
Total liquid assets as a % of total assets	6.0%	5.7%	8.7%

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

⁽²⁾ Eligible deposits with regulated financial institution represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes \$27.7 million (March 31, 2016 – \$25.7 million, June 30, 2015 – \$10.3 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$123.0 million (March 31, 2016 – \$103.7 million, June 30, 2015 – \$97.0 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

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

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

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

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

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

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

Q2 2016 v Q2 2015

Liquid assets held for regulatory purposes were down as compared with Q2 2015. Despite a higher mortgage commitment pipeline, expected net cash outflows in the weeks following quarter end were lower in 2016 because we expected to fund much of the pipeline through draws on our bank funding facilities. Lower expected cash outflows generally cause us to keep less liquidity on hand.

Q2 2016 v Q1 2016

Liquid asset balances increased since Q1 2016 partially because projected net cash outflows after quarter-end were higher.

OTHER ASSETS

Please refer to Note 10 of our Q2 2016 interim consolidated financial statements for details of our Other Asset balances.

Q2 2016 v Q2 2015

Other assets grew 17% or \$8.7 million from a year ago mainly due to the following items:

- \$10.7 million of capital asset investments, related to an office expansion that we have undertaken in support of our growth and investments in our computer systems; and
- \$2.7 million of intangible assets, most of which was for the development of our digital banking platform and is being amortized over a 10 year period;

Offset by:

- \$5.5 million decrease in income taxes receivable.

Included in Prepaid expenses and other is a net receivable of \$3.2 million (March 31, 2016 and June 30, 2015 – \$3.2 million) related to an alleged fraud that was identified in 2011. The Company continues to pursue a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

Q2 2016 v Q1 2016

Other assets decreased \$1.7 million or 3% from the prior quarter end primarily driven by:

- \$2.7 million decrease in income taxes receivable;

Offset by:

- \$1.5 million increase in capital asset investments, related to our office renovation and computer system investments.

DEPOSITS

Our deposits, which are primarily in the form of GICs, HISAs, and deposit notes, provide a reliable and stable source of funding that can be matched against mortgage maturities. Total deposit principal was up \$0.9 billion or 11% over Q2 2015, commensurate with the growth of our Core Lending portfolio.

All of this growth was in our new savings product, the *EQ Bank Savings Plus Account*, and our brokered HISA product. *EQ Bank* deposits reached \$996 million and were up 25% from the prior quarter. Brokered HISA balances increased by \$422 million from last year to \$1.1 billion and were consistent with last quarter. The growth of these products has further diversified our funding sources and reduced our overall risk profile.

Brokered term deposit balances declined slightly to \$6.8 billion at the end of June 30, 2016 compared to a year ago (June 30, 2015 – \$7.3 billion) because of the growth in our savings account balances and other alternative sources of funding. Balances increased over last quarter (March 31, 2016 – \$6.6 billion) due to the high level of mortgage fundings in Q2.

EQ BANK – A NEW WAY OF BANKING with Equitable

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

In order to manage account growth and ensure we maintain our target high levels of service, we reduced the interest rate on the *EQ Bank Savings Plus Account* to 2.25% in mid-April. We implemented this change earlier than we had expected, but felt it was necessary given the operational challenges and costs associated with rapid account growth. Since the date of the change, we have still grown balances but at a more moderate rate and as a result have been able to maintain service quality at our target levels. Management continually evaluates our rate positioning and may make further changes in response to the competitive landscape and our growth, though we are committed to maintaining a highly attractive rate for Canadian consumers.

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

SECURITIZATION LIABILITIES

Securitization liability principal increased \$235 million or 4% over Q1 2016 and \$1.9 billion or 40% over Q2 2015. The increase from last year is largely due to the growth of our Prime Single Family business but also to a new funding program established in Q2 2015. This new program, which is sponsored by a major Canadian Schedule I Bank, provides Equitable with a source of matched funding for its uninsured single family mortgages. Once securitized, mortgages remain in the facility until they mature. Equitable bears no risk for the funding of the facility itself.

BANK FACILITIES AND DEBENTURES

The Bank has two revolving credit facilities with major Schedule I Canadian Banks to fund insured residential mortgages prior to securitization, with an aggregate capacity of \$700 million. At June 30, 2016, the balance outstanding on these facilities was \$170 million (March 31, 2016 – nil, June 30, 2015 – \$142 million).

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

CAPITAL MANAGEMENT – EQUITABLE BANK

We manage the Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP"). There have been no material changes to our capital management framework from that described in our 2015 Annual Report.

Management believes that the Bank's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Our capital ratios were relatively consistent with the prior quarter and Q2 of last year which reflects our strategy of retaining the vast majority of our earnings. Our Total Capital Ratio was down slightly from Q2 of last year because we redeemed \$20 million of Series 9 subordinated debentures in December 2015.

As with last quarter, capital levels in Q2 were impacted by \$28 million of after-tax mark-to-market losses on our preferred share portfolio and a \$14 million capital deduction for intangible assets related to our new product initiatives. Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale investments and do not believe that the assets are impaired. The losses are a function of current market conditions, specifically lower expectations for future yields on rate-reset preferred shares. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a risk of credit loss on our holdings.

Effective January 1, 2015, Canadian Banks were required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the Assets-to-Capital Multiple ("ACM") framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.0% at June 30, 2016 which makes the Bank fully compliant with all regulatory requirements. Our Leverage Ratio has been trending down in recent quarters due to the rapid growth of our insured Prime Single Family assets (which are almost zero risk weighted on average and therefore do not materially affect our other capital ratios). In order to manage our Leverage Ratio position, we executed transactions during Q2 that allowed us to derecognize assets from our Balance Sheet. We will continue to execute similar transactions in the future in order to maintain our Leverage Ratio at or above target levels.

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

Table 13: Capital measures of Equitable Bank⁽¹⁾

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	Jun 30, 2015
Total risk-weighted assets ("RWA")	\$ 5,664,575	\$ 5,433,025	\$ 4,983,762
Common Equity Tier 1 Capital:			
Common shares	147,096	146,640	144,276
Contributed surplus	6,191	6,027	5,732
Retained earnings	652,872	623,756	545,500
Accumulated other comprehensive (loss) income ("AOCI") ⁽²⁾	(26,392)	(26,605)	(13,023)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(14,495)	(13,951)	(12,088)
Common Equity Tier 1 Capital	765,272	735,867	670,397
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	837,826	808,421	742,951
Tier 2 Capital:			
Collective allowance	31,890	31,890	30,275
Subordinated debentures	65,000	65,000	85,000
Tier 2 Capital	96,890	96,890	115,275
Total Capital	\$ 934,716	\$ 905,311	\$ 858,226
Capital ratios: ⁽¹⁾			
CET1 Ratio	13.5%	13.5%	13.5%
Tier 1 Capital Ratio	14.8%	14.9%	14.9%
Total Capital Ratio	16.5%	16.7%	17.2%
Leverage Ratio	5.0%	5.0%	5.3%

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

⁽²⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of the CET1 in its entirety, however, the amount of cash flow hedge reserves that relates to the hedging of items that are not fair valued are excluded.

SUMMARY OF QUARTERLY RESULTS

Table 14 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in mortgage prepayment income and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 14: Summary of quarterly results

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
RESULTS OF OPERATIONS								
Net income	\$ 33,410	\$ 28,012	\$ 31,436	\$ 31,448	\$ 33,520	\$ 29,461	\$ 26,885	\$ 27,764
Net income available to common shareholders	32,219	26,821	30,245	30,257	32,330	28,270	24,993	26,857
EPS – basic	\$ 2.07	\$ 1.73	\$ 1.95	\$ 1.96	\$ 2.09	\$ 1.83	\$ 1.62	\$ 1.74
EPS – diluted	\$ 2.05	\$ 1.71	\$ 1.93	\$ 1.93	\$ 2.06	\$ 1.81	\$ 1.59	\$ 1.71
Net interest income ⁽¹⁾	67,010	63,594	63,458	61,437	60,995	56,337	54,220	51,716
NIM – TEB: ⁽²⁾⁽³⁾								
Total Assets	1.62%	1.63%	1.70%	1.73%	1.79%	1.73%	1.76%	1.76%
Core Lending	2.59%	2.55%	2.68%	2.59%	2.65%	2.60%	2.62%	2.66%
Securitization Financing	0.17%	0.25%	0.18%	0.28%	0.28%	0.23%	0.29%	0.27%
Total revenues ⁽¹⁾	162,861	151,691	151,495	147,625	145,595	137,279	134,928	131,900
ROE ⁽³⁾	17.1%	14.7%	17.0%	17.5%	19.8%	17.9%	16.0%	17.8%
Return on average assets ⁽³⁾	0.8%	0.7%	0.8%	0.9%	1.0%	0.9%	0.8%	0.9%
Efficiency Ratio – TEB ⁽³⁾	38.2%	43.2%	35.7%	33.4%	32.8%	32.4%	35.4%	31.5%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	952,937	674,417	719,361	744,416	641,095	568,278	758,442	645,842
Commercial Lending Services	323,061	201,849	259,502	235,987	199,977	207,767	253,961	193,668
Core Lending	1,275,998	876,266	978,863	980,403	841,072	776,045	1,012,403	839,510
Securitization Financing	745,409	693,127	759,258	790,022	555,272	468,722	576,527	479,104
Total originations	2,021,407	1,569,393	1,738,121	1,770,425	1,396,344	1,244,767	1,588,930	1,318,614
BALANCE SHEET								
Total assets	17,147,854	16,411,221	15,527,584	14,827,610	14,329,824	13,387,915	12,854,903	12,193,335
Mortgages receivable	16,244,106	15,540,241	14,700,806	13,959,432	13,216,267	12,785,852	12,269,945	11,555,700
MUM ⁽³⁾	18,723,056	17,668,821	16,706,935	15,917,079	15,059,846	14,437,643	13,759,706	12,897,244
Liquid assets ⁽³⁾	1,033,634	939,691	895,056	849,349	1,251,692	756,017	676,559	664,663
Shareholders' equity	843,924	816,049	796,116	764,679	750,149	723,606	703,694	682,863
SHARE CAPITAL								
Dividends declared per:								
Common share	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.18	\$ 0.17
Preferred share	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.63	\$ 0.45
Common shares outstanding:								
Weighted average basic	15,556,836	15,543,952	15,493,549	15,471,960	15,461,161	15,440,328	15,416,625	15,408,311
Weighted average diluted	15,709,456	15,674,734	15,677,954	15,661,842	15,687,647	15,660,067	15,683,821	15,672,253
Book value per common share	\$ 49.55	\$ 47.81	\$ 46.57	\$ 44.72	\$ 43.80	\$ 42.13	\$ 40.90	\$ 39.61

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

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

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

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q2 2016 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 to the audited consolidated financial statements in the Company's 2015 Annual Report.

FUTURE ACCOUNTING POLICIES

IFRS 9 "*Financial Instruments*" and IFRS 15 "*Revenue from Contracts with Customers*" are mandatorily effective for annual periods beginning on or after January 1, 2018 and IFRS 16 "*Leases*" is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the Q2 2016 interim consolidated financial statements for further details.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions in the process of applying its accounting policies to measure or disclose its financial results. Management is prudent in determining such estimates and assumptions, and where possible, relies on external information and observable market conditions, supplemented by internal analysis as required. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods. Refer to Note 2(d) to the Q2 2016 interim consolidated financial statements for further discussion.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our interim consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements in the Company's 2015 Annual Report) and letters of credit issued in the normal course of business.

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$2.6 billion at June 30, 2016 (March 31, 2016 – \$2.2 billion, June 30, 2015 – \$1.9 billion). The securitization liabilities associated with these transferred assets is approximately \$2.6 billion at June 30, 2016 (March 31, 2016 – \$2.2 billion, June 30, 2015 – \$1.9 billion). The securitization retained interests recorded with respect to certain securitization transactions were \$74.6 million (March 31, 2016 – \$66.7 million, June 30, 2015 – \$57.0 million) and the associated servicing liability was \$17.9 million at June 30, 2016 (March 31, 2016 – \$15.8 million, June 30, 2015 – \$13.7 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$1.1 billion of mortgages in the ordinary course of business at June 30, 2016 (March 31, 2016 – \$1.1 billion, June 30, 2015 – \$915 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of \$5.6 million were outstanding at June 30, 2016 (March 31, 2016 – \$8.4 million, June 30, 2015 – \$7.3 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in GIC deposits, subordinated debentures, HISA's, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 23 to the audit consolidated financial statements in the Company's 2015 Annual Report for further details.

RISK MANAGEMENT

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

The Company's business activities, including its use of financial instruments, exposes us to various risks, the most significant of which are credit risk, liquidity and funding risk, and market risk. For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management of the Company's 2015 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

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

The Company's primary lending business is providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses of this MD&A.

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 50% or \$61.7 million of the total equity securities portfolio at June 30, 2016, compared to 48% or \$66.8 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 99% of the total equity securities portfolio at the end of Q2.

LIQUIDITY AND FUNDING RISK

Liquidity and Funding risk is defined as the possibility that we will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet our financial obligations as they come due. These financial obligations mainly arise from the maturity of deposits, the maturity of mortgage backed securities and commitments to extend credit. Funding and Liquidity Risk may also be affected if an unduly large proportion of our deposit-taking business involves a single person, organization or group of related persons/organizations or a single geographic area.

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

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at June 30, 2016, see Note 19 to the interim consolidated financial statements.

Management 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. The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following June 30, 2016. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 15: Net interest income shock

(\$ THOUSANDS)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
Impact on net interest income	\$ 8,294	\$ (105)
Impact on EVE	(9,270)	14,099
EVE impact as a % of common shareholders' equity	(1.21%)	1.84%
200 basis point shift		
Impact on net interest income	\$ 14,357	\$ (105)
Impact on EVE	(16,911)	23,989
EVE impact as a % of common shareholders' equity	(2.20%)	3.13%

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

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

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

UPDATED SHARE INFORMATION

At August 11, 2016, the Company had 15,566,465 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 647,430 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$28.1 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying interim consolidated financial statements. Equitable has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying interim consolidated financial statements.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

Management uses a variety of financial measures to evaluate the Company's performance. In addition to GAAP prescribed measures, management uses certain non-GAAP measures that it believes provide useful information to investors regarding the Company's financial condition and results of operations. Readers are cautioned that non-GAAP measures often do not have any standardized meaning, and therefore, are unlikely to be comparable to similar measures presented by other companies. The primary non-GAAP measures used in this MD&A are:

- **Adjusted results:** in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company may present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Management believes that adjusted results as defined below can to some extent that enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. Adjusted results are also intended to provide the user with greater consistency and comparability to other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.
- **Assets Under Management ("AUM"):** is the sum of total assets reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change
Total assets on the consolidated balance sheet	\$ 17,147,854	\$ 16,411,221	4%	\$ 14,329,824	20%
Mortgage principal derecognized	2,561,763	2,204,797	16%	1,884,299	36%
Assets Under Management	\$ 19,709,617	\$ 18,616,018	6%	\$ 16,214,123	22%

- **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)	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change
Shareholders' equity	\$ 843,924	\$ 816,049	3%	\$ 750,149	13%
Less: preferred shares	72,557	72,557	0%	72,557	0%
Common shareholders' equity	\$ 771,367	\$ 743,492	4%	\$ 677,592	14%
Common shares outstanding	15,566,465	15,551,865	0%	15,469,787	1%
Book value per common share	\$ 49.55	\$ 47.81	4%	\$ 43.80	13%

- **Capital ratios:**

- **CET1 Ratio:** this key measure of capital strength is defined as CET1 as a percentage of total RWA. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI. CET1 is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income.
- **Tier 1 and Total Capital Ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1 or Total Capital by total RWA. Tier 1 Capital is calculated by adding non-cumulative preferred shares to CET1. Tier 2 Capital is equal to the sum of the Bank's collective allowance and subordinated debentures. Total Capital equals to Tier 1 plus Tier 2 Capital.
- **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.

The capital ratios are calculated on the "all-in" basis in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 13 of this MD&A.

- **Economic value of shareholders' equity ("EVE"):** is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than is in net interest income because it captures all interest rate mismatches across all terms.
- **Efficiency Ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower Efficiency Ratio reflects a more efficient cost structure.

(\$ THOUSANDS)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change	
Non-interest expenses	\$ 28,372	\$ 29,378	(3%)	\$ 21,710	31%	\$ 57,750	\$ 41,410	39%	
Net revenue	74,270	67,955	9%	66,210	12%	142,225	126,978	12%	
Efficiency Ratio	38.2%	43.2%	(5.0%)	32.8%	5.4%	40.6%	32.6%	8.0%	

- **Investments in our future:** is the portion of non-interest expenses spent on various strategic initiatives to enable future growth and maintain our superior level of service. In most cases, these investments are made ahead of associated benefits, and as such reduce our net income and elevate our Efficiency Ratio in the current year. A detailed calculation can be found in Tables 6 of this MD&A.
- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.
- **Liquidity Coverage Ratio ("LCR"):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Company's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It equals to high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.
- **Mortgages Under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

(\$ THOUSANDS)	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change
Mortgage principal reported on the consolidated balance sheet	\$ 16,161,293	\$ 15,464,024	5%	\$ 13,175,547	23%
Mortgage principal derecognized	2,561,763	2,204,797	16%	1,884,299	36%
Mortgages Under Management	\$ 18,723,056	\$ 17,668,821	6%	\$ 15,059,846	24%

- **Net interest margin (“NIM”):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total interest earning assets for the period. A detailed calculation can be found in Table 3 of this MD&A.
- **Net revenue:** is calculated as the sum of net interest income, other income, and the TEB adjustment.

(\$ THOUSANDS)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change	
Net interest income	\$ 67,010	\$ 63,594	5%	\$ 60,995	10%	\$ 130,604	\$ 117,332	11%	
Other income	6,422	3,737	72%	4,555	41%	10,159	8,362	21%	
TEB adjustment	838	624	34%	660	27%	1,462	1,284	14%	
Net revenue	\$ 74,270	\$ 67,955	9%	\$ 66,210	12%	\$ 142,225	\$ 126,978	12%	

- **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)	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change
Provision for credit losses	\$ 105	\$ 227	(54%)	\$ 830	(87%)
Divided by: average mortgage principal	15,812,659	15,049,236	5%	12,962,913	22%
Provision for credit losses rate	0.00%	0.01%	(0.01%)	0.03%	(0.03%)

- **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)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change	
Net income	\$ 33,410	\$ 28,012	19%	\$ 33,520	(0%)	\$ 61,422	\$ 62,981	(2%)	
Average total assets	16,938,901	15,946,958	6%	13,897,195	22%	16,447,460	13,554,886	21%	
Return on average assets	0.8%	0.7%	0.1%	1.0%	(0.2%)	0.7%	0.9%	(0.2%)	

- **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)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change	
Net income available to common shareholders	\$ 32,219	\$ 26,821	20%	\$ 32,330	(3%)	\$ 59,040	\$ 60,600	(3%)	
Weighted average common equity	757,004	733,489	3%	654,442	16%	747,052	664,281	12%	
Return on shareholders' equity	17.1%	14.7%	2.4%	19.8%	(3.1%)	15.9%	18.4%	(2.5%)	

- **Risk-weighted assets (“RWA”):** represents the Bank’s assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company. A detailed calculation can be found in Table 8 of this MD&A.

- **Taxable equivalent basis (“TEB”):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and Efficiency Ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the three months ended June 30, 2016 and June 30, 2015, the TEB adjustment was \$0.8 million and \$0.7 million. For the six months ended June 30, 2016, the TEB adjustment was \$1.5 million as compared to \$1.3 million for the same period in 2015.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“GAAP”) FINANCIAL MEASURES

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

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

(\$ THOUSANDS)	Three months ended						Six months ended	
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change
Interest income	\$ 156,439	\$ 147,954	6%	\$ 141,040	11%	\$ 304,393	\$ 274,512	11%
Less: interest expense	89,429	84,360	6%	80,045	12%	173,789	157,180	11%
Net interest income	\$ 67,010	\$ 63,594	5%	\$ 60,995	10%	\$ 130,604	\$ 117,332	11%

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

(\$ THOUSANDS)	Three months ended						Six months ended		
	Jun 30, 2016	Mar 31, 2016	% Change	Jun 30, 2015	% Change	Jun 30, 2016	Jun 30, 2015	% Change	
Interest income	\$ 156,439	\$ 147,954	6%	\$ 141,040	11%	\$ 304,393	\$ 274,512	11%	
Other income	6,422	3,737	72%	4,555	41%	10,159	8,362	21%	
Total revenue	\$ 162,861	\$ 151,691	7%	\$ 145,595	12%	\$ 314,552	\$ 282,874	11%	

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT JUNE 30, 2016

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

(\$ THOUSANDS)

	Note	June 30, 2016	December 31, 2015	June 30, 2015
Assets:				
Cash and cash equivalents		\$ 336,237	\$ 423,366	\$ 631,917
Restricted cash		150,691	107,988	107,338
Securities purchased under reverse repurchase agreements		150,906	19,918	102,025
Investments	6	130,770	153,714	163,390
Mortgages receivable – Core Lending	7, 8	9,591,449	8,674,599	8,229,510
Mortgages receivable – Securitization Financing	7, 8	6,652,657	6,026,207	4,986,757
Securitization retained interests	8	74,563	61,650	56,982
Other assets	10	60,581	60,142	51,905
		\$ 17,147,854	\$ 15,527,584	\$ 14,329,824
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	11	\$ 9,148,025	\$ 8,211,265	\$ 8,236,361
Securitization liabilities	8	6,807,964	6,109,436	4,870,987
Obligations under repurchase agreements	8	-	-	167,767
Deferred tax liabilities	12	33,663	28,698	20,747
Other liabilities	13	79,278	81,290	57,011
Bank facilities	14	170,000	235,779	141,802
Debentures		65,000	65,000	85,000
		16,303,930	14,731,468	13,579,675
Shareholders' equity:				
Preferred shares	15	72,557	72,557	72,557
Common shares	15	144,615	143,690	141,794
Contributed surplus	16	5,099	4,706	4,640
Retained earnings		658,098	605,436	550,979
Accumulated other comprehensive loss		(36,445)	(30,273)	(19,821)
		843,924	796,116	750,149
		\$ 17,147,854	\$ 15,527,584	\$ 14,329,824

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2016

With comparative figures for the three and six month periods ended June 30, 2015

(\$THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended		Six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Interest income:					
Mortgages – Core Lending		\$ 107,544	\$ 98,146	\$ 208,963	\$ 191,479
Mortgages – Securitization Financing		45,296	39,066	88,903	76,362
Investments		2,372	2,102	4,248	3,680
Other		1,227	1,726	2,279	2,991
		156,439	141,040	304,393	274,512
Interest expense:					
Deposits		46,084	43,226	89,743	85,054
Securitization liabilities	8	41,354	34,120	80,539	67,122
Bank facilities		1,040	885	1,606	1,499
Debentures		950	1,269	1,900	2,546
Other		1	545	1	959
		89,429	80,045	173,789	157,180
Net interest income		67,010	60,995	130,604	117,332
Provision for credit losses	7	105	830	332	1,644
Net interest income after provision for credit losses		66,905	60,165	130,272	115,688
Other income:					
Fees and other income		3,781	2,534	6,958	4,842
Net gain (loss) on investments		747	(247)	747	(450)
Gains on securitization activities and income from securitization retained interests	8	1,894	2,268	2,454	3,970
		6,422	4,555	10,159	8,362
Net interest and other income		73,327	64,720	140,431	124,050
Non-interest expenses:					
Compensation and benefits		15,882	12,804	30,860	24,190
Other		12,490	8,906	26,890	17,220
		28,372	21,710	57,750	41,410
Income before income taxes		44,955	43,010	82,681	82,640
Income taxes:					
Current	12	7,875	7,250	16,294	13,859
Deferred		3,670	2,240	4,965	5,800
		11,545	9,490	21,259	19,659
Net income		\$ 33,410	\$ 33,520	\$ 61,422	\$ 62,981
Earnings per share:	17				
Basic		\$ 2.07	\$ 2.09	\$ 3.80	\$ 3.92
Diluted		\$ 2.05	\$ 2.06	\$ 3.76	\$ 3.87

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2016

With comparative figures for the three and six month periods ended June 30, 2015

(\$ THOUSANDS)

	Note	Three months ended		Six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income		\$ 33,410	\$ 33,520	\$ 61,422	\$ 62,981
Other comprehensive income – items that may be reclassified subsequently to income:					
Available for sale investments:					
Net unrealized gains (losses) from change in fair value		1,086	(6,451)	(4,455)	(12,753)
Reclassification of net (gains) losses to income		(795)	(16)	(901)	359
		291	(6,467)	(5,356)	(12,394)
Income tax (expense) recovery		(77)	1,707	1,422	3,272
		214	(4,760)	(3,934)	(9,122)
Cash flow hedges:	9				
Net unrealized (losses) gains from change in fair value		(3,404)	842	(4,828)	(2,674)
Reclassification of net losses to income		802	825	1,780	1,457
		(2,602)	1,667	(3,048)	(1,217)
Income tax recovery (expense)		692	(440)	810	321
		(1,910)	1,227	(2,238)	(896)
Total other comprehensive loss		(1,696)	(3,533)	(6,172)	(10,018)
Total comprehensive income		\$ 31,714	\$ 29,987	\$ 55,250	\$ 52,963

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2016

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

(\$ THOUSANDS)

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
June 30, 2016								
Balance, beginning of period	\$ 72,557	\$ 144,159	\$ 4,935	\$ 629,147	\$ (8,143)	\$ (26,606)	\$ (34,749)	\$ 816,049
Net income	-	-	-	33,410	-	-	-	33,410
Other comprehensive income (loss), net of tax	-	-	-	-	(1,910)	214	(1,696)	(1,696)
Exercise of stock options	-	364	-	-	-	-	-	364
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(3,268)	-	-	-	(3,268)
Stock-based compensation	-	-	256	-	-	-	-	256
Transfer relating to the exercise of stock options	-	92	(92)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 144,615	\$ 5,099	\$ 658,098	\$ (10,053)	\$ (26,392)	\$ (36,445)	\$ 843,924

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
June 30, 2015								
Balance, beginning of period	\$ 72,557	\$ 141,245	\$ 4,505	\$ 521,587	\$ (8,025)	\$ (8,263)	\$ (16,288)	\$ 723,606
Net income	-	-	-	33,520	-	-	-	33,520
Other comprehensive income (loss), net of tax	-	-	-	-	1,227	(4,760)	(3,533)	(3,533)
Exercise of stock options	-	445	-	-	-	-	-	445
Dividends:								
Preferred shares	-	-	-	(1,190)	-	-	-	(1,190)
Common shares	-	-	-	(2,938)	-	-	-	(2,938)
Stock-based compensation	-	-	239	-	-	-	-	239
Transfer relating to the exercise of stock options	-	104	(104)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 141,794	\$ 4,640	\$ 550,979	\$ (6,798)	\$ (13,023)	\$ (19,821)	\$ 750,149

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2016

With comparative figures for the six month period ended June 30, 2015

(\$ THOUSANDS)

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
June 30, 2016								
Balance, beginning of period	\$ 72,557	\$ 143,690	\$ 4,706	\$ 605,436	\$ (7,815)	\$ (22,458)	\$ (30,273)	\$ 796,116
Net income	-	-	-	61,422	-	-	-	61,422
Other comprehensive loss, net of tax	-	-	-	-	(2,238)	(3,934)	(6,172)	(6,172)
Exercise of stock options	-	743	-	-	-	-	-	743
Dividends:								
Preferred shares	-	-	-	(2,382)	-	-	-	(2,382)
Common shares	-	-	-	(6,378)	-	-	-	(6,378)
Stock-based compensation	-	-	575	-	-	-	-	575
Transfer relating to the exercise of stock options	-	182	(182)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 144,615	\$ 5,099	\$ 658,098	\$ (10,053)	\$ (26,392)	\$ (36,445)	\$ 843,924

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
June 30, 2015								
Balance, beginning of period	\$ 72,412	\$ 140,657	\$ 4,331	\$ 496,097	\$ (5,902)	\$ (3,901)	\$ (9,803)	\$ 703,694
Net income	-	-	-	62,981	-	-	-	62,981
Other comprehensive income (loss), net of tax	-	-	-	-	(896)	(9,122)	(10,018)	(10,018)
Issuance cost	145	-	-	-	-	-	-	145
Exercise of stock options	-	939	-	-	-	-	-	939
Dividends:								
Preferred shares	-	-	-	(2,381)	-	-	-	(2,381)
Common shares	-	-	-	(5,718)	-	-	-	(5,718)
Stock-based compensation	-	-	507	-	-	-	-	507
Transfer relating to the exercise of stock options	-	198	(198)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 141,794	\$ 4,640	\$ 550,979	\$ (6,798)	\$ (13,023)	\$ (19,821)	\$ 750,149

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2016

With comparative figures for the three and six month periods ended June 30, 2015

(\$ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 33,410	\$ 33,520	\$ 61,422	\$ 62,981
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	(91)	7,880	(1,009)	4,642
Amortization of premiums/discount on investments	137	203	279	399
Amortization of capital assets and intangible costs	1,918	911	3,795	1,657
Provision for credit losses	105	830	332	1,644
Securitization gains	(1,894)	(1,703)	(3,513)	(3,233)
Net (gain) loss on sale or redemption of investments	(747)	247	(747)	450
Stock-based compensation	256	239	575	507
Income taxes	11,545	9,490	21,259	19,659
Changes in operating assets and liabilities:				
Restricted cash	(21,238)	(43,221)	(42,703)	(39,648)
Securities purchased under reverse repurchase agreements	(120,561)	(91,490)	(130,989)	(83,908)
Mortgages receivable, net of securitizations	(713,509)	(437,111)	(1,559,754)	(961,664)
Other assets	51	2,606	367	1,948
Deposits	303,535	487,317	938,037	744,018
Securitization liabilities	231,787	413,227	698,528	515,659
Obligations under repurchase agreements	-	(57,930)	-	115,354
Bank facilities	170,000	74,716	(65,779)	49,566
Other liabilities	(1,947)	(3,410)	(4,211)	(5,335)
Income taxes paid	(4,634)	(8,089)	(11,454)	(18,941)
Securitization retained interests	3,689	2,594	7,003	4,867
Cash flows (used in) from operating activities	(108,188)	390,826	(88,562)	410,622
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid on preferred shares	(1,191)	(1,190)	(2,382)	(2,381)
Dividends paid on common shares	(3,109)	(2,780)	(6,215)	(2,780)
Issue of preferred shares, net of issuance cost	-	-	-	145
Proceeds from issuance of common shares	364	445	743	939
Cash flows used in financing activities	(3,936)	(3,525)	(7,854)	(4,077)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(2,592)	(6,783)	(15,436)
Proceeds on sale or redemption of investments	23,538	5,307	23,608	8,805
Net change in Canada Housing Trust re-investment accounts	29	3,954	49	11,795
Purchase of capital assets and system development costs	(3,006)	(5,687)	(7,587)	(9,855)
Cash flows from (used in) investing activities	20,561	982	9,287	(4,691)
Net (decrease) increase in cash and cash equivalents	(91,563)	388,283	(87,129)	401,854
Cash and cash equivalents, beginning of period	427,800	243,634	423,366	230,063
Cash and cash equivalents, end of period	\$ 336,237	\$ 631,917	\$ 336,237	\$ 631,917
Cash flows from operating activities include:				
Interest received	\$ 154,482	\$ 141,973	\$ 300,447	\$ 273,511
Interest paid	(98,723)	(88,838)	(156,744)	(147,968)
Dividends received	2,347	7,600	4,101	9,365

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

Note 1 – Reporting Entity

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, Equitable Bank. The Company is listed on the Toronto Stock Exchange ("TSX") and domiciled in Canada with its registered office located at 30 St. Clair Avenue West, Suite 700, Toronto, Ontario. Equitable Bank is a Schedule I Bank under the Bank Act (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Equitable Bank offers savings and mortgage lending products to retail and commercial customers across Canada.

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2015 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on August 11, 2016.

(b) Basis of measurement:

The interim consolidated financial statements have been prepared on the historical cost basis except for the following items which are stated at fair value: derivative financial instruments, financial assets and liabilities that are classified or designated as at fair value through income and available for sale financial assets.

(c) Functional currency:

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

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

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

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgages receivable, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

(e) Consolidation:

The interim consolidated financial statements as at and for the three months ended June 30, 2016 and June 30, 2015 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

Accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 of the audited consolidated financial statements in the Company's 2015 Annual Report.

Future accounting policies:

(a) Financial Instruments (IFRS 9)

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

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

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

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers, which is effective for fiscal years beginning on January 1, 2017 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

(c) Leases (IFRS 16)

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

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

Note 4 – Risk Management

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

Note 5 – Financial Instruments

The Company's business activities result in a consolidated balance sheet that consists primarily of financial instruments. The majority of the Company's net income is derived from gains, losses, income and expenses related to these financial assets and liabilities.

(a) Valuation methods and assumptions:

Valuation methods and assumptions used to estimate fair values of financial instruments are as follows:

(i) Financial instruments whose cost or amortized cost approximates fair value

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

Securities purchased under reverse repurchase agreements, obligations under repurchase agreements, bank facilities and certain other financial assets and liabilities are carried at cost or amortized cost, which approximates fair value.

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

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

(iii) Mortgages receivable

The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates offered for mortgages with similar terms and credit risks.

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Debentures

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2016

(vii) Derivatives

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

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

	June 30, 2016							
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value	
Financial assets:								
Cash and cash equivalents	\$ 336,237	\$ -	\$ -	\$ -	\$ -	\$ 336,237	\$ 336,237	
Restricted cash	150,691	-	-	-	-	150,691	150,691	
Securities purchased under reverse repurchase agreements	-	-	-	-	150,906	150,906	150,906	
Investments	324	-	2,347	127,099	1,000	130,770	130,770	
Mortgages receivable – Core Lending	-	46,798	-	-	9,544,651	9,591,449	9,668,807	
Mortgages receivable – Securitization Financing	31,037	-	-	-	6,621,620	6,652,657	6,869,262	
Securitization retained interests	-	-	-	74,563	-	74,563	74,563	
Other assets:								
Derivative financial instruments – interest rate swaps	550	-	-	-	-	550	550	
Mortgage commitments	118	-	-	-	-	118	118	
Other	-	-	-	-	9,798	9,798	9,798	
Total financial assets	\$ 518,957	\$ 46,798	\$ 2,347	\$ 201,662	\$ 16,327,975	\$ 17,097,739	\$ 17,391,702	
Financial liabilities:								
Deposits	\$ -	\$ 44,944	\$ -	\$ -	\$ 9,103,081	\$ 9,148,025	\$ 9,169,673	
Securitization liabilities	-	-	-	-	6,807,964	6,807,964	6,975,253	
Other liabilities:								
Derivative financial instruments – bond forwards	3,844	-	-	-	-	3,844	3,844	
Derivative financial instruments – interest rate swaps	247	-	-	-	-	247	247	
Derivative financial instruments – total return swaps	418	-	-	-	-	418	418	
Other	-	-	-	-	74,259	74,259	74,259	
Bank facilities	-	-	-	-	170,000	170,000	170,000	
Debentures	-	-	-	-	65,000	65,000	65,669	
Total financial liabilities	\$ 4,509	\$ 44,944	\$ -	\$ -	\$ 16,220,304	\$ 16,269,757	\$ 16,459,364	

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2016

December 31, 2015

	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	\$ 423,366	\$ -	\$ -	\$ -	\$ -	\$ 423,366	\$ 423,366
Restricted cash	107,988	-	-	-	-	107,988	107,988
Securities purchased under reverse repurchase agreements	-	-	-	-	19,918	19,918	19,918
Investments	891	-	2,395	149,428	1,000	153,714	153,714
Mortgages receivable – Core Lending	-	47,707	-	-	8,626,892	8,674,599	8,706,580
Mortgages receivable – Securitization Financing	45,019	-	-	-	5,981,188	6,026,207	6,214,016
Securitization retained interests	-	-	-	61,650	-	61,650	61,650
Other assets:							
Derivative financial instruments – interest rate swaps	990	-	-	-	-	990	990
Mortgage commitments	2	-	-	-	-	2	2
Other	-	-	-	-	8,216	8,216	8,216
Total financial assets	\$ 578,256	\$ 47,707	\$ 2,395	\$ 211,078	\$ 14,637,214	\$ 15,476,650	\$ 15,696,440
Financial liabilities:							
Deposits	\$ -	\$ 45,431	\$ -	\$ -	\$ 8,165,834	\$ 8,211,265	\$ 8,240,920
Securitization liabilities	-	-	-	-	6,109,436	6,109,436	6,237,077
Other liabilities:							
Derivative financial instruments – bond forwards	1,592	-	-	-	-	1,592	1,592
Derivative financial instruments – total return swaps	879	-	-	-	-	879	879
Other	-	-	-	-	78,510	78,510	78,510
Bank Facilities	-	-	-	-	235,779	235,779	235,779
Debentures	-	-	-	-	65,000	65,000	65,987
Total financial liabilities	\$ 2,471	\$ 45,431	\$ -	\$ -	\$ 14,654,559	\$ 14,702,461	\$ 14,860,744

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

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

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 127,423	\$ 2,347	\$ 1,000	\$ 130,770
Mortgages receivable – Core Lending	-	46,798	9,622,009	9,668,807
Mortgages receivable – Securitization Financing	-	31,037	6,838,225	6,869,262
Securitization retained interests	-	74,563	-	74,563
Other assets:				
Derivative financial instruments – interest rate swaps	-	-	550	550
Mortgage commitments	-	-	118	118
Total financial assets	\$ 127,423	\$ 154,745	\$ 16,461,902	\$ 16,744,070
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 9,169,673	\$ 9,169,673
Securitization liabilities	-	1,504,886	5,470,367	6,975,253
Other liabilities:				
Derivative financial instruments – bond forwards	-	3,844	-	3,844
Derivative financial instruments – interest rate swaps	-	247	-	247
Derivative financial instruments – total return swaps	-	418	-	418
Debentures	-	65,669	-	65,669
Total financial liabilities	\$ -	\$ 1,575,064	\$ 14,640,040	\$ 16,215,104

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2016

Note 6 – Investments

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

	June 30, 2016	December 31, 2015	June 30, 2015
Debt securities guaranteed by Government of Canada	\$ 3,968	\$ 16,295	\$ 20,585
Debt securities – corporate debt	1,000	1,000	1,000
Equity securities – preferred shares	123,039	133,053	138,481
Equity securities – common shares	417	971	865
Canada Housing Trust re-investment accounts ⁽¹⁾⁽²⁾	2,346	2,395	2,459
	\$ 130,770	\$ 153,714	\$ 163,390

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

⁽²⁾ Excludes reverse repurchase agreements of nil (December 31, 2015 – nil, June 30, 2015 – \$1,730) which are included under Securities purchased under reverse repurchase agreements.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Debt securities guaranteed by Government of Canada	\$ 233	\$ 1,127	\$ 1,408
Equity securities – preferred shares	(38,181)	(33,111)	(20,478)
Equity securities – common shares	38	25	-
	\$ (37,910)	\$ (31,959)	\$ (19,070)

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

SIX MONTH PERIOD ENDED June 30, 2016

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

June 30, 2016	Allowance for credit losses					Net amount
	Gross amount	Individual	Collective	Total		
Mortgages – Core Lending	\$ 9,594,026	\$ 562	\$ 31,890	\$ 32,452	\$	9,561,574
Mortgages – Securitization Financing	6,640,669	-	-	-		6,640,669
Accrued interest	42,651	788	-	788		41,863
	\$ 16,277,346	\$ 1,350	\$ 31,890	\$ 33,240	\$	16,244,106

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

June 30, 2015	Allowance for credit losses					Net amount
	Gross amount	Individual	Collective	Total		
Mortgages – Core Lending	\$ 8,235,443	\$ 1,908	\$ 30,823	\$ 32,731	\$	8,202,712
Mortgages – Securitization Financing	4,975,427	-	-	-		4,975,427
Accrued interest	39,404	1,276	-	1,276		38,128
	\$ 13,250,274	\$ 3,184	\$ 30,823	\$ 34,007	\$	13,216,267

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale but not yet sold of \$566,636 (December 31, 2015 – \$484,233, June 30, 2015 – \$373,302) of which \$31,037 (December 31, 2015 – \$45,019, June 30, 2015 – \$24,493) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment as at June 30, 2016 is \$664 (December 31, 2015 – (\$206), June 30, 2015 – (\$31)).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at June 30, 2016, mortgage principal outstanding for these mortgages was \$45,568 (December 31, 2015 – \$46,120, June 30, 2015 – \$46,657) and the fair value adjustment was \$1,230 (December 31, 2015 – \$1,587, June 30, 2015 – \$1,862).

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

	June 30, 2016	June 30, 2015
Net gain (loss) in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	\$ 458	\$ (249)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	(357)	(80)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
SIX MONTH PERIOD ENDED June 30, 2016

At June 30, 2016, the Company had commitments to fund a total of \$1,072,817 (December 31, 2015 – \$1,009,763, June 30, 2015 – \$914,773) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest. As a matter of practice, a conventional mortgage is deemed to be impaired at the earlier of the date it has been individually provided for or when contractual payments are past due 90 days. Insured mortgages are considered impaired when they are contractually past due 365 days; however, management does not anticipate credit losses on such mortgages as they are insured.

As at June 30, 2016, accrued interest on impaired mortgages amounted to \$1,180 (December 31, 2015 – \$902, June 30, 2015 – \$1,343).

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

	June 30, 2016			December 31, 2015	June 30, 2015
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	\$ 33,308	\$ 1,350	\$ 31,958	\$ 32,760	\$ 24,382
Mortgages – Core Lending – Insured	223	-	223	97	-
	\$ 33,531	\$ 1,350	\$ 32,181	\$ 32,857	\$ 24,382

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

	June 30, 2016			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 36,294	\$ 15,862	\$ -	\$ 52,156
Mortgages – Core Lending – Insured	-	-	1,352	1,352
Mortgages – Securitization Financing – Insured	5,987	1,135	109	7,231
	\$ 42,281	\$ 16,997	\$ 1,461	\$ 60,739

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

(c) Allowance for credit losses:

	June 30, 2016		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 1,326	\$ 31,890	\$ 33,216
Provision for credit losses	332	-	332
Realized losses	(365)	-	(365)
Recoveries	57	-	57
Balance, end of period	\$ 1,350	\$ 31,890	\$ 33,240

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2016

	June 30, 2015		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,937	\$ 29,510	\$ 33,447
Provision for credit losses	331	1,313	1,644
Realized losses	(1,106)	-	(1,106)
Recoveries	22	-	22
Balance, end of period	\$ 3,184	\$ 30,823	\$ 34,007

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2015 Annual Report.

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

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

	June 30, 2016		December 31, 2015		June 30, 2015	
	Securitized assets	Obligations under repurchase agreements	Securitized assets	Obligations under repurchase agreements	Securitized assets	Obligations under repurchase agreements
Carrying amount of assets	\$ 7,284,602	\$ -	\$ 6,469,248	\$ -	\$ 5,387,421	\$ 167,767
Carrying amount of associated liability	6,807,964	-	6,109,436	-	4,870,987	167,767
Carrying amount, net position	\$ 476,638	\$ -	\$ 359,812	\$ -	\$ 516,434	\$ -
Fair value of assets	\$ 7,502,060	\$ -	\$ 6,659,389	\$ -	\$ 5,328,562	\$ 167,767
Fair value of associated liability	6,975,253	-	6,237,077	-	5,053,877	167,767
Fair value, net position	\$ 526,807	\$ -	\$ 422,312	\$ -	\$ 274,685	\$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of \$420,375 (December 31, 2015 – \$290,434, June 30, 2015 – \$503,945). The fair value of these assets are \$421,772 (December 31, 2015 – \$291,826, June 30, 2015 – \$506,323).

The carrying amount of assets exclude mortgages held for securitization of \$566,552 (December 31, 2015 – \$484,778, June 30, 2015 – \$373,735).

The Company's outstanding securitization liabilities are as follows:

	June 30, 2016	December 31, 2015	June 30, 2015
Securitization principal	\$ 6,835,440	\$ 6,137,734	\$ 4,887,868
Deferred net discount and issuance costs	(40,851)	(40,974)	(28,263)
Accrued interest	13,375	12,676	11,382
Total	\$ 6,807,964	\$ 6,109,436	\$ 4,870,987

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

SIX MONTH PERIOD ENDED June 30, 2016

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

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

	June 30, 2016	June 30, 2015
Mortgages securitized and sold	\$ 530,063	\$ 394,851
Carrying value of Securitization retained interests	19,321	16,593
Carrying value of Securitized mortgage servicing liability	5,100	3,699
Gains on mortgages securitized and sold	3,513	3,233
Income from securitization activities and retained interests	(1,059)	737

During the period, the Company has entered into transactions to transfer substantially all the risks and rewards of securitized prepayable multi-residential mortgages to third parties. As a result, the Company has derecognized \$253,000 of multi-residential mortgages and recorded a gain on sale of \$500 which is included under Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

Note 9 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond forwards and interest swaps to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

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

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

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

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Fair value hedges

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

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

(b) Other derivatives:

Total return swaps

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

(c) Financial impact of derivatives:

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

Derivative instrument and term (years)	June 30, 2016			
	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	\$ 244,594	\$ -	\$ (2,924)	\$ (2,924)
Interest rate swaps – hedge accounting				
1 to 5	180,123	-	(247)	(247)
Total return swaps – hedge accounting				
1 or less	1,094	-	(166)	(166)
1 to 5	3,335	-	(112)	(112)
Total return swaps – non-hedge accounting				
1 or less	1,799	-	(55)	(55)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 to 5	100,000	550	-	550
Bond forwards – non-hedge accounting				
1 or less	55,900	-	(920)	(920)
Other derivatives:				
Total return swaps				
1 to 5	200,192	-	(52)	(52)
5 and above	60,312	-	(33)	(33)
	\$ 847,349	\$ 550	\$ (4,509)	\$ (3,959)

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

SIX MONTH PERIOD ENDED June 30, 2016

December 31, 2015				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	\$ 210,125	\$ -	\$ (1,287)	\$ (1,287)
Total return swaps – hedge accounting				
1 or less	1,379	-	(33)	(33)
1 to 5	2,725	-	(469)	(469)
Total return swaps – non-hedge accounting				
1 or less	1,941	-	(377)	(377)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 to 5	100,000	990	-	990
Bond forwards – non-hedge accounting				
1 or less	52,040	-	(305)	(305)
	\$ 368,210	\$ 990	\$ (2,471)	\$ (1,481)
June 30, 2015				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	\$ 216,981	\$ -	\$ (581)	\$ (581)
Total return swaps – hedge accounting				
1 or less	21	-	(49)	(49)
1 to 5	44	-	(101)	(101)
Total return swaps – non-hedge accounting				
1 or less	30	-	(69)	(69)
Fair value hedges:				
Interest rate swaps - hedge accounting				
1 or less	40,000	21	-	21
1 to 5	100,000	1,224	-	1,224
Bond forwards				
1 or less	33,550	-	(70)	(70)
	\$ 390,626	\$ 1,245	\$ (870)	\$ 375

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2016

Cash flow hedges:

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

	June 30, 2016	June 30, 2015
Fair value changes recorded in Other comprehensive income	\$ (3,048)	\$ (1,217)
Fair value changes recorded in Income	(1,380)	123
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(1,772)	(1,445)
Amounts reclassified from Other comprehensive income to Interest expense – deposits	(19)	-
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	9	(12)

Fair value hedges:

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

	June 30, 2016	June 30, 2015
Interest rate swaps – hedge accounting	\$ (440)	\$ 2,687
Interest rate swaps – non-hedge accounting	-	(6)
Bond forwards	(683)	178
Changes in fair value recognized in income	\$ (1,123)	\$ 2,859

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
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Note 10 – Other Assets

	June 30, 2016	December 31, 2015	June 30, 2015
Intangible assets	\$ 18,714	\$ 18,836	\$ 16,005
Capital assets	18,481	14,369	7,824
Real estate owned	7,234	8,200	6,717
Prepaid expenses and other	7,074	8,223	8,149
Receivables relating to securitization activities	6,507	5,524	5,105
Accrued interest and dividends on non-mortgage assets	980	420	361
Income taxes recoverable	923	3,578	6,416
Derivative financial instruments – interest rate swaps	550	990	1,245
Mortgage commitments	118	2	83
	\$ 60,581	\$ 60,142	\$ 51,905

Capital assets include leasehold improvements of \$11,000 (December 31, 2015 – \$6,320, June 30, 2015 – \$1,340) related to an expansion and renovation of the Company's leased head office premises in Toronto.

Note 11 – Deposits

	June 30, 2016	December 31, 2015	June 30, 2015
Term and other deposits	\$ 9,048,465	\$ 8,115,483	\$ 8,128,474
Accrued interest	116,687	113,563	126,380
Deferred deposit agent commissions	(17,127)	(17,781)	(18,493)
	\$ 9,148,025	\$ 8,211,265	\$ 8,236,361

Term and other deposits also include \$44,717 (December 31, 2015 – \$45,193, June 30, 2015 – \$46,268) of deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at June 30, 2016 is \$228 (December 31, 2015 – \$238, June 30, 2015 – \$160).

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

	June 30, 2016	June 30, 2015
Fair value gain (loss) recognized in income	\$ 10	\$ (269)

Term and other deposits also include \$100,000 (December 31, 2015 – \$100,000, June 30, 2015 – \$139,210) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at June 30, 2016 is \$516 (December 31, 2015 – \$946, June 30, 2015 – \$1,193).

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

	June 30, 2016	June 30, 2015
Fair value gain (loss) recognized in income	\$ 430	\$ (2,657)

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
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Note 12 – Income Taxes

(a) Income tax provision:

	June 30, 2016	June 30, 2015
Current tax expense:		
Current period	\$ 16,079	\$ 13,919
Adjustments for prior years	215	(60)
	16,294	13,859
Deferred tax expense:		
Reversal of temporary differences	5,065	5,764
Adjustments for prior years	(101)	(59)
Change in tax rates	1	95
	4,965	5,800
Total income tax expense	\$ 21,259	\$ 19,659

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

	June 30, 2016	June 30, 2015
Canadian statutory income tax rate	26.5%	26.5%
Increase (decrease) resulting from:		
Tax-exempt income	(1.3%)	(3.0%)
Future tax rate changes	-	0.1%
Non-deductible expenses and other	0.5%	0.2%
Effective income tax rate	25.7%	23.8%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	June 30, 2016	December 31, 2015	June 30, 2015
Deferred income tax assets:			
Allowance for credit losses	\$ 8,502	\$ 8,502	\$ 8,270
Share issue expenses	835	1,011	1,180
Other	1,446	1,248	1,317
	10,783	10,761	10,767
Deferred income tax liabilities:			
Securitization activities	21,727	19,310	16,702
Deposit agent commissions	4,502	4,638	4,786
Net mortgage fees	13,070	10,264	6,018
Intangible costs	4,024	3,645	-
Other	1,123	1,602	4,008
	44,446	39,459	31,514
Net deferred income tax liabilities	\$ 33,663	\$ 28,698	\$ 20,747

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

SIX MONTH PERIOD ENDED June 30, 2016

Note 13 – Other Liabilities

	June 30, 2016	December 31, 2015	June 30, 2015
Accounts payable, accrued and other liabilities	\$ 33,263	\$ 24,999	\$ 23,486
Mortgagor realty taxes	23,614	39,268	19,003
Securitized mortgage servicing liability	17,892	14,552	13,652
Derivative financial instruments – bond forwards	3,844	1,592	651
Derivative financial instruments – total return swaps	418	879	219
Derivative financial instruments – interest rate swaps	247	-	-
	\$ 79,278	\$ 81,290	\$ 57,011

Note 14 – Bank Facilities

The Company has credit facilities totaling \$700K with two major Schedule I Canadian Banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at June 30, 2016 is \$170,000 (December 31, 2015 – \$235,779, June 30, 2015 – \$141,802). For further details on bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2015 Annual Report.

Note 15 – Shareholders' Equity

Capital stock:

Authorized:

- Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1, par value \$25.00 per share
- Unlimited number of non-cumulative floating rate preferred shares, Series 2, par value \$25.00 per share
- Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 3, par value \$25.00 per share
- Unlimited number of non-cumulative floating rate preferred shares, Series 4, par value \$25.00 per share
- Unlimited number of common shares, no par value

Issued and outstanding shares:

	June 30, 2016			June 30, 2015		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Preferred Shares, Series 3	3,000,000	\$ 72,557	\$ 0.79	3,000,000	\$ 72,557	\$ 0.79
Common shares:						
Balance, beginning of period	15,538,605	\$ 143,690		15,435,356	\$ 140,657	
Contributions from exercise of stock options	27,860	743		34,431	939	
Transferred from contributed surplus relating to the exercise of stock options	-	182		-	198	
Balance, end of period	15,566,465	\$ 144,615	\$ 0.41	15,469,787	\$ 141,794	\$ 0.37

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

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(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AND STOCK OPTION AMOUNTS)
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Note 16 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of six to seven years and vest over a four or five-year period. As at June 30, 2016, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2023. A summary of the Company's stock option activity and related information for the periods ended June 30, 2016 and June 30, 2015 is as follows:

	June 30, 2016		June 30, 2015	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	540,236	\$ 40.12	544,449	\$ 33.52
Granted	136,239	53.15	101,695	59.98
Exercised	(27,860)	26.68	(34,431)	27.26
Forfeited/cancelled	(1,185)	52.90	(6,914)	63.78
Outstanding, end of period	647,430	\$ 43.42	604,799	\$ 37.98
Exercisable, end of period	349,731	\$ 35.13	299,715	\$ 29.67

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$575 (June 30, 2015 – \$507) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended June 30, 2016 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	June 30, 2016	June 30, 2015
Risk-free rate	0.5%	0.7%
Expected option life (years)	4.8	4.8
Expected volatility	25.9%	22.4%
Expected dividends	1.3%	1.1%
Weighted average fair value of each option granted	\$ 9.0	\$ 10.6

(b) Employee share purchase ("ESP") plan:

The Company has an ESP plan for eligible employees. Under the plan, eligible employees can contribute between 1% and 10% of their annual base salary towards the purchase of common shares of the Company. For each eligible contribution, the Company contributes 50% of the employee's contribution to purchase common shares of the Company up to a certain maximum per employee.

During the period ended June 30, 2016, the Company expensed \$354 (June 30, 2015 – \$273) under this plan.

(c) Deferred share unit ("DSU") plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. For further details, refer to Note 19 to the audited consolidated financial statements in the Company's 2015 Annual Report.

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

	June 30, 2016	June 30, 2015
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	30,133	24,709
Granted	6,332	5,117
Dividends reinvested	202	148
Settled	(5,022)	-
Outstanding, end of period	31,645	29,974

The liability associated with DSUs outstanding as at June 30, 2016 was \$1,744 (June 30, 2015 – \$1,863). Compensation expense recorded relating to DSUs outstanding during the six months ended June 30, 2016 amounted to \$478 (June 30, 2015 – \$346).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs or PSU's are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the plan, each RSU or PSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs or PSUs when cash dividends are paid on the Company's common shares. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employees in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to, and including the vesting date. The value of PSUs can be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada. Please refer to the Company's 2015 Management Information Circular for further details on its compensation plan structure.

The Company hedges the risk of change in future cash flows related to the RSU plan. Please refer to Note 9 – Derivative Financial Instruments for further details.

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

	June 30, 2016	June 30, 2015
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	42,861	39,794
Granted	33,888	26,855
Dividends reinvested	469	138
Settled	(380)	-
Forfeited/cancelled	(1,548)	(993)
Outstanding, end of period	75,290	65,794

The liability associated with RSUs and PSUs outstanding as at June 30, 2016 was \$1,705 (June 30, 2015 – \$1,857). Compensation expense recorded relating to RSUs and PSUs outstanding during the six months ended June 30, 2016 amounted to \$684 (June 30, 2015 – \$575).

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Note 17 – Earnings Per Share

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

	June 30, 2016	June 30, 2015
Earnings per common share – basic:		
Net income	\$ 61,422	\$ 62,981
Dividends on preferred shares	2,382	2,381
Net income available to common shareholders	\$ 59,040	\$ 60,600
Weighted average basic number of common shares outstanding	15,550,394	15,450,802
Earnings per common share – basic	\$ 3.80	\$ 3.92
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 59,040	\$ 60,600
Weighted average basic number of common shares outstanding	15,550,394	15,450,802
Adjustment to weighted average number of common shares outstanding:		
Stock options	141,818	224,013
Weighted average diluted number of common shares outstanding	15,692,212	15,674,815
Earnings per common share – diluted	\$ 3.76	\$ 3.87

For the period ended June 30, 2016, the calculation of the diluted earnings per share excluded 238,420 (June 30, 2015 – 67,664) average options outstanding with a weighted average exercise price of \$56.00 (June 30, 2015 – \$60.14) as the exercise price of these options was greater than the average price of the Company's common shares.

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Note 18 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 23-24 of the MD&A.

Equitable Bank maintains a Capital Management Policy and an Internal Capital Adequacy Assessment Process to govern the quality and quantity of capital utilized in its operations. During the year, Equitable Bank complied with all internal and external capital requirements.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Common Equity Tier 1 Capital ("CET1"):			
Common shares	\$ 147,096	\$ 145,836	\$ 144,276
Contributed surplus	6,191	6,126	5,732
Retained earnings	652,872	600,128	545,500
Accumulated other comprehensive loss ⁽¹⁾	(26,392)	(22,458)	(13,023)
Less: Regulatory adjustments	(14,495)	(14,574)	(12,088)
Common Equity Tier 1 Capital	765,272	715,058	670,397
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	837,826	787,612	742,951
Tier 2 Capital:			
Collective allowance	31,890	31,890	30,275
Subordinated debentures	65,000	65,000	85,000
Tier 2 Capital	96,890	96,890	115,275
Total Capital	\$ 934,716	\$ 884,502	\$ 858,226

⁽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)

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Note 19 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at June 30, 2016.

	June 30, 2016							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Total assets	\$ 3,201,073	\$ 1,386,942	\$ 3,899,559	\$ 8,487,574	\$ 7,499,024	\$ 971,595	\$ 189,661	\$ 17,147,854
Total liabilities and equity ⁽²⁾⁽³⁾	(216)	(4,852,049)	(3,399,290)	(8,251,555)	(7,065,409)	(821,242)	(1,009,648)	(17,147,854)
Off-balance sheet items ⁽⁴⁾	-	(194,938)	152,670	(42,268)	15,179	27,089	-	-
Interest rate sensitive gap	\$ 3,200,857	\$ (3,660,045)	\$ 652,939	\$ 193,751	\$ 448,794	\$ 177,442	\$ (819,987)	\$ -
Cumulative gap ⁽²⁾	\$ 3,200,857	\$ (459,189)	\$ 193,751	\$ 193,751	\$ 642,545	\$ 819,987	\$ -	\$ -
Cumulative gap as a percentage of total assets	18.67%	(2.68%)	1.13%	1.13%	3.75%	4.78%	-%	-%

	December 31, 2015							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 2,923,598	\$ 935,722	\$ 493,838	\$ 493,838	\$ 767,039	\$ 758,247	\$ -	\$ -
Cumulative gap as a percentage of total assets	18.83%	6.03%	3.18%	3.18%	4.94%	4.88%	-%	-%

	June 30, 2015							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 2,050,543	\$ 411,416	\$ 344,821	\$ 344,821	\$ 701,193	\$ 715,721	\$ -	\$ -
Cumulative gap as a percentage of total assets	14.31%	2.87%	2.41%	2.41%	4.89%	4.99%	-%	-%

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

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

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

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

DIRECTORS

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

Johanne Brossard

Corporate Director

Michael Emory

President and Chief Executive Officer, Allied Properties REIT

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Professor of Finance, Rotman School of Management, University of Toronto

David LeGresley

Chair of the Board and a Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

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

Rowan Saunders

President and Chief Executive Officer, Royal & Sun Alliance Insurance Company of Canada

Vincenza Sera

Corporate Director

Michael Stramaglia

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

OFFICERS

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Ron Tratch

Vice-President and Chief Risk Officer

Tim Wilson

Vice-President and Chief Financial Officer

Aviva Braude

Vice-President, Mortgage Services

Dan Dickinson

Vice-President, Digital Banking

David Downie

Vice-President, Commercial Mortgage Origination

Isabelle Farella

Vice-President, Internal Audit

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Rajesh Raut

Vice-President and Controller

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Jody Sperling

Vice-President, Human Resources

Nicholas Strube

Vice-President and Treasurer

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