EQUITY

Equity Financial Holdings Inc.

Management's Discussion & Analysis

Third Quarter Ended September 30, 2017

ABOUT US

Equity Financial Holdings Inc. ("EQI" or the "Corporation"), is a Canadian company with its common shares listed and traded on the Toronto Stock Exchange under the stock symbol "EQI". Through its federally regulated and wholly-owned subsidiary, Equity Financial Trust Company ("EFT" or "Equity Trust"), the Corporation serves the Canadian mortgage market by offering residential first mortgage loans to customers who are seeking an alternative solution because they do not meet the conventional underwriting standards of the major Canadian banks. Equity Trust funds its mortgage loans through the issuance of fixed-term, non-redeemable Guaranteed Investment Certificates ("GICs").

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We have prepared this Management Discussion & Analysis ("MD&A") with reference to National Instrument 51-102 "*Continuous Disclosure Obligations*" of the Canadian Securities Administrators, and it should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2016 (the "2016 Audited Financial Statements"). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all dollar amounts are in thousands of Canadian dollars unless otherwise indicated. Except as otherwise indicated, the information in this MD&A is current to November 07, 2017.

The non-IFRS measures used in this MD&A are presented in the Non-IFRS Financial Measures section of this MD&A.

Forward-Looking Statements

Certain portions of this MD&A as well as other public statements by the Corporation contain “forward-looking information” within the meaning of applicable Canadian securities legislation, which is also referred to as “forward-looking statements”, which may not be based on historical fact. Wherever possible, words such as “will”, “plans”, “expects”, “targets”, continues”, “estimates”, “scheduled”, “anticipates”, “believes”, “intends”, “may”, “could”, “would” or “might”, and the negative of such expressions, statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved, have been used to identify forward-looking information. Such forward-looking statements include, without limitation, the Corporation’s expectations in respect of earnings, fee income, expense levels, future loans and origination, repayment by borrowers, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets activities, the Corporation’s expected need for equity or debt financing, business competition, technological change, changes in government regulations and regulatory guidelines, unexpected judicial or regulatory proceedings, catastrophic events, and the Corporation’s ability to complete strategic transactions and integrate acquisitions and other factors. Forward looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or which, such events, performance or results will be achieved, if achieved at all.

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 Corporation and the Canadian economy, retail mortgage markets, housing sales, and capital markets. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, factors and assumptions regarding interest rates, availability of key personnel, the effect of competition, government regulation of its business, computer failure or security breaches, future capital requirements, its ability to fund its mortgage business, the value of mortgage originations, the competitive nature of the mortgage market, the expected margin between the interest earned on its mortgage portfolio and the interest to be paid on its deposits, the relative continued health of real estate markets, acceptance of its products in the marketplace, as well as its operating cost structure and the current tax regime.

Forward-looking statements reflect the Corporation’s current views with respect to future events and are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. Readers should not place undue reliance on such forward-looking statements as they reflect the Corporation’s current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, regulatory, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation’s actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including among others, a significant downturn in capital markets or the economy as a whole, errors or omissions by the Corporation in providing services to its customers, significant increases in the cost of complying with applicable regulatory requirements, civil unrest, economic recession, pandemics, war and acts of terrorism which may adversely impact the North American and global economic and financial markets, inability to raise funds through public or private financing, significant changes in interest rates, failure by the Corporation or its subsidiaries to meet ongoing regulatory obligations, the failure of borrowers or counterparties to honour their financial or contractual obligations to Equity Trust, failure by Equity Trust to adequately monitor and/or adjust its mortgage portfolio management practices for changing circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by Equity Trust to adequately monitor the services provided by third party service providers or to establish

alternative arrangements if required, failure by Equity Trust to secure sufficient deposits from investment dealers or deposit dealers or a sufficient level of mortgage origination from its mortgage broker network, a failure of the computer systems of the Corporation or one or more of its service providers or the risks detailed from time-to-time in the Corporation's quarterly filings, annual information forms, annual reports and annual filings with securities regulators. The preceding list is not exhaustive of possible factors. The Corporation disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates, future events or results, or otherwise, unless required to do so by applicable laws.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as otherwise indicated or as the context otherwise requires, the terms "we", "us" and "our" refer to the Corporation and its consolidated subsidiaries. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

THE BUSINESS

The Corporation operates through its wholly-owned subsidiary Equity Trust, which offers residential first mortgage loans to a maximum of 80% loan-to-value, funded through the issuance of fixed-term, non-redeemable GICs. Equity Trust is a deposit-taking institution regulated by the Office of the Superintendent of Financial Institutions of Canada ("OSFI") and is a member of the Canada Deposit Insurance Corporation ("CDIC").

Mortgage Lending

Equity Trust focuses on financing residential first mortgages for customers who are seeking an alternative solution because they do not meet the conventional underwriting standards of the major Canadian banks. Our customers include borrowers with a thin or challenged credit history or who are self-employed. Equity Trust's lending activities are predominantly concentrated in urban and suburban areas of Ontario.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 33% of Canada's residential mortgages. (Canadian Association of Accredited Mortgage Professionals: Annual State of the Residential Mortgage Market in Canada, December 2016)

We provide first mortgages primarily for owner occupied, single-family residential properties for purchases, refinances, equity take-outs and debt consolidation, to a maximum of 80% of the appraised property value. Both open term and closed term mortgages to a maximum of five years are offered.

Deposits

Equity Trust sources its deposit funding through registered investment dealers and deposit brokers across Canada, offering non-redeemable GICs for amounts of five thousand dollars and more, with fixed terms from 30 days up to five years. All qualifying Equity Trust deposits are insured by CDIC.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE QUARTER ENDED SEPTEMBER 30, 2017

Table 1: Financial Highlights

	For the three months ended			For the nine months ended	
($000s, except per share and percentage amounts)	**September 30, 2017**	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
OPERATIONS					
Net interest income	**$ 7,399**	$ 6,642	$ 4,563	**$ 20,200**	$ 11,392
Provision for credit losses	**(294)**	(137)	(350)	**(562)**	(876)
Non-interest income	**898**	689	711	**2,183**	1,797
Net interest income and other income, including provision for credit losses	**8,003**	7,194	4,924	**21,821**	12,313
Net interest margin [1]	**2.94%**	2.98%	2.87%	**2.98%**	2.85%
Net income	**$ 1,733**	$ 1,616	$ 423	**$ 4,605**	$ 618
Earnings per share - basic/diluted	**0.18 / 0.18**	0.17 / 0.17	0.04 / 0.04	**0.48 / 0.48**	0.06 / 0.06
ROE (annualized) [2]	**6.9%**	6.6%	1.8%	**6.3%**	0.9%

As at	**September 30, 2017**	June 30, 2017	December 31, 2016
BALANCE SHEET			
Assets	**$ 1,115,404**	$ 1,014,730	$ 833,744
Mortgages receivable, net	**1,010,461**	888,092	760,201
Deposits	**1,004,156**	907,749	726,762
Shareholders' equity	**100,349**	98,764	95,727
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory capital (all-in basis)	**$ 89,473**	$ 88,039	$ 85,045
Leverage ratio	**7.8%**	8.4%	10.0%
Common Equity Tier 1 ratio (all-in basis)	**21.2%**	23.1%	27.3%
Share Information			
Book value per common share	**$ 10.51**	$ 10.35	$ 10.03
Common share price - close	**7.25**	7.49	9.90
Common shares outstanding	**9,543,508**	9,543,508	9,543,508
Market capitalization	**$ 69,190**	$ 71,481	$ 94,481

[1] See definition of Net interest margin under Non-IFRS Financial Measures section of this MD&A.

[2] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

[3] Capital Measures figures relate to the Corporation's operating subsidiary, Equity Trust, and are calculated under Basel III (see Capital Management below).

Financial Highlights

Figure 1: Mortgage & Deposit Balances ($millions)

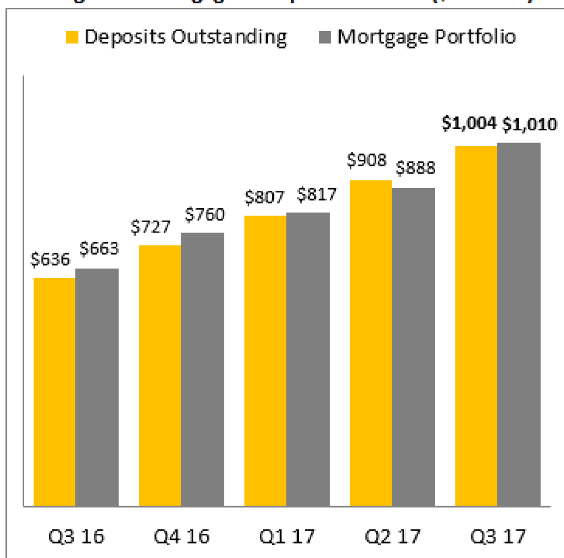
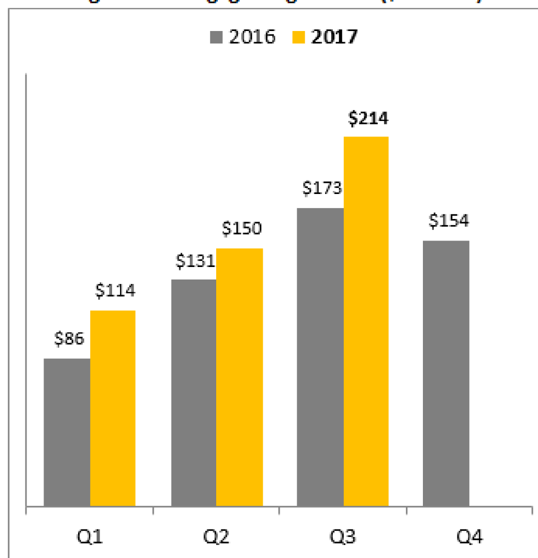


Figure 2: Mortgage Originations ($millions)



We achieved record mortgage originations during the third quarter of 2017 and we also experienced strong retention on maturing loans, which lead to our loan portfolio balance growing to over $1 billion. Profitability has continued to increase each quarter as we grow our mortgage assets, supported by stable net interest margin and continuing strong credit experience with no significant loan losses in 2017. Key financial results for the third quarter of 2017 include:

- Net income of $1,733 or $0.18 per share for the quarter, up 7% compared to net income of $1,616 or $0.17 per share in Q2 2017 and up 310% compared to net income of $423 or $0.04 per share in Q3 2016. Year to date net income of $4,605 or $0.48 per share, up 645% compared to $618 or $0.06 per share in the prior year.
- Mortgage receivable balance of $1,010,461 as at September 30, 2017, an increase of 14% from the end of Q2 2017 and an increase of 52% from a year ago.
- Mortgage originations of $213,630, up 43% from $149,836 in Q2 2017 and up 24% from $172,777 in Q3 2016. Year to date originations of $477,370, up 22% from $390,046 for the same period in 2016.
- Net interest income of $7,399, up 11% compared to $6,642 in Q2 2017 and up 62% compared to $4,536 in Q3 2016. Year to date net interest income of $20,200, up 77% compared to $11,392 for the same period in 2016.
- Net interest margin earned on our mortgage portfolio was 2.94%, slightly lower compared to 2.98% in Q2 2017 and up from 2.87% in Q3 2016. Year to date net interest margin of 2.98% compared to 2.85% in the same period in 2016. The slight decrease in net interest margin from the prior quarter is due to higher deposit funding costs associated with the recent rise in interest rates. The year to date increase in net interest margin over the same period in 2016 is primarily due to increased mortgage yields and higher than average penalty interest income earned on mortgages paid out before maturity.
- Non-interest income of $898, an increase of 30% compared to Q2 2017, reflecting the growth of our mortgage portfolio, higher fees to administer property taxes on behalf of borrowers and a non-recurring deposit administration processing fee. Quarterly and year to date non-interest income were 26% and 21% higher, respectively, compared to the same period last year, again reflecting the growth of the mortgage portfolio but partially offset by the absence of other fee income earned in 2016 (see 2013 Sale Transaction).

- Non-interest expenses of $5,587, up 12% from Q2 2017 and up 30% from Q3 2016. Year to date expenses were $15,362, up 36% compared to the same period in 2016. Non-interest expenses are higher due to increased staffing and other core operating costs in support of asset and revenue growth.

OUTLOOK

The first three quarters of 2017 saw a period of ongoing change in the mortgage lending industry, during which we successfully grew our balance sheet to over $1 billion in mortgage assets. For the fourth quarter and looking ahead to 2018 we anticipate a further slowdown in the growth of home prices in Ontario, but continued affordability challenges for our borrowers given the high ratio of home prices to income in the region, the potential for further interest rate increases from the Bank of Canada and the need to adapt to recent regulatory changes that directly affect lenders of uninsured residential mortgages.

The final version of Guideline B-20 published in mid-October remains largely consistent with the draft guideline issued in July and will be effective starting January 1, 2018. The most significant impact of the new guideline for Equity is the requirement to use a 200 basis point margin over the contract rate when calculating debt service ratios for qualification purposes. We expect this change will have a negative impact on origination volumes, but a mitigating positive impact on retention rates. While we do not plan to significantly change our overall business strategy, our current assessment is the new requirements will lead to a slow down in the pace of our loan book growth. We will continue to evaluate the relative impact of these factors during the first part of 2018 to assess the magnitude of their effect.

In August 2017, the Corporation announced its intention to apply to convert Equity Trust to a Schedule I bank. The conversion application is subject to regulatory approval from OSFI and the Minister of Finance, Canada and there can be no assurance as to when or if these approvals will be received. Management believes that, in the longer term, operating as a bank will promote efficiencies and assist in the creation of a brand identity that resonates with our customers, employees and financial backers and provide a national platform to expand its business beyond Ontario. We will remain strategically focused on lending conventional first mortgages to customers who do not meet the lending criteria of large banks and are seeking alternative solutions. With the continued support of our stakeholder group we believe the Corporation is well positioned to respond to ongoing market changes as we continue to pursue our strategic objectives.

On October 30, 2017, the Corporation entered into a definitive arranagement agreement (the “Arrangement Agreement”) pursuant to which Smoothwater Capital Corporation (“Smoothwater”) will acquire all of the issued and outstanding common shares of EQI (the “Shares”), other than Shares already owned or controlled by Smoothwater, its officers, and by certain other shareholders who have agreed to remain as continuing shareholders, by way of a plan of arrangement (the “Arrangement”).

Under the terms of the Arrangement Agreement, each Share will be acquired for $9.75 per share in cash. A special meeting of the Corporation's shareholders is anticipated to be held in December 2017 to approve the Arrangement. The Arrangement is expected to be completed by the end of 2017. Estimated costs in the fourth quarter of 2017 related to the proposed transaction are in the range of $1,000 to $1,500, which include legal and advisory fees and share based compensation expenses expected to be incurred upon change of control.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2017**	June 30, 2017	% Change	September 30, 2016	% Change	**September 30, 2017**	September 30, 2016	% Change
Operating Results								
Net interest income	**$ 7,399**	$ 6,642	11%	$ 4,563	62%	**$ 20,200**	$ 11,392	77%
Provision for credit losses	**(294)**	(137)	115%	(350)	(16)%	**(562)**	(876)	(36)%
Net interest income, including provision for credit losses	**7,105**	6,505	9%	4,213	69%	**19,638**	10,516	87%
Non-interest income	**898**	689	30%	711	26%	**2,183**	1,797	21%
Net interest income and other income, including reversal (increase) of provision for credit losses	**8,003**	7,194	11%	4,924	63%	**21,821**	12,313	77%
Non-interest expenses	**5,587**	5,001	12%	4,286	30%	**15,362**	11,293	36%
Income before income taxes	**2,416**	2,193	10%	638	279%	**6,459**	1,020	533%
Income tax expense	**683**	577	18%	215	218%	**1,854**	402	361%
Total net income	**$ 1,733**	$ 1,616	7%	$ 423	310%	**$ 4,605**	$ 618	645%
Earnings per share								
Total earnings per share, basic	**0.18**	0.17	6%	0.04	350%	**0.48**	0.06	700%
Total earnings per share, diluted	**0.18**	0.17	6%	0.04	350%	**0.48**	0.06	700%
ROE (annualized) [1]	**6.9%**	6.6%		1.8%		**6.3%**	0.9%	

[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

Net interest Income

Table 3: Net Interest Income and Net Interest Margin[3]

	For the three months ended								
	September 30, 2017			June 30, 2017			September 30, 2016		
($000s, except per share and percentage amounts)	**Average balance[1]**	**Income / Expense**	**Average rate[2]**	Average balance[1]	Income / Expense	Average rate[2]	Average balance[1]	Income / Expense	Average rate[2]
ASSETS									
Cash and cash equivalents and securities	**$ 101,261**	$ 364	1.43%	$ 97,977	$ 305	1.25%	$ 56,944	$ 146	1.02%
Mortgages receivable	**947,637**	12,026	5.03%	844,630	10,595	5.03%	596,548	7,326	4.89%
Total interest bearing assets	**1,048,898**	12,390	4.69%	942,607	10,900	4.64%	653,492	7,472	4.54%
LIABILITIES									
Deposits	**948,096**	4,991	2.09%	841,334	4,258	2.03%	560,266	2,909	2.07%
Total interest bearing liabilities	**948,096**	4,991	2.09%	841,334	4,258	2.03%	560,266	2,909	2.07%
Net interest income per financial statements		7,399			6,642			4,563	
Net interest margin for mortgage portfolio [3]			2.94%			2.98%			2.87%

	For the nine months ended					
	September 30, 2017			September 30, 2016		
($000s, except per share and percentage amounts)	**Average balance[1]**	**Income / Expense**	**Average rate[2]**	Average balance[1]	Income / Expense	Average rate[2]
ASSETS						
Cash and cash equivalents and securities	**$ 92,640**	$ 923	1.33%	$ 51,916	$ 377	0.97%
Mortgage receivable	**860,666**	32,380	5.03%	498,346	18,073	4.84%
Total interest bearing assets	**953,306**	33,303	4.67%	550,262	18,450	4.47%
LIABILITIES						
Deposits	**852,919**	13,103	2.05%	457,192	7,058	2.06%
Total interest bearing liabilities	**852,919**	13,103	2.05%	457,192	7,058	2.06%
Net interest income per financial statements		20,200			11,392	
Net interest margin for mortgage portfolio[3]			2.98%			2.85%

[1] Average balance is calculated with reference to daily asset and liability balances.

[2] Average rate is equal to income/expense divided by the average balance on an annualized basis.

[3] See definition of net interest margin under Non-IFRS Financial Measures section of this MD&A.

Net interest income for the third quarter of 2017 increased by $757 or 11% compared to the second quarter of 2017 and increased by $2,836 or 62% compared to the third quarter of 2016, reflecting the growth in our mortgage loan portfolio over both periods and a higher average net interest margin compared to the third quarter of 2016. The average net interest margin earned on our mortgage portfolio in the third quarter of 2017 was 2.94%, slightly lower compared to 2.98% in the second quarter of 2017 and up compared to 2.87% in the third quarter of 2016. The slight decrease in net interest margin from the prior quarter is due to higher deposit funding costs associated with the recent rise in interest rates.

Net interest income for the nine months ended September 30, 2017 increased by $8,808 or 77% compared to the same period last year reflecting growth in our mortgage loan portfolio in the last twelve months. The year-to-date average net interest margin earned on our mortgage portfolio in 2017 was 2.98%, up compared to 2.85% for the

same period in 2016. Both the quarter only and year to date increase in net interest margin over the same period in 2016 is primarily due to increased mortgage yields. In addition, the year to date increase in net interest margin over the same period in 2016 is due to higher than average penalty interest income earned on mortgages paid out before maturity.

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

	For the three months ended			For the nine months ended	
($000s)	**September 30, 2017**	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Provision for collective credit losses	**$ 281**	$ 163	$ 350	**$ 575**	$ 787
(Reversal of) provision for individual credit losses	**13**	(26)	-	**(13)**	89
Total provision for credit losses	**$ 294**	$ 137	$ 350	**$ 562**	$ 876

Our provision for credit losses for the third quarter of 2017 was an expense of $294 compared to an expense of $137 in the second quarter of 2017 and an expense of $350 in the third quarter of 2016. The increase in the current quarter is mainly the result of growth of our mortgage loan portfolio.

For the year to date, our provision for credit losses was an expense of $562 compared to an expense of $876 for the same period of 2016. The decrease in total provision reflects an overall reduction to our collective allowance rate at the end of 2016 based on management's judgment of low historical loss experience and an analysis of our historical arrears trends.

Table 5: Allowance for Credit Losses

($000s except percentage amounts)	**September 30, 2017**	**% of Gross Loans**	June 30, 2017	% of Gross Loans	September 30, 2016	% of Gross Loans
Collective allowance	**$ 2,326**	**0.23%**	$ 2,045	0.23%	$ 1,861	0.28%
Individual allowance	**13**	**- %**	-	- %	87	0.01%
Total	**$ 2,339**	**0.23%**	$ 2,045	0.23%	$ 1,948	0.29%

We have established an allowance for credit losses of $2,339 as at September 30, 2017. The overall increase in our allowance for credit losses for the third quarter compared to the prior quarter and the third quarter of 2016 mainly reflects the increase in the balance of our mortgage receivable assets.

An impaired loan identified during the third quarter of 2017 resulted in an individual allowance of $13.

Table 6: Past Due Loans

($000s except percentage amounts)		September 30, 2017	% of Net Loans		June 30, 2017	% of Net Loans		September 30, 2016	% of Net Loans
1-30 days	**$**	**35,448**	**3.51%**	$	32,462	3.66%	$	20,040	3.02%
31-60 days		**1,887**	**0.19%**		3,875	0.44%		2,256	0.34%
61-90 days		**513**	**0.05%**		1,015	0.11%		834	0.13%
> 90 days		**2,002**	**0.20%**		1,555	0.18%		1,436	0.22%
Total	**$**	**39,850**	**3.95%**	$	38,907	4.39%	$	24,566	3.71%

A loan is considered past due when a borrower has not made a payment by the contractual due date. The table above presents the carrying value of mortgages that are past due but not classified as impaired either because collection efforts are reasonably expected to result in full repayment or they have been restored to current status in accordance with our collection policy since the balance sheet date. Our past due loans percentage at the end of the third quarter of 2017 is relatively stable compared to recent quarters. The decrease in the thirty one to sixty day and sixty one to ninety day categories compared to prior quarter is primarily a reflection of our loan collection process.

The Corporation classifies loans as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest.

Non-interest income

Non-interest income of $898 in the third quarter of 2017 was up 30% compared to the second quarter of 2017, reflecting the growth in our mortgage loan portfolio, higher tax administration fees and a non-recurring deposit administration processing fee. Quarterly and year to date non-interest income were up 26% and 21% higher, respectively, compared to the same period last year, again reflecting the growth of our mortgage loan portfolio partially offset by the absence of other fee income of $225 and $600 earned in the third quarter of 2016 and year to date 2016, respectively (see 2013 Sale Transaction).

Non-interest expenses

Table 7: Non-interest Expenses

	For the three months ended								For the nine months ended			
($000s, except percentage amounts)		**September 30, 2017**		June 30, 2017	% Change		September 30, 2016	% Change		**September 30, 2017**		September 30, 2016	% Change
Staffing costs	**$**	**3,142**	$	2,902	8%	$	2,838	11%	**$**	**8,947**	$	6,823	31%
Rent		**220**		220	- %		196	12%		**664**		467	42%
General and administration		**1,965**		1,627	21%		1,140	72%		**4,996**		3,637	37%
Amortization		**260**		252	3%		112	132%		**755**		366	106%
Total non-interest expenses	**$**	**5,587**	$	5,001	12%	$	4,286	30%	**$**	**15,362**	$	11,293	36%

Staffing Costs – Third quarter 2017 staffing costs increased by 8% compared to the second quarter of 2017 primarily due to higher headcount. Staffing costs are higher by 11% compared to the same quarter last year due to higher average headcount and higher variable compensation tied to corporate objectives during the quarter. The

year to date increase in staffing costs of 31% compared to 2016 is due to the increase in our headcount from 68 to 98 over the last year.

Rent – Rent expense in the third quarter of 2017 was flat compared to the second quarter of 2017. The year-over-year increase reflects the increased cost of our expanded office space.

General and Administration – The 21% increase in general and administration costs in the third quarter of 2017 compared to the second quarter of 2017 was primarily due to higher mark-to-market expense on DSUs, system costs and higher insurance premiums reflecting the growth of our deposit balances. The year-over-year increase of 37% compared to the same period in 2016 is primarily due to higher core operating costs as a result of our operational growth.

Amortization and depreciation – Amortization and depreciation costs were consistent in the third quarter of 2017 compared to the second quarter of 2017. Costs in the third quarter of 2017 and year to date 2017 are higher compared to the same periods last year due to amortization of our new mortgage system that became operational in the first quarter of 2017.

Net income and earnings per share

Table 8: Earnings Per Share

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2017**	June 30, 2017	Change	September 30, 2016	Change	**September 30, 2017**	September 30, 2016	Change
Net income	**$ 1,733**	$ 1,616	$ 117	$ 423	$ 1,310	**$ 4,605**	$ 618	$ 3,987
Comprehensive income	**1,473**	1,436	37	443	1,030	**4,230**	672	3,558
Basic earnings per share	**0.18**	0.17	0.01	0.04	0.14	**0.48**	0.06	0.42
Diluted earnings per share	**0.18**	0.17	0.01	0.04	0.14	**0.48**	0.06	0.42

For the third quarter of 2017 we generated net income of $1,733 or $0.18 per share, compared to net income of $1,616 or $0.17 per share in the second quarter of 2017 and net income of $423 or $0.04 per share in the third quarter of 2016. For the year to date we generated net income of $4,605 or $0.48 per share compared to $618 or $0.06 per share in the same period last year. The increase in net income primarily reflects topline revenue growth as a result of the growth in our mortgage loan portfolio.

Other comprehensive income (OCI) in the quarter was a loss of $260 compared to a loss of $180 in the second quarter of 2017 and income of $20 in the third quarter of 2016. For the year to date OCI was a loss $375 compared to income of $54 during the same period last year, which reflects the change in fair value of available for sale securities.

Comprehensive income is the aggregate of net income and OCI. Comprehensive income for the third quarter of 2017 was $1,473 compared to $1,436 in the prior quarter and $443 in the third quarter of 2016. For the year to date comprehensive income was $4,230 compared to $672 during the same period last year.

2013 SALE TRANSACTION

On April 5, 2013, the Corporation completed the sale of the assets of its transfer agent and corporate trust services business. In April 2016, in accordance with the terms of the sale agreement, the Corporation paid $1,000 in previously accrued contingent consideration based on the capital requirements of the transfer agent and corporate trust service business. After the date of the sale, transfer agent and corporate trust business relationships were managed by a third party for its economic benefit, including the administration of segregated funds. During the three and nine months ended September 30, 2016, other fee income related to EFT's transitional status as trustee for these client relationships amounted to $225 and $600. No additional other fee income was earned following the conclusion of the transitional period at the end of the third quarter of 2016 with client relationship and segregated funds fully transferred to another entity.

FINANCIAL POSITION REVIEW

Table 9: Balance Sheet Highlights

	As at			Change over			
($000s, except percentage amounts)	**September 30, 2017**	June 30, 2017	December 31, 2016	**Sep 2017 - Jun 2017 $**	Sep 2017 - Jun 2017 %	Sep 2017 - Dec 2016 $	Sep 2017 - Dec 2016 %
ASSETS							
Cash and cash equivalents	**$ 58,346**	$ 85,266	$ 53,013	**$ (26,920)**	(32)%	$ 5,333	10%
Available-for-sale securities	**36,695**	32,402	11,441	**4,293**	13%	25,254	221%
Mortgages receivable	**1,010,461**	888,092	760,201	**122,369**	14%	250,260	33%
Other assets	**9,902**	8,970	9,089	**932**	10%	813	9%
Total Assets	**1,115,404**	1,014,730	833,744	**100,674**	10%	281,660	34%
LIABILITIES							
Deposits	**1,004,156**	907,749	726,762	**96,407**	11%	277,394	38%
Other liabilities	**10,899**	8,217	11,255	**2,682**	33%	(356)	(3)%
Total Liabilities	**1,015,055**	915,966	738,017	**99,089**	11%	277,038	38%
Shareholders' Equity	**100,349**	98,764	95,727	**1,585**	2%	4,622	5%
Total Liabilities and Shareholders' Equity	**$ 1,115,404**	$ 1,014,730	$ 833,744	**$ 100,674**	10%	$ 281,660	34%

Total assets as at September 30, 2017 were $1,115,404, an increase of 10% compared to the balance as at June 30, 2017 and an increase of 34% compared to the balance as at December 31, 2016 primarily due to the increases in mortgages receivable.

Total liabilities as at September 30, 2017 were $1,015,055, an increase of 11% compared to the balance as at June 30, 2017 and an increase of 38% compared to the balance as at December 31, 2016 primarily due to the increase in deposit liabilities corresponding to the increase in assets.

Liquidity Resources

Equity Trust is a member of CDIC and sources its fixed term deposit funding through registered investment dealers and deposit brokers across Canada. We believe ample liquidity is available to Equity Trust to meet its requirements. Our deposit taking activities constitute our primary funding source and we also use a portion of our internal cash to fund mortgage loans. We manage our liquidity resources in accordance with our liquidity policy (see "Risk Management – Liquidity Risk"). Institutions are required to maintain an adequate supply of unencumbered high quality liquid assets that can be converted into cash over a 30-day period. Our liquidity reserve consists of cash and cash equivalents, short-term investments, and longer term investments in securities held as available for sale, which qualify as high quality liquid assets ("HQLA").

Table 10: Cash and Cash Equivalents and Securities

	As at			Change over			
	September 30,	June 30,	December 31,	Sep 2017 - Jun 2017		Sep 2017 - Dec 2016	
($000s, except percentage amounts)	**2017**	2017	2016	$	%	$	%
Deposits with regulated financial institutions	**$ 58,346**	$ 85,266	$ 53,013	**$ (26,920)**	(32)%	$ 5,333	10%
Available-for-sale securities	**36,695**	32,402	11,441	**4,293**	13%	25,254	221%
Total Cash and Cash Equivalents and Securities	**$ 95,041**	$ 117,668	$ 64,454	**$ (22,627)**	(19)%	$ 30,587	47%

Our liquidity reserves increased by $30,587 since December 31, 2016, in the form of cash and investments in HQLA securities classified as available for sale. Cash and cash equivalents as at September 30, 2017 increased by $5,333 compared to December 31, 2016, as a result of the inflows and outflows described below.

Table 11: Sources and Uses of Cash

	For the nine months ended		Change	
	September 30,	September 30,		
($000s, except percentage amounts)	**2017**	2016	$	%
Cash flows provided by operating activities	**$ 31,913**	$ 24,968	$ 6,945	28%
Cash flows provided by financing activities	**-**	21	(21)	(100)%
Cash flows used in investing activities	**(26,580)**	(12,767)	(13,813)	(108)%
Total	**$ 5,333**	$ 12,222	$ (6,889)	(56)%

Cash flows from operating activities

Cash inflows from operating activities was $31,913 for the nine months ended September 30, 2017 compared to cash inflows from operating activities of $24,968 for the same period in 2016. Increases to our deposit liability and mortgages receivable balances constitute the largest sources of operating inflows and outflows respectively. For the nine months ended September 30, 2017 we had net inflows of $277,394 from new deposits against net outflows of $250,848 to fund mortgages. For the nine months ended September 30, 2016, we had net inflows of $304,029 from new deposits and net outflows of $280,656 to fund mortgages.

Cash flows used in investing activities

Cash flows used in investing activities for the nine months ended September 30, 2017 and September 30, 2016 were primarily for purchase of available-for-sale securities and investments in our information technology infrastructure.

Mortgages receivable

Table 12: Mortgage Production & Portfolio Highlights

	For the three months ended				For the nine months ended	
($000s, except percentage and year figures)	**September 30, 2017**	June 30, 2017	December 31, 2016	September 30, 2016	**September 30, 2017**	September 30, 2016
Mortgage originations	**$ 213,630**	$ 149,836	$ 153,711	$ 172,777	**$ 477,370**	$ 390,046
Average loan-to-value ratio at origination	**69.7%**	69.1%	73.6%	73.3%	**70.0%**	73.7%
As at						
Mortgages receivable	**1,010,461**	888,092	760,201	663,157		
Mortgages receivable due in one year	**609,326**	577,836	526,825	456,706		
Weighted average term to maturity in years	**1.2**	1.0	1.0	1.2		
Weighted average effective interest rate	**5.06%**	4.99%	4.90%	4.94%		
Weighted average amortization period in years	**29.5**	29.5	29.0	29.1		

Mortgages receivable consist of uninsured loans with terms up to five years for the purchase or refinancing of primarily single-family homes predominantly in urban and suburban areas of Ontario.

During the third quarter of 2017 we originated mortgages of $213,630, an increase of $63,794 or 43% compared to originations in the second quarter of 2017 and an increase of $40,853 or 24% compared to the third quarter of 2016. Our mortgage receivable balance was $1,010,461 as at September 30, 2017, an increase of 14% compared to the balance as at June 30, 2017 and an increase of 33% compared to the balance as at December 31, 2016.

As at September 30, 2017, the amount of mortgages due within one year was $609,326. The weighted average term to maturity of the portfolio is 1.2 years with a weighted average amortization period of 29.5 years. The weighted average effective interest rate of the portfolio was 5.06% as at September 30, 2017, which increased slightly compared to 4.99% as at June 30, 2017 and 4.94% as at September 30, 2016. As at September 30, 2017, the Corporation had outstanding commitments to make future advances on mortgages loans of $63.4 million for various dates through to December 2017.

Deposits

Table 13: Deposits

	As at			
($000s, except percentage and year figures)	**September 30, 2017**	June 30, 2017	December 31, 2016	September 30, 2016
Deposits	**$ 1,004,156**	$ 907,749	$ 726,762	$ 636,226
Deposits due in one year	**546,701**	526,927	429,708	456,706
Weighted average term to maturity in years	**1.4**	1.4	1.2	1.2
Weighted average effective interest rate	**2.17%**	2.07%	2.06%	2.08%

Deposits consist of non-redeemable GICs, which are sold through registered investment dealers and deposit brokers, with fixed maturity dates and have a weighted average term to maturity of 1.4 years. As at September 30, 2017, the portion of deposits due within one year was $546,701 and the weighted average effective interest rate paid on deposits was 2.17%. The increase in the weighted average effective interest rate is due to higher deposit funding costs associated with the recent rise in interest rates.

For the third quarter of 2017, our deposits balance increased by $96,407 or 11% compared to June 30, 2017 and by $277,394 or 38% compared to the balance as at December 31, 2016 reflecting the growth of our mortgage loan book which is primarily funded by deposits.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk and interest rate risk. A fuller discussion on our risk exposures and how we manage them can be found under the section "Risk Management".

Cash and cash equivalents and restricted cash (included in restricted assets) are carried at amortized cost, which approximates fair value due to their short term nature.

Available-for-sale securities and restricted securities (included in restricted assets) are carried at fair value and the disclosed fair value is determined by using published bid prices.

Mortgages receivable are carried at amortized cost and the disclosed fair value of mortgages receivable is determined by discounting the expected future cash flows of the mortgages at market rates for mortgages with similar terms and credit risks.

Deposits are carried at amortized cost and the disclosed fair value of deposits is determined by discounting the contractual cash flows using current market interest rates for deposits with similar terms and risks.

Derivative financial instruments are carried at fair value and the disclosed fair value is 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 table presents the carrying value of each category of financial assets and liabilities and their estimated fair values as at September 30, 2017. The table does not include assets and liabilities that are not

considered financial instruments.

Table 14: Financial Assets and Liabilities

September 30, 2017	Held for Trading	Available-for-Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value
Financial assets						
Cash and cash equivalents	$ -	$ -	$ 58,346	$ 58,346	$ 58,346	$ -
Available-for-sale securities	-	36,695	-	36,695	36,695	-
Restricted assets	-	936	413	1,349	1,349	-
Mortgages receivable, net	-	-	1,010,461	1,010,461	1,008,135	(2,326)
Total Financial Assets	-	37,631	1,069,220	1,106,851	1,104,525	(2,326)
Financial Liabilities						
Deposits	-	-	1,004,156	1,004,156	999,605	(4,551)
Derivative liabilities	1,196	-	-	1,196	1,196	-
Total Financial Liabilities	$ 1,196	$ -	$ 1,004,156	$ 1,005,352	$ 1,000,801	$ (4,551)

QUARTERLY FINANCIAL HIGHLIGHTS

Table 15: Summary of Quarterly Results

	2017	2017	2017	2016	2016	2016	2016	2015
($000s, except per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating Results								
Net interest income	$ 7,399	$ 6,642	$ 6,159	$ 5,483	$ 4,563	$ 3,671	$ 3,158	$ 2,857
Provision for credit losses	294	137	131	(123)	350	359	167	(101)
Non-interest income	898	689	596	476	711	591	495	475
Net interest income and other income, including reversal of (provision for) credit losses	8,003	7,194	6,624	6,082	4,924	3,903	3,486	3,433
Non-interest expenses	5,587	5,001	4,774	4,519	4,286	3,769	3,238	3,761
Net income	1,733	1,616	1,256	1,072	423	46	149	(304)
Basic (loss) earnings per share	0.18	0.17	0.13	0.12	0.04	-	0.02	(0.03)
Diluted (loss) earnings per share	0.18	0.17	0.13	0.12	0.04	-	0.02	(0.03)
Dividends	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance Sheet Highlights								
Cash and cash equivalents	$ 58,346	$ 85,266	$ 57,688	$ 53,013	$ 56,548	$ 57,383	$ 41,712	$ 44,326
Mortgages receivable, net	1,010,461	888,092	817,009	760,201	663,157	538,616	441,330	383,282
Assets	1,115,404	1,014,730	911,558	833,744	737,363	605,280	487,184	431,429
Deposits	1,004,156	907,749	807,499	726,762	636,226	506,607	388,934	332,197
Liabilities	1,015,055	915,966	814,365	738,017	642,832	511,363	393,520	337,974
Shareholders' equity	$ 100,349	$ 98,764	$ 97,193	$ 95,727	$ 94,531	$ 93,917	$ 93,664	$ 93,455

Net interest income has increased each quarter in line with the increases in the size of our average mortgage portfolio.

CAPITAL MANAGEMENT

Capital Requirements

Equity Trust's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory requirements, is consistent with our risk appetite framework, and supports our business plans. Our internal capital adequacy assessment process ("ICAAP") is integral to our capital planning activities and incorporates a stress testing program that evaluates the impact potential scenarios have on income and capital. Regulatory capital requirements addressed by our policy include the Leverage Ratio and risk based capital ratios (Common Equity Tier 1, Tier 1 and Total Capital).

Equity Trust calculates regulatory capital and capital ratios based on OSFI's Capital Adequacy Requirements ("CAR") Guidelines. The CAR Guidelines are based on "Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework" ("Basel III") issued by the Basel Committee on Banking Supervision ("BCBS"). Equity Trust's total regulatory capital is comprised entirely of shareholder's equity (the total of share capital, contributed surplus and retained earnings) less adjustments for intangible assets net of deferred taxes, which qualifies as common equity tier 1 capital ("CET1"). Equity Trust derives its risk based CET1 ratio by dividing CET1 capital by the sum of credit risk-weighted assets and operational risk factors. Equity Trust calculates risk-weighted assets using the standardized approach for credit risk and the basic indicator approach for operational risk.

Under Basel III, capital is calculated two ways during a transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on an all-in basis, which includes all applicable deductions immediately. As at September 30, 2017, Equity Trust held CET1 on an "all-in" basis of $89,473 compared with $85,045 as at December 31, 2016.

Table 16: Regulatory Capital (Based on Equity Financial Trust)

		As at		
($000s, except percentage amounts)		**September 30, 2017**	June 30, 2017	December 31, 2016
Common Equity Tier 1 capital: Instruments and reserves	**Line No.**	**All-in**	All-in	All-in
Directly issues qualifying common share capital plus related stock surpluses	1	**$ 35,886**	$ 35,750	$ 35,123
Retained earnings	2	**57,568**	55,886	53,408
Accumulated other comprehensive income	3	**(452)**	(192)	(77)
Common Equity Tier 1 capital before regulatory adjustments	6	**93,002**	91,444	88,454
Common Equity Tier 1 capital: Regulatory adjustments				
Total regulatory adjustments to Common Equity Tier 1	28	**(3,529)**	(3,405)	(3,409)
Common Equity Tier 1 capital (CET1)	29	**89,473**	88,039	85,045
Tier 1 capital	45	**89,473**	88,039	85,045
Total capital	59	**89,473**	88,039	85,045
Total risk-weighted assets	60	**421,944**	381,827	311,373
Capital ratios				
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	**21.2%**	23.1%	27.3%
Tier 1 (as percentage of risk-weighted assets)	62	**21.2%**	23.1%	27.3%
Total capital (as percentage of risk-weighted assets)	63	**21.2%**	23.1%	27.3%
OSFI all-in target				
Common Equity Tier 1 capital all-in target ratio	69	**7.0%**	7.0%	7.0%
Tier 1 capital all-in target ratio	70	**8.5%**	8.5%	8.5%
Total capital all-in target ratio	71	**10.5%**	10.5%	10.5%

Note: Line item numbers reference the Pillar III Modified Capital Disclosure Requirements issued by OSFI.

Leverage Requirements

OSFI has established leverage ratio targets on a confidential and institution by institution basis. As at September 30, 2017, Equity Trust's leverage ratio is 7.8% (December 31, 2016 - 10.0%).

Table 17: Leverage Ratio (Based on Equity Financial Trust)

		As at		
($000s, except percentage amounts)	Line No.	**September 30, 2017**	June 30, 2017	December 31, 2016
On-balance sheet exposures				
On-balance sheet items	1	**$ 1,118,955**	$ 1,017,378	$ 835,138
Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	2	**(3,530)**	(3,405)	(3,409)
Total on-balance sheet exposure	3	**1,115,425**	1,013,973	831,729
Derivative exposures				
Replacement cost	4	**-**	-	-
Add-on amounts for PFE	5	**213**	263	123
Total derivatives exposure	11	**213**	263	123
Other off-balance sheet exposures				
Off-balance sheet exposure at gross notional amount	17	**144,309**	170,143	73,064
Adjustment for conversion to credit equivalent amounts	18	**115,447**	136,114	58,451
Off-balance sheet items	19	**28,862**	34,029	14,613
Tier 1 capital	20	**89,472**	88,039	85,045
Total exposures	21	**1,144,500**	1,048,265	846,465
Basel III leverage ratio	22	**7.8%**	8.4%	10.0%

Note: Line item numbers reference the Basel III Leverage Ratio Framework and Disclosure Requirements issued by OSFI.

Capital Resources

A strong capital base is required to support our strategic growth objectives. As such, we may require further capital from time to time to support asset growth and pursue related strategic initiatives. Our mortgage loan portfolio continues to grow and we have begun planning for additional capital to support our growth objectives.

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, liquidity and interest rate risks that are required under *IFRS 7 Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the interim consolidated financial statements for the quarter ended September 30, 2017.

The Corporation's activities in pursuit of its strategic goals and objectives expose the Corporation to a wide range of risks that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation's Risk Appetite Framework provides a structured process to identity, quantify and limit the amount of risk that Equity Trust is willing to take. The types of risk to which the Corporation is exposed include but are not limited to credit, liquidity, interest rate, regulatory compliance, reputational, operational, information technology and cyber security. A discussion of risks beyond credit, liquidity and interest rate risk can be found on pages 28 to 31 of the Corporation’s annual MD&A for the year ended December 31, 2016.

Enterprise Risk Management Framework

The Corporation has established an Enterprise Risk Management ("ERM") Framework which covers both the Corporation as well as its subsidiary Equity Trust. The ERM Framework is a Board approved, systematic and integrated process that enables senior management to effectively manage material risks impacting the operation of Equity Trust, the achievement of strategic and business objectives and the deployment of capital. The ERM Framework is designed to foster a strong risk management culture by identifying, measuring, mitigating, monitoring and reporting risk, including the establishment of roles, responsibilities, processes and tools which are used in relation to our risk appetite framework. It is an ongoing process involving the Board, senior management and other personnel.

The Board of Directors of Equity Trust, through its three Board Committees, namely the Risk and Capital Committee, Audit and Conduct Review Committee and Governance and Compensation Committee, establishes a strong risk and control culture utilizing a three lines of defense model comprised of operations, risk management and compliance, and internal audit.

Credit Risk

Credit risk is defined as the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of our mortgage lending operations creates an exposure to credit risk resulting from possible defaults in payment by our borrowers. Equity Trust oversees the management of credit risk through its ERM Committee, which is comprised of members of senior management. The ERM Committee meets regularly to review performance and risk factors in the mortgage portfolio and periodically considers and recommends adjustments to the credit risk and concentration limits in our Board approved credit lending policy.

As part of the underwriting process, we rely heavily upon information supplied by both borrowers and third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected by internal controls and procedures before completing the transaction, the credit risk associated with the transaction may be increased. If house prices continue to increase at a faster rate than incomes, fewer borrowers

will be able to qualify for mortgage financing at their desired level. In addition, some borrowers may be tempted to overstate their incomes in an attempt to meet lender credit and debt service requirements. While underwriting, risk and compliance policies and procedures are in place to monitor and manage credit risk, there can be no absolute assurances to prevent credit risk from having an adverse effect on our profitability and financial condition.

Our mortgage portfolio consists of uninsured residential mortgages. As a result, our primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage**.** Our portfolio consists of residential mortgages originated under lending programs designed to serve customers who are seeking an alternative solution because they have limited access to traditional mortgage financing. There is a higher risk of default associated with these customers than with traditional borrowers. The typical customer includes borrowers with a thin or challenged credit history or who are self-employed. Because we serve customers who are unable to meet the conventional underwriting standards of the major Canadian banks, we generally charge interest at higher rates than those charged by those lenders. The factors used in determining borrowers' creditworthiness may be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on our operating results and financial condition. We mitigate this risk primarily by conducting diligence on each borrower and by dealing with known and reputable mortgage brokers. In addition, as an uninsured residential mortgage lender, our credit risk also results from reliance on the stability of collateral values. We are therefore selective in the types of property we accept as collateral, the reliance on the appraisal of the property and its geographic location.

Although subject to change with Board approval, we predominantly lend to borrowers in urban and suburban areas of Ontario. Although the areas we lend in are among Canada's largest housing markets, a significant economic shock to regional economies could have a disproportionately adverse impact on our mortgage portfolio, in light of the general economic conditions and credit risks discussed above, compared to the impact for a lender with a more regionally or nationally diversified mortgage portfolio. As an added precaution against loss, we lend only in neighbourhoods where we believe there is clear evidence that properties are highly marketable as evidenced by such indicators as days-on-market.

Other financial instruments potentially exposed to credit risk include cash and cash equivalents. We consider our exposure to credit risk over cash and cash equivalents and securities to be remote as we only hold cash deposits at Canadian Schedule I banks and securities of the Government of Canada, its provinces or municipalities.

Liquidity Risk

Liquidity risk is defined as the possibility we will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet our financial commitments as they become due.

Managing liquidity risk requires management to maintain sufficient liquid assets on hand at all times to pay our cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, accounts payables, accrued liabilities and other business obligations.

Equity Trust has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies Equity Trust's liquidity risk tolerance and minimum liquidity requirements;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for both short and long-term time horizons;

- Requirements for the diversification of funding sources;
- The maintenance of a liquidity reserve consisting of cash and highly-liquid assets;
- Daily reporting that measures compliance with Board-approved limits;
- Periodic stress testing of liquidity assumptions and forecasts which may include company-specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and
- A liquidity contingency plan that considers a number of scenarios according to which Equity Trust's liquidity operations could be disrupted and details what actions will be followed under each scenario.

Equity Trust's Asset-Liability Committee ("ALCO") is comprised of members of senior management and is charged with the monitoring of Equity Trust's liquidity exposures. ALCO periodically reviews Equity Trust's liquidity policies and procedures as considered appropriate to evolving business requirements and makes recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity strategy accordingly.

Equity Trust's Board has established minimum liquidity requirement limits using two measures required under Basel III and included in OSFI's Liquidity Adequacy Requirements Guideline ("LARG"):

- Liquidity Coverage Ratio ("LCR"): the ratio of the Equity Trust's cash reserve to net cash inflows and outflows for a specified time horizon; and
- Net Stable Funding Ratio ("NSFR"): the ratio of the Equity Trust's liabilities to assets adjusted by factors that represent their inherent stability or permanence, which will become effective in 2019.

These requirements are supplemented by additional supervisory monitoring metrics including the OSFI-designed Net Cumulative Cash Flow (NCCF).

The appropriateness of these limits is reviewed from time to time by ALCO and the Board in light of prevailing and anticipated business and economic conditions.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our profitability and financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results and financial condition. From time to time, Equity Trust enters into derivative transactions to hedge interest rate risk. Where appropriate, we apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. The use of derivative products is governed by a Board-approved policy that permits the use of derivatives only for the purpose of hedging asset-liability mismatches.

We use simulated interest rate change sensitivity models to estimate the effect of various interest rate change scenarios on the economic value of shareholders' equity ("EVE") and on net interest income for the twelve months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the prepayment and renewal rates of mortgages, the volumes and maturity distributions of future mortgages and deposits, future interest rate margins earned on mortgages and paid on deposits, and the growth of other interest rate sensitive items such as cash, available-for-sale securities and derivative contracts. Equity Trust's ALCO is responsible for the oversight of interest rate risk, including the establishment of modelling assumptions, parameters and scenarios.

The following table illustrates the results of management's sensitivity modelling to immediate and sustained interest rate increase and decrease scenarios. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change, limited by the assumption that interest rates cannot fall below zero.

Table 18: Impact of Interest Rate Shifts

($000s, except percentage amounts)	Increase	Decrease
Change of 100 bps		
Impact on net interest income	$ 152	$ (209)
Impact on EVE	1,143	(1,336)
EVE impact as a % of common shareholders' equity	1.1%	(1.3)%
Change of 200 bps		
Impact on net interest income	227	(448)
Impact on EVE	2,169	(2,737)
EVE impact as a % of common shareholders' equity	2.2%	(2.7)%

ACCOUNTING STANDARDS AND POLICIES

Our significant accounting policies are disclosed in Note 2 to our 2016 Audited Financial Statements.

Current & future changes in accounting policies

Certain new standards, interpretations and amendments to existing standards have been published by the IASB and the International Financial Reporting Interpretations Committees ("IFRIC") that will become effective for future periods and could have a potential implication on the accounting policies of the Corporation.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 "Financial Instruments" ("IFRS 9") replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018. The Corporation will be required to adopt IFRS 9 on January 1, 2018 and, as permitted, will not restate comparative period financial information. An adjustment to opening retained earnings will be made upon adoption of IFRS 9 on January 1, 2018.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), and amortized cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the consolidated statements of operations, unless an accounting mismatch in profit or loss would arise.

Impairment

IFRS 9 will also fundamentally change the loan loss impairment methodology. The new standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk ("SICR") since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. This compares to the present incurred loss model which recognizes lifetime credit losses when there is objective evidence of impairment.

In comparison to IAS 39, the Corporation expects the impairment charge under IFRS 9 to be more volatile than under IAS 39.

Stage Migration and Significant Increase in Credit Risk

For non-impaired financial instruments:

• Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12 months of ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

• Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall reclassify to stage 1 and revert to recognizing 12 months of ECL.

For impaired financial instruments:

• Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

For our mortgage business, the individually assessed allowances for impaired loans recognized under IAS 39 will generally be replaced by stage 3 allowances under IFRS 9, while the collective allowances for non-impaired financial instruments will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9.

Key Drivers of Expected Credit Loss

The Corporation is currently refining and testing the application of the ECL methodology for the loan portfolio, which includes building the data, processes and systems to incorporate the following concepts which are subject to a high level of judgment. These will have a significant impact on the level of ECL allowances and may lead to increased volatility of allowances:

• Determining when a SICR of a financial asset has occurred,

• Measuring both 12-month and lifetime credit losses,

• Incorporating forward-looking information through the use of multiple probability-weighted scenarios, and

• Applying expert credit judgement.

SICR for the loan portfolio is based on relative changes in internal risk ratings since initial recognition. In respect to the lifetime of a financial instrument, the maximum period to consider when measuring ECL shall be the maximum contractual period over which an entity is exposed to credit risk.

The Corporation is currently testing the process to determine the forward-looking macroeconomic factors that will be used in the models. The process leverages existing forecasting processes and determines the forward-looking macroeconomic factors for multiple scenarios so that the Corporation can appropriately probability weight the expected losses recognized on the consolidated balance sheet. The process being tested is overseen by an implementation team consisting of key internal stakeholders from Risk Management and Finance. The Corporation will incorporate forward-looking information in both the assessment of SICR and the measurement of ECLs.

Hedge accounting

IFRS 9 allows entities to continue applying hedge accounting under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. As permitted, the Corporation has decided to continue to apply hedge accounting under IAS 39. New hedge accounting disclosure requirements were introduced under IFRS 7 and will be effective January 1, 2018 regardless of whether the Corporation adopts the new general hedge accounting model.

IFRS 15 - Revenue from Contracts with Customers

The Corporation will be required to adopt IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") on January 1, 2018. IFRS 15 provides a principles-based five-step framework that applies to contracts with customers, except for revenue arising from financial instruments, insurance contracts and leases. In April 2016, amendments were made to clarify how to identify a performance obligation, determine whether a company is a principal or an agent and determine whether the revenue from granting a license should be recognised at a point in time or over time. The adoption of IFRS 15 is not expected to have a material impact on the Corporation’s financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC 23 - Uncertainty over Income Tax Treatments, which clarifies application of recognition and measurement requirements in IAS 12 Income Taxes by specifying when there is uncertainty in accounting for income taxes. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumption an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and;
- How an entity considers changes in facts and circumstances

The interpretation is effective on January 1, 2019. The Corporation has not yet determined the impact of IFRIC 23 on its consolidated financial statements.

CONTROL REPORTING

Disclosure Controls and Procedures

Our Disclosure Controls and Procedures ("DCP") are designed to provide reasonable assurance that all relevant information is identified and communicated to our Disclosure Committee. The Disclosure Committee is comprised of members of senior management and is charged with ensuring that appropriate and timely decisions are made regarding public disclosure. Management has evaluated the effectiveness of our DCP and concluded they are effective. There were no material changes in our DCP during the quarter ended September 30, 2017.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed, based on the Internal Control - Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projecting an evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in our ICFR that occurred during the quarter ended September 30, 2017 that materially affected or are reasonably likely to materially affect, the reliability of our financial reporting or the preparation of our financial statements for external purposes.

NON-IFRS FINANCIAL MEASURES

The Corporation employs certain financial measures to assess its performance that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. However, we believe the non-IFRS measures are useful supplemental measures that may assist financial analysts and investors in assessing certain aspects of our performance. These measures should not be considered as an alternative to any measures of performance presented in accordance with IFRS.

Net interest margin

Net interest margin on our mortgage portfolio is calculated by taking net interest income earned divided by average total mortgage assets generating the interest income.

Return on equity (“ROE”)

ROE is calculated as net income divided by the simple average of reported shareholders’ equity at the beginning and end of the period, multiplied by the appropriate factor to arrive at an annualized figure. ROE is used as an indicator of whether we use our capital resources efficiently.

DISCLOSURE OF OUTSTANDING SHARE DATA

Our common shares trade on the TSX under the symbol “EQI”. Our authorized share capital consists of an unlimited number of common shares without par value. As at November 7, 2017 we had 9,543,508 common shares outstanding and 847,312 stock options to purchase up to an aggregate of 847,312 common shares, with a weighted average exercise price of $9.33, expiring from May 2018 to March 2022.

ADDITIONAL INFORMATION

Additional information relating to EQI, including the Corporation’s annual information form, is available on SEDAR at www.sedar.com.