EQUITY

Equity Financial Holdings Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

THIRD QUARTER ENDED SEPTEMBER 30, 2016

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 alternative mortgage market by offering residential mortgage loans to non-prime and near-prime customers who do not meet the conventional underwriting standards of the major Canadian banks.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We have prepared this Management's 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, 2015 (the "2015 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 08, 2016.

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 alternative 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 securities 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 mortgage loans funded primarily through the issuance of retail deposits. 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 mortgages for non-prime and near-prime customers, a market segment commonly referred to as the alternative mortgage market. We believe this market segment is underserved by existing lenders relative to the demand for alternative mortgages in Canada. Alternative residential mortgage loans are loans to borrowers who do not meet major banks’ standards of credit worthiness. Such mortgages are often granted to self-employed business people, new-comers to Canada and borrowers with an imperfect credit history. Equity Trust’s lending activities are currently concentrated in urban and suburban areas of Ontario.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 30% of Canada’s residential mortgages. (Canadian Association of Accredited Mortgage Professionals: Annual State of the Residential Mortgage Market in Canada, December 2015)

We provide first mortgages primarily for owner occupied, single-family residential properties for purchases, refinances, equity take-outs and debt consolidation. 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 across Canada, offering Guaranteed Investment Certificates (“GICs”) for amounts of five thousand dollars and more, for terms from 30 days up to five years. All qualifying Equity Trust deposits are insured by the CDIC.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE QUARTER ENDED SEPTEMBER 30, 2016

Table 1: Financial Highlights

	For the three months ended			For the nine months ended	
($000s, except per share and percentage amounts)	**September 30, 2016**	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
OPERATIONS					
Net interest income	**$ 4,563**	$ 3,671	$ 2,553	**$ 11,392**	$ 7,483
Provision for credit losses	**(350)**	(359)	(106)	**(876)**	(266)
Non-interest income	**711**	591	465	**1,797**	1,219
Net interest income and other income, including provision for credit losses	**4,924**	3,903	2,912	**12,313**	8,436
Net interest margin	**2.87 %**	2.81 %	2.81 %	**2.85 %**	2.90 %
Net income (loss)	**$ 423**	$ 46	$ (601)	**$ 618**	$ (1,853)
Earnings (loss) per share - basic/diluted	**0.04 / 0.04**	- / -	(0.06) / (0.06)	**0.06 / 0.06**	(0.19) / (0.19)
ROE (annualized) [1]	**1.8 %**	0.2 %	(2.5)%	**0.9 %**	(2.6)%
ADJUSTED INCOME (LOSS) AND EPS					
Adjusted income (loss) [2]	**$ 423**	$ 46	$ (254)	**$ 618**	$ (986)
Adjusted earnings (loss) per share - basic/diluted [2]	**0.04 / 0.04**	- / -	(0.03) / (0.03)	**0.06 / 0.06**	(0.10) / (0.10)

As at	**September 30, 2016**	June 30, 2016	December 31, 2015
BALANCE SHEET			
Total Assets	**$ 737,363**	$ 605,280	$ 431,429
Mortgages receivable, net	**663,157**	538,616	383,282
Deposits	**636,226**	506,607	332,197
Shareholders' equity	**94,531**	93,917	93,455
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory capital (all-in basis)	**$ 84,813**	$ 84,523	$ 84,200
Leverage ratio	**11.2 %**	13.6 %	19.1 %
Common equity tier 1 ratio (all-in basis)	**30.9 %**	36.9 %	49.8 %
Share Information			
Book value per common share	**$ 9.91**	$ 9.85	$ 9.80
Common share price - close	**10.18**	10.45	8.06
Common shares outstanding	**9,543,508**	9,539,508	9,539,508
Market capitalization	**$ 97,153**	$ 99,688	$ 76,888

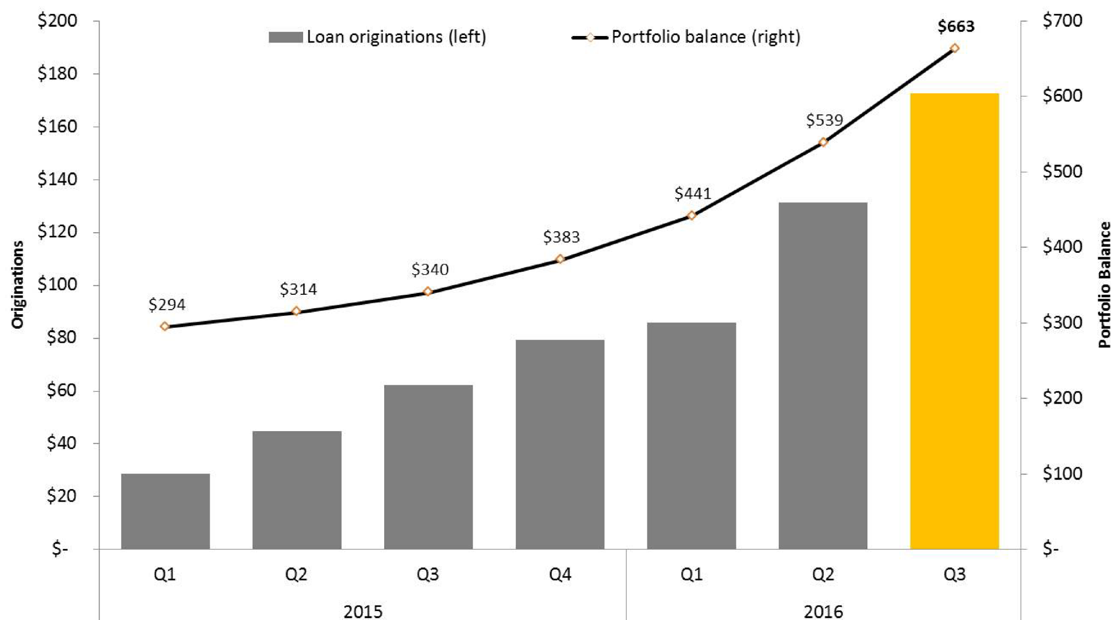
[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

[2] Adjusted net income (loss), adjusted basic earnings (loss) per share, adjusted diluted earnings (loss) per share are defined in the Non-IFRS Financial Measures section of this MD&A.

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

Financial Highlights

Figure 1: Quarterly Mortgage Loan Originations and Portfolio Balance 2015 and 2016 ($ millions)



For the third quarter we earned net income of $423 or $0.04 per share and annualized return on equity of 1.8%, solidifying our return to profitability established earlier in 2016. Our mortgage loan portfolio has doubled in size over the last twelve months, including growth of $124 million in the third quarter on the strength of record mortgage originations. During the third quarter of 2016 we originated mortgages of $172,777, an increase of 31% from the previous quarter. Key financial results for the quarter:

- Mortgage receivable balance of $663,157 as at September 30, 2016, an increase of 23% from June 30, 2016 and an increase of 73% from December 31, 2015.
- Mortgage originations of $172,777, up 31% from $131,427 in Q2 2016 and up 178% from $62,171 in Q3 2015. Year to date originations of $390,046, up 188% from prior year.
- Net income of $423 or $0.04 per share in Q3 2016 compared to net income of $46 in Q2 2016 and net loss of $601 or $0.06 per share in Q3 2015. Year to date net income of $618 or $0.06 per share compared to net loss of $1,853 or $0.19 per share in the prior year.
- Annualized return on equity of 1.8% compared to 0.2% in Q2 2016 and -2.6% in Q3 2015.
- Net interest income of $4,563 in Q3 2016, up 24% compared to $3,671 earned in Q2 2016. Year to date net interest income of $11,392, up 52% compared to $7,484 for the same period in 2015.
- Net interest margin of 2.87% for Q3 2016, increased from 2.81% in Q2 2016. Year to date net interest margin was 2.85% compared to 2.90% in the same period in 2015.
- Non-interest income consists of mortgage servicing fees of $486 for the quarter and $1,197 year to date, up 33% from Q2 2016 and up 30% year to date from 2015. We also earned other fee income of $225 in Q3 2016 and $600 year to date related to EFT's transitional status as trustee for transfer agent and corporate trust clients (see 2013 Sale Transaction). As at September 30, 2016, the transitional period has concluded and no additional fee income will be earned.
- Non-interest expenses for the quarter were $4,286, up 14% from Q2 2016 and up 35% from Q3 2015. Year to date expenses were $11,293, up 18% compared to the same period in 2015. With the exception of

staffing costs, other core operating expenses increased in line with asset and revenue growth. We reported higher staffing costs in the current quarter due to the recognition of variable compensation tied to corporate objectives.

OUTLOOK

As we look forward to the fourth quarter we anticipate finishing 2016 with solid results for mortgage originations and loan book growth. We continue to balance trade-offs between credit quality, net interest margin and portfolio duration as we build the foundation for long run sustainable profitability. Our management team remains focused on growing key broker relationships, launching new mortgage systems and moving to new office space.

Equity Trust remains focused on uninsured non-prime and near-prime residential mortgage lending and we fund mortgages through the issuance of CDIC insured deposits. We are not active in the insured residential mortgage business, and so the changes to mortgage insurance rules recently announced by the Department of Finance do not directly impact our business. We will continue to monitor the market place and individual borrower behaviour to ascertain the extent of any indirect effect.

Equity Trust is a well-capitalized, federally regulated deposit-taking institution, with a management team and Board with many years of experience in the non-prime and near-prime residential mortgage business. As such we believe we are well positioned to take advantage of the profitable opportunities in our industry in 2016 and beyond.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2016**	June 30, 2016	% Change	September 30, 2015	% Change	**September 30, 2016**	September 30, 2015	% Change
Operating Results								
Net interest income	**$ 4,563**	$ 3,671	24 %	$ 2,553	79 %	**$ 11,392**	$ 7,483	52 %
Provision for credit losses	**(350)**	(359)	3 %	(106)	(230)%	**(876)**	(266)	(229)%
Net interest income, including provision for credit losses	**4,213**	3,312	27 %	2,447	72 %	**10,516**	7,217	46 %
Non-interest income	**711**	591	20 %	465	53 %	**1,797**	1,219	47 %
Net interest income and non-interest income, including provision for credit losses	**4,924**	3,903	26 %	2,912	69 %	**12,313**	8,436	46 %
Non-interest expenses	**4,286**	3,769	(14)%	3,168	(35)%	**11,293**	9,577	(18)%
Charge for contingent consideration	**-**	-	- %	400	100 %	**-**	1,000	100 %
Income (loss) before income taxes	**638**	134	376 %	(656)	197 %	**1,020**	(2,141)	148 %
Income tax expense (recovery)	**215**	88	(144)%	(55)	(491)%	**402**	(288)	(240)%
Total net income (loss)	**$ 423**	$ 46	820 %	$ (601)	170 %	**$ 618**	$ (1,853)	133 %
Earnings (loss) per share								
Total earnings (loss) per share, basic	**0.04**	-	100 %	(0.06)	167 %	**0.06**	(0.19)	132 %
Total earnings (loss) per share, diluted	**0.04**	-	100 %	(0.06)	167 %	**0.06**	(0.19)	132 %
ROE (annualized) [1]	**1.8%**	0.2%		(2.5)%		**0.9 %**	(2.6)%	

[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]

($000s, except per share and percentage amounts)	September 30, 2016 Average balance[1]	September 30, 2016 Income / Expense	September 30, 2016 Average rate[2]	June 30, 2016 Average balance[1]	June 30, 2016 Income / Expense	June 30, 2016 Average rate[2]	September 30, 2015 Average balance[1]	September 30, 2015 Income / Expense	September 30, 2015 Average rate[2]
For the three months ended									
ASSETS									
Cash and cash equivalents and securities	**$ 56,944**	$ 146	1.02 %	$ 53,626	$ 128	0.96 %	$ 43,175	$ 111	1.02 %
Mortgages receivable	**596,548**	7,326	4.89 %	487,753	5,842	4.82 %	325,138	3,958	4.83 %
Total interest bearing assets	**653,492**	7,472	4.54 %	541,379	5,970	4.42 %	368,313	4,069	4.38 %
LIABILITIES									
Deposits	**560,266**	2,909	2.07 %	448,605	2,299	2.06 %	277,449	1,516	2.17 %
Total interest bearing liabilities	**560,266**	2,909	2.07 %	448,605	2,299	2.06 %	277,449	1,516	2.17 %
Net interest income per financial statements		4,563			3,671			2,553	
Net interest margin for mortgage portfolio			2.87 %			2.81 %			2.81 %

($000s, except per share and percentage amounts)	September 30, 2016 Average balance[1]	September 30, 2016 Income / Expense	September 30, 2016 Average rate[2]	September 30, 2015 Average balance[1]	September 30, 2015 Income / Expense	September 30, 2015 Average rate[2]
For the nine months ended						
ASSETS						
Cash and cash equivalents and securities	**$ 51,916**	$ 377	0.97 %	$ 41,766	$ 353	1.13 %
Mortgage receivable	**498,346**	18,073	4.84 %	306,833	11,335	4.94 %
Total interest bearing assets	**550,262**	18,450	4.47 %	348,599	11,688	4.53 %
LIABILITIES						
Deposits	**457,192**	7,058	2.06 %	254,443	4,205	2.21 %
Total interest bearing liabilities	**457,192**	7,058	2.06 %	254,443	4,205	2.21 %
Net interest income per financial statements		11,392			7,483	
Net interest margin for mortgage portfolio			2.85 %			2.90 %

[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 2016 increased by $892 or 24% compared to the second quarter of 2016 and increased by $2,010 or 79% compared to the third quarter of 2015, reflecting the growth in our mortgage loan portfolio. The average net interest margin earned on our mortgage portfolio in the third quarter of 2016 was 2.87%, up compared to 2.81% in both the prior quarter and year over year.

Net interest income for the nine months ended September 30, 2016 increased by $3,908 or 52% compared to the same period last year reflecting the growth in our mortgage loan portfolio in the last twelve months. The year-to-date net interest margin earned on our mortgage portfolio in the third quarter of 2016 was 2.85%, down compared to 2.90% for the same period in 2015 primarily reflecting higher average credit quality on new originations and renewals over the past year.

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

	For the three months ended			For the nine months ended	
($000s)	**September 30, 2016**	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Provision for collective credit losses	**$ 350**	$ 273	$ 90	**$ 787**	$ 151
Provision for individual credit losses	**-**	86	16	**89**	115
Total provision for credit losses	**$ 350**	$ 359	$ 106	**$ 876**	$ 266

Our provision for credit losses for the third quarter of 2016 was an expense of $350 compared to an expense of $359 in the second quarter of 2016 and an expense of $106 in the third quarter of 2015. The increase in the current quarter is the result of the growth of our mortgage loan portfolio.

For the year to date, our provision for credit losses was an expense of $875 compared to an expense of $265 in the same period last year. The increase in total provision year to date is mainly attributed to provision for collective credit losses which increase as our mortgage loan portfolio grows.

Table 5: Allowance for Credit Losses

($000s except percentage amounts)	**September 30, 2016**	**% of Gross Loans**	June 30, 2016	% of Gross Loans	September 30, 2015	% of Gross Loans
Collective allowance	**$ 1,861**	**0.28 %**	$ 1,511	0.28 %	$ 1,192	0.35 %
Individual allowance	**87**	**0.01 %**	87	0.02 %	76	0.02 %
Total	**$ 1,948**	**0.29 %**	$ 1,598	0.30 %	$ 1,268	0.37 %

We have established an allowance for credit losses of $1,948 as at September 30, 2016. The overall increase in our allowance for credit losses for the third quarter compared to the prior quarter and third quarter of 2015 mainly reflects the increase in the balance of our mortgage receivable assets.

The individual allowance for an impaired loan previously identified during the second quarter of 2016 remained at $87.

Table 6: Past Due Loans

($000s except percentage amounts)	**September 30, 2016**	**% of Net Loans**	June 30, 2016	% of Net Loans	September 30, 2015	% of Net Loans
1-30 days	**$ 20,040**	**3.02 %**	$ 17,856	3.32 %	$ 18,002	5.29 %
31-60 days	**2,256**	**0.34 %**	2,223	0.41 %	694	0.20 %
61-90 days	**834**	**0.13 %**	256	0.05 %	854	0.25 %
> 90 days	**1,436**	**0.22 %**	1,417	0.26 %	1,337	0.39 %
Total	**$ 24,566**	**3.71 %**	$ 21,752	4.04 %	$ 20,887	6.13 %

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 2016 has remained relatively stable in recent quarters. The improving trend of our past due loans percentage is a positive reflection of our portfolio credit quality and 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 earned from mortgage servicing fees for the third quarter of 2016 was $486 and $1,197 for the year to date, a year over year increase of 54% and increase of 30% for the respective periods, reflecting the growth of our mortgage loan portfolio over the past year. Mortgage servicing fee income was up 33% compared to the second quarter of 2016, reflecting the growth in our mortgage loan portfolio during the quarter.

In addition to non-interest income earned from mortgage servicing fees, we also earned other fee income of $225 in the third quarter of 2016 and $600 year to date, related to EFT's transitional status as trustee for client relationships managed by a third party. As at September 30, 2016, the transitional period has concluded and no additional fee income will be earned (see 2013 Sale Transaction).

Non-interest expenses

Table 7: Non-interest expenses

	For the three months ended					For the nine months ended		
($000s, except percentage amounts)	**September 30, 2016**	June 30, 2016	% Change	September 30, 2015	% Change	**September 30, 2016**	September 30, 2015	% Change
Staffing costs	**$ 2,838**	$ 2,014	41 %	$ 1,924	48 %	**$ 6,823**	$ 5,575	22 %
Rent	**196**	152	29 %	108	81 %	**467**	355	32 %
General and administration	**1,140**	1,494	(24)%	960	19 %	**3,637**	3,120	17 %
Amortization	**112**	109	3 %	176	(36)%	**366**	527	(31)%
Total non-interest expenses	**$ 4,286**	$ 3,769	14 %	$ 3,168	35 %	**$ 11,293**	$ 9,577	18 %

Staffing Costs – Third quarter 2016 staffing costs increased by 41% compared to the second quarter of 2016 and 48% compared to the same quarter last year primarily due to the recognition of variable compensation tied to corporate objectives. Headcount has remained stable since the beginning of the year. The year to date increase of 22% compared to 2015 is due to increased headcount and higher commission and performance-based incentive compensation.

Rent – Rent expense in the quarter and year to date was higher as a result of recognizing lease an onerous lease contract provision relating to our existing office lease as well as lease expense for our new office while we complete the buildout of the space.

General and Administration – The 24% decrease in general and administration costs in the third quarter of 2016 compared to the second quarter of 2016 was primarily due to lower professional fees and mark-to-market expense on DSUs. The remaining core expenses grew in line with asset and revenue growth. The quarter over quarter increase of 19% is mainly the result of operational growth. The year to date increase of 16% compared to 2015 is the result of operational growth along with mark-to-market expense on DSUs but absent of consulting fees incurred in 2015 to complete third party reviews of our redesigned mortgage originations and corporate

governance processes.

Amortization and depreciation – Amortization and depreciation costs remained stable in the third quarter of 2016 compared to the second quarter of 2016 but lower compared to the same quarter last year due to lower amortization of intangible assets as the costs of our core operation systems became fully amortized during the first quarter of 2016. This also resulted in lower year to date expense compared to 2015. We expect this to be a temporary decrease of our amortization expense prior to the launch of our new mortgage underwriting and servicing system, at which point amortization expense is expected to trend toward historical levels.

Net income (loss) and earnings (loss) per share

Table 8: Earnings Per Share

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2016**	June 30, 2016	Change	September 30, 2015	Change	**September 30, 2016**	September 30, 2015	Change
Net income (loss)	**$ 423**	$ 46	820 %	$ (601)	170 %	**$ 618**	$ (1,853)	133 %
Comprehensive income (loss)	**443**	80	454 %	(601)	174 %	**672**	(1,853)	136 %
Basic earnings (loss) per share	**0.04**	-	$ 0.04	(0.06)	$ 0.10	**0.06**	(0.19)	$ 0.25
Diluted earnings (loss) per share	**0.04**	-	$ 0.04	(0.06)	$ 0.10	**0.06**	(0.19)	$ 0.25
ADJUSTED INCOME								
Adjusted net income (loss) [1]	**$ 423**	$ 46	820 %	$ (254)	267 %	**$ 618**	$ (986)	163 %
Adjusted earnings (loss) per share - basic [1]	**0.04**	-	$ 0.04	(0.03)	$ 0.07	**0.06**	(0.10)	$ 0.16
Adjusted earnings (loss) per share - diluted [1]	**0.04**	-	$ 0.04	(0.03)	$ 0.07	**0.06**	(0.10)	$ 0.16

[1] Adjusted net income (loss), adjusted basic earnings (loss) per share and adjusted diluted earnings (loss) per share are defined in the Non-IFRS Financial Measures section of this MD&A.

For the third quarter of 2016 we generated a net income of $423 or $0.04 per share compared to net income of $46 or $- per share in the second quarter of 2016. The higher net income in the third quarter compared to the second quarter is the result of higher net interest income as a result of the growth in our mortgage portfolio, and lower general and administration expenses, partly offset by higher variable compensation in our staffing costs. Net loss in the third quarter of 2015 was $601 or $0.06 per share. After removing the effect of a charge for contingent consideration of $400 ($347 after tax) related to the 2013 sale of our transfer agent and corporate trust business (see 2013 Sale Transaction), the adjusted net loss for the third quarter of 2015 was $254 or $0.03 per share. The increase in net income in 2016 compared to the losses in 2015 is the result of the growth in our mortgage portfolio.

OCI in the quarter was $20 compared to $34 in the second quarter of 2016, which reflects the appreciation in the fair value of the available for sale securities.

Comprehensive income (loss) is the aggregate of net income (loss) and other comprehensive income (OCI). Comprehensive income for the quarter was $443 compared to $80 in the prior quarter and loss of $601 in the third quarter of 2015.

For the year to date we generated net income of $618 or $0.06 per share compared to net loss of $1,853 or $0.19 per share during the same period last year. After removing the effect of the charge for contingent consideration in 2015, the adjusted year to date net loss was $986 or $0.10 in the prior year. The year over year increase in adjusted

net income primarily reflects higher net interest income as a result of a twofold increase in our mortgage portfolio balance in the last twelve months.

2013 SALE TRANSACTION

On April 5, 2013, the Corporation completed the sale of the assets of its transfer agent and corporate trust services business for a purchase price of $64,000 (the "Transaction"). 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.

Since the date of the sale, transfer agent and corporate trust business relationships have been managed by a third party for its economic benefit, including the administration of segregated funds. Beginning in the second quarter of 2015, the Corporation began earning other fee income related to EFT's transitional status as trustee for these client relationships. Other fee income amounted to $225 for the quarter and $600 year to date (2015 - $150 for the quarter and $300 year to date). As at September 30, 2016, the transitional period has concluded with client relationships and segregated funds fully transferred to another entity and as a result no additional fee income will be earned.

FINANCIAL POSITION REVIEW

Table 9: Balance Sheet Highlights

	As at			Change over			
	September 30,	June 30,	December 31,	Sep 2016 - Jun 2016		Sep 2016 - Dec 2015	
($000s, except percentage amounts)	**2016**	2016	2015	**$**	%	$	%
ASSETS							
Cash and cash equivalents	**$ 56,548**	$ 57,383	$ 44,326	**$ (835)**	(1)%	$ 12,222	28 %
Available for sale securities	**12,574**	4,984	-	**7,590**	152 %	12,574	100 %
Mortgages receivable	**663,157**	538,616	383,282	**124,541**	23 %	279,875	73 %
Other assets	**5,084**	4,297	3,821	**787**	18 %	1,263	33 %
Total Assets	**737,363**	605,280	431,429	**132,083**	22 %	305,934	71 %
LIABILITIES							
Customer deposits	**636,226**	506,607	332,197	**129,619**	26 %	304,029	92 %
Other liabilities	**6,606**	4,756	5,777	**1,850**	39 %	829	14 %
Total Liabilities	**642,832**	511,363	337,974	**131,469**	26 %	304,858	90 %
Shareholders' equity	**94,531**	93,917	93,455	**614**	1 %	1,076	1 %
Total Liabilities and Shareholders' Equity	**$ 737,363**	$ 605,280	$ 431,429	**$ 132,083**	22 %	$ 305,934	71 %

Total assets as at September 30, 2016 were $737,363, an increase of 22% compared to the balance as at June 30, 2016 and an increase of 71% compared to the balance as at December 31, 2015 primarily due to the increase in mortgages receivable.

Total liabilities as at September 30, 2016 were $642,832, an increase of 26% compared to the balance as at June 30, 2016 and an increase of 90% compared to the balance as at December 31, 2015 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 deposit funding through registered investment dealers 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"), which has been updated to include new OSFI issued liquidity adequacy requirements. 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.

Table 10: Cash and Cash Equivalents and Securities

	As at			Change over			
($000s, except percentage amounts)	**September 30, 2016**	June 30, 2016	December 31, 2015	Sep 2016 - Jun 2016 $	Sep 2016 - Jun 2016 %	Sep 2016 - Dec 2015 $	Sep 2016 - Dec 2015 %
Deposits with regulated financial institutions	**$ 56,548**	$ 57,383	$ 42,328	**$ (835)**	(1)%	$ 14,220	34 %
Short-term investments	**-**	-	1,998	**-**	0 %	(1,998)	(100)%
Available for sale securities	**12,574**	4,984	-	**7,590**	152 %	12,574	100 %
Total Cash and Cash Equivalents and Securities	**$ 69,122**	$ 62,367	$ 44,326	**$ 6,755**	11 %	$ 24,796	56 %

During the third quarter of 2016 we purchased debt securities, which are classified as available for sale securities. Cash and cash equivalents as at September 30, 2016 increased by $12,222 compared to December 31, 2015, as a result of the inflows and outflows described below.

Table 11: Sources and Uses of Cash

	For the nine months ended		Change	
($000s, except percentage amounts)	**September 30, 2016**	September 30, 2015	$	%
Cash flows provided by operating activities	**$ 25,953**	$ 5,909	$ 20,044	339 %
Cash flows provided by financing activities	**21**	85	(64)	(75)%
Cash flows used in investing activities	**$ (13,752)**	$ (42)	$ (13,710)	(32,643)%

Cash flows from operating activities

Cash flow from operating activities was $25,953 for the nine months ended September 30, 2016, an increase of $20,044, or 339% compared to cash flows from operating activities for the same period in 2015. 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, 2016, we had net inflows of $304,029 from new deposits against net outflows of $280,656 to fund mortgages. For the same period in 2015, we had net inflows of $49,868 from new deposits and net outflows of $42,956 to fund mortgages.

Cash flows from financing activities

Cash flows from financing activities for the nine months ended September 30, 2016 decreased by $64 or 75%, to $21 compared to the same period in 2015. Cash flows from financing activities in both 2016 and 2015 represent proceeds from exercise of employee stock options.

Cash flows used in investing activities

Cash flows used in investing activities for the nine months ended September 30, 2016 were primarily for the purchase of available for sale securities and the development of our new mortgage underwriting and servicing systems. Cash flows used in the nine months ended September 30, 2015 were for regular maintenance of our information technology systems.

Mortgages receivable

Table 12: Mortgage Production & Portfolio Highlights

	For the three months ended				For the nine months ended	
($000s, except percentage and year figures)	**September 30, 2016**	June 30, 2016	December 31, 2015	September 30, 2015	**September 30, 2016**	September 30, 2015
Mortgage originations	**$ 172,777**	$ 131,427	$ 79,325	$ 62,171	**$ 390,046**	$ 135,526
Average loan -to-value ratio at origination	**73.3 %**	73.9 %	73.8 %	73.4 %	**73.7 %**	73.8 %
As at						
Mortgages receivable	**663,157**	538,616	383,282	340,119		
Mortgages receivable due in one year	**456,706**	362,118	244,757	213,815		
Weighted average term to maturity in years	**1.2**	1.2	1.3	1.3		
Weighted average effective interest rate	**4.94 %**	4.88 %	4.86 %	4.89 %		
Weighted average amortization period in years	**29.1**	29.2	29.6	29.9		

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

During the third quarter of 2016 we originated mortgages of $172,777, 27% higher than our originations in the first three quarters of 2015 combined. Compared to the second quarter of 2016, third quarter originations grew by $41,350 or 31%, and compared to the same period last year, quarterly originations grew by $110,606 or 178%. Our mortgage receivable balance has doubled in the last twelve months, ending at $663,157 as at September 30, 2016. The mortgage portfolio grew 23% compared to the balance as at June 30, 2016 and is up 73% compared to the balance as at December 31, 2015.

As at September 30, 2016, the amount of mortgages due within one year is $456,706, the weighted average term to maturity of the portfolio is 1.2 years with a weighted average amortization period of 29.1 years. The weighted average effective interest rate of the portfolio was 4.94% as at September 30, 2016, up slightly from 4.88% as at June 30, 2016 and 4.89% as at September 30, 2015. As at September 30, 2016, the Corporation had outstanding commitments to make future advances on mortgages loans of $52.0 million for various dates through to January 2017.

Customer Deposits

Table 13: Customer Deposits

	As at			
($000s, except percentage and year figures)	**September 30, 2016**	June 30, 2016	December 31, 2015	September 30, 2015
Deposits	**$ 636,226**	$ 506,607	$ 332,197	$ 285,465
Customer deposits due in one year	**456,706**	362,118	174,376	167,161
Weighted average term to maturity in years	**1.2**	1.2	1.3	1.3
Weighted average effective interest rate	**2.08 %**	2.12 %	2.13 %	2.16 %

Customer deposits consist of GICs, which are sold through registered investment dealers, with fixed maturity dates and a weighted average term to maturity of 1.2 years. As at September 30, 2016, the portion of customer deposits due within one year is $456,706 and the weighted average effective interest rate paid on deposits was 2.08%.

For the third quarter of 2016, our customer deposits balance increased by $129,619 or 26% compared to June 30, 2016 and by $247,292 or 64% compared to the balance as at December 31, 2015 reflecting the growth of our mortgage loan book which is primarily funded by GIC deposits.

Financial instruments

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

Available for sale securities 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.

Customer deposits are carried at amortized cost and the disclosed fair value of customer 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, 2016. The table does not include assets and liabilities that are not considered financial instruments.

Table 14: Financial Assets and Liabilities

September 30, 2016	Held for Trading	Available for Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value (Under) Over Carrying Value
Financial assets						
Available for sale securities	$ -	$ 12,574	$ -	$ 12,574	$ 12,574	$ -
Mortgages receivable, net	-	-	663,157	663,157	666,542	3,385
Derivative assets	8	-	-	8	8	-
Total Financial Assets	**8**	**12,574**	**663,157**	**675,739**	**679,124**	**3,385**
Financial Liabilities						
Customer deposits	-	-	636,226	636,226	640,250	4,024
Total Financial Liabilities	**$ -**	**$ -**	**$ 636,226**	**$ 636,226**	**$ 640,250**	**$ 4,024**

Contractual commitments and contingencies

On July 4, 2016, the Corporation entered into an operating lease agreement for new Toronto office space to replace the existing lease expiring in January 2017. The new lease has a term of ten years plus a free rent period, expiring in 2027. The new lease agreement provides for a five-year renewal option at the expiry of the lease at occupancy rates equivalent to fair market value at time of renewal.

The future minimum payments for this new lease commitment are as follows:

Table 15: Commitments

	For the nine months ended June 30, 2016			
($000s)	Not later than one year	Later than one year and not later than five years	Later than five years	**Total**
Office space lease agreements	$ -	$ 3,504	$ 6,306	**$ 9,810**
Total commitments	$ -	$ 3,504	$ 6,306	**$ 9,810**

QUARTERLY FINANCIAL HIGHLIGHTS

Table 16: Summary of Quarterly Results

	2016	2016	2016	2015	2015	2015	2015	2014
($000s, except per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating Results								
Net interest income	**$ 4,563**	$ 3,671	$ 3,158	$ 2,857	$ 2,554	$ 2,434	$ 2,496	$ 2,805
Provision for credit losses	**(350)**	(359)	(167)	101	(106)	(128)	(32)	88
Non-interest income	**711**	591	495	475	465	457	297	340
Net interest income and other income, including provision for credit losses	**4,924**	3,903	3,486	3,433	2,913	2,763	2,761	3,233
Non-interest expenses	**4,286**	3,769	3,238	3,758	3,168	3,361	3,048	3,451
Charge for contingent consideration	**-**	-	-	-	400	600	-	-
Net income (loss)	**423**	46	149	(304)	(601)	(992)	(260)	(229)
Basic earnings (loss) per share	**$ 0.04**	$ -	$ 0.02	$ (0.03)	$ (0.06)	$ (0.10)	$ (0.03)	$ (0.02)
Diluted earnings (loss) per share	**0.04**	-	0.02	(0.03)	(0.06)	(0.10)	(0.03)	(0.02)
Dividends	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance Sheet Highlights								
Cash and cash equivalents	**$ 56,548**	$ 57,383	$ 41,712	$ 44,326	$ 39,183	$ 48,334	$ 36,462	$ 33,231
Mortgages receivable, net	**663,157**	538,616	441,330	383,282	340,119	314,086	294,398	297,374
Total Assets	**737,363**	605,280	487,184	431,429	383,366	366,394	334,876	334,953
Deposits	**636,226**	506,607	388,934	332,197	285,465	268,704	236,496	235,597
Liabilities	**642,832**	511,363	393,520	337,974	289,758	272,419	240,088	240,102
Shareholders' equity	**$ 94,531**	$ 93,917	$ 93,664	$ 93,455	$ 93,608	$ 93,975	$ 94,788	$ 94,851

Net interest income has increased or decreased each quarter in line with the change in the size of our average mortgage portfolio. The net losses in the second and third quarter of 2015 included the effect of contingent consideration related to the sale of our discontinued transfer agent and corporate trust service business (see 2013 Sale Transaction).

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 of potential scenarios 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 the Capital Adequacy Requirements ("CAR") Guidelines issued by OSFI. 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 calculates its risk based CET1 ratio by

dividing CET1 capital by the sum of credit and operational risk-weighted assets. 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, 2016, Equity Trust held CET1 on an "all-in" basis of $84,813 compared with $84,200 as at December 31, 2015.

Table 17: Regulatory Capital (Based on Equity Financial Trust)

		As at					
($000s, except percentage amounts)		**September 30, 2016**		June 30, 2016		December 31, 2015	
Common Equity Tier 1 capital: Instruments and reserves	**Line No.**	**All-in**	**Transitional**	All-in	Transitional	All-in	Transitional
Directly issues qualifying common share capital plus related stock surpluses	1	**$ 34,737**	**$ 34,737**	$ 34,461	$ 34,461	$ 33,912	$ 33,912
Retained earnings	2	**52,405**	**52,405**	52,042	52,042	51,697	51,697
Accumulated other comprehensive income	3	**54**	**54**	34	34	-	-
Common Equity Tier 1 capital before regulatory adjustments	6	**87,196**	**87,196**	86,537	86,537	85,609	85,609
Common Equity Tier 1 capital: Regulatory adjustments							
Total regulatory adjustments to Common Equity Tier 1	28	**(2,383)**	**(1,430)**	(2,014)	(1,208)	(1,409)	(563)
Common Equity Tier 1 capital (CET1)	29	**84,813**	**85,766**	84,523	85,329	84,200	85,046
Tier 1 capital	45	**84,813**	**85,766**	84,523	85,329	84,200	85,046
Total capital	59	**84,813**	**85,766**	84,523	85,329	84,200	85,046
Total risk-weighted assets	60	**274,478**	**275,399**	228,822	229,614	169,246	170,091
Capital ratios							
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	**30.9 %**	**31.1 %**	36.9 %	37.2 %	49.8 %	50.0 %
Tier 1 (as percentage of risk-weighted assets)	62	**30.9 %**	**31.1 %**	36.9 %	37.2 %	49.8 %	50.0 %
Total capital (as percentage of risk-weighted assets)	63	**30.9 %**	**31.1 %**	36.9 %	37.2 %	49.8 %	50.0 %
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

Under the Basel III leverage ratio framework, public disclosure of the leverage ratio was required beginning in 2015. OSFI has established leverage ratio targets on a confidential and institution by institution basis. The leverage ratio of 11.2% (December 31, 2015 - 19.1%) is in excess of OSFI's established minimum target of 3%, as well as the minimum ratio target assigned to Equity Trust by OSFI.

Table 18: Leverage Ratio (Based on Equity Financial Trust)

		As at		
($000s, except percentage amounts)	**Line No.**	**September 30, 2016**	June 30, 2016	December 31, 2015
On-balance sheet exposures				
On-balance sheet items	1	**$ 738,789**	$ 606,021	$ 431,392
Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	2	**(2,383)**	(2,014)	(1,409)
Total on-balance sheet exposure	3	**736,406**	604,007	429,983
Derivative exposures				
Replacement cost	4	**8**	8	-
Add-on amounts for PFE	5	**70**	20	-
Total derivatives exposure	11	**78**	28	-
Other off-balance sheet exposures				
Off-balance sheet exposure at gross notional amount	17	**104,431**	93,860	59,297
Adjustment for conversion to credit equivalent amounts	18	**(83,545)**	(75,088)	(47,438)
Off-balance sheet items	19	**20,886**	18,772	11,859
Tier 1 capital	20	**84,813**	84,523	84,200
Total exposures	21	**757,370**	622,807	441,842
Basel III leverage ratio	22	**11.2 %**	13.6 %	19.1 %

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

Capital Resources

Equity Trust has a capital base sufficient to support its current business in alternative mortgage lending. We may, however, require further capital from time to time to support asset growth, pursue strategic initiatives or to develop future related lines of business.

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, interest rate and market 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, 2016.

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, market, regulatory compliance, reputational, operational, and information technology. A discussion of risks beyond credit, liquidity, interest rate and market risk can be found on pages 28 to 31 of the Corporation's annual MD&A for the year ended December 31, 2015.

Enterprise Risk Management Framework

The Corporation's strategies and risk management are supported by the Corporation's Enterprise Risk Management ("ERM") framework. The ERM framework is a Board approved, systematic and integrated process that enables senior management to effectively manage material risks impacting the operations 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 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.

There can be no absolute assurances that our monitoring of credit risk and our efforts to mitigate credit risk through appropriate underwriting policies, procedures and loss mitigation strategies will be sufficient to prevent an adverse effect on our profitability and financial condition. 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.

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 non-prime and near-prime customers who have limited access to traditional mortgage financing. There is a higher risk of default associated with these customers than with traditional borrowers. The typical non or near prime borrower may have had previous financial difficulties or may not yet have established a sufficient credit history. 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 appropriate 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 reliability of 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 and securities. We consider our exposure to credit risk over cash and cash equivalents and securities to be remote as they consist of cash deposits at Canadian Schedule I banks and securities guaranteed by 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 cash equivalents and high quality liquid assets ("HQLA");
- 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 monitoring 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 reserve of HQLA to net cash inflows and outflows for a specified time horizon; and
- Net Stable Funding Ratio ("NSFR"): the ratio of Equity Trust's liabilities to assets adjusted by factors that represent their inherent stability or permanence, which will become effective in 2018.

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.

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 rates earned on mortgages and paid on deposits, and the growth of other interest rate sensitive items such as cash. 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 will not fall below zero.

Table 19: Impact of Interest Rate Shifts

($000s, except percentage amounts)	Increase	Decrease
Change of 100 bps		
Impact on net interest income	$ 684	$ (506)
Impact on EVE	1,252	(1,197)
EVE impact as a % of common shareholders' equity	1.3 %	(1.3)%
Change of 200 bps		
Impact on net interest income	1,310	(506)
Impact on EVE	2,482	(1,197)
EVE impact as a % of common shareholders' equity	2.6 %	(1.3)%

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Our market risk factors include price risk on available for sale securities. We mitigate this risk by investing only in high-quality, liquid assets guaranteed by the Government of Canada or its Provinces and actively monitoring our investments.

ACCOUNTING STANDARDS AND POLICIES

Our significant accounting policies are disclosed in Note 2 to our 2015 Audited Financial Statements and new policies can be found in Note 2 to our interim consolidated financial statements for the third quarter ended September 30, 2016.

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 15 - Revenue from Contracts with Customers

In April 2016, the IASB issued an amendment to the revenue standard, clarifying some requirements and providing additional transition relief for companies that are implementing the new standard. The amendments 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 recognized at a point in time or over time. The amendments have the same effective date as the original standard of January 1, 2018. The Corporation is in the process of evaluating the impact of IFRS 15 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, 2016

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, 2016 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.

Adjusted net income (loss) and adjusted basic and diluted earnings (loss) per share

Our third quarter and year to date 2015 net loss was affected by a contingent consideration fair value adjustment of $400 ($347 after tax) and $1,000 ($867 after tax) related to the 2013 sale of our transfer agent and corporate trust operations (see 2013 Sale Transaction). The table below provides a reconciliation of net income (loss) to adjusted net income (loss).

Table 20: Reconciliation of Net income (loss) to Adjusted net income (loss)

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2016**	June 30, 2016	% Change	September 30, 2015	% Change	**September 30, 2016**	September 30, 2015	% Change
Net income (loss)	**$ 423**	$ 46	820 %	$ (601)	170 %	**$ 618**	$ (1,853)	133 %
Adjustments for costs incurred in relation to:								
charge for contingent consideration (net of tax)	**-**	-	0 %	347	(100)%	**-**	867	(100)%
Adjusted net income (loss)	**$ 423**	$ 46	820 %	$ (254)	267 %	**$ 618**	$ (986)	163 %
Adjusted basic earnings (loss) per share	**0.04**	-	100 %	(0.03)	233 %	**0.06**	(0.10)	160 %
Adjusted diluted earnings (loss) per share	**$ 0.04**	$ -	100 %	$ (0.03)	233 %	**$ 0.06**	$ (0.10)	160 %

Net interest margin

Net interest margin on our mortgage portfolio is calculated by taking net interest income earned on the portfolio 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 08, 2016 we had 9,543,508 common shares outstanding and 734,910 stock options to purchase up to an aggregate of 734,910 common shares, with a weighted average exercise price of $9.35, expiring from February 2017 to February 2021.

ADDITIONAL INFORMATION

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