EQUITABLE
GROUP INC.

THIRD QUARTER 2011
INTERIM FINANCIAL STATEMENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections entitled “Third Quarter Overview”, “Outlook”, “Net Interest Income”, “Non-Interest Expenses and Income Taxes”, “Mortgage Portfolio”, “Credit Quality and Allowance for Credit Losses”, “Liquidity Investments and Equity Securities”, “Liabilities”, “Shareholders’ Equity”, “Capital Management”, “Changes in Accounting Policies”, “Critical Accounting Estimates” and “Risk Management” of this report, in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws (“forward-looking statements”). These statements include, but are not limited to, statements about the Company’s objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “planned”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases which state that certain actions, events or results “may” , “could”, “would”, “might” or “will be taken”, “occur” or “be achieved.” Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" herein and in the Company's documents filed on SEDAR at www.sedar.com.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three and nine months ended September 30, 2011

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and nine months ended September 30, 2011. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011, together with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010, together with accompanying notes, which were prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("GAAP"). This report, and the information provided herein, is dated as at November 2, 2011. Additional information about the Company, including its Annual Information Form, is available on the Company's website at www.equitabletrust.com and on SEDAR at www.sedar.com.

The Company adopted IFRS as its financial reporting framework on January 1, 2011, with a transition date of January 1, 2010, such that prior period comparative information in the financial statements and the MD&A for 2010 reflects conversion from previous Canadian GAAP to an IFRS basis. Please refer to the "International Financial Accounting Standards" section below for additional considerations related to the impact of adoption. Results for each quarter of 2010, restated on an IFRS basis, have been disclosed on pages 81 to 84 of the Company's 2010 Annual Report.

The report below contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements."

BUSINESS PROFILE

The Company is a niche mortgage lender that provides loans secured by first mortgages and mortgages insured by Canada Mortgage and Housing Corporation ("CMHC"), through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Founded in 1970, Equitable Trust is a federally regulated financial institution supervised by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The primary sources of the Company's revenues are interest income as well as commitment, renewal and discharge fees derived from its mortgage financing business, which focuses on uninsured ("conventional") mortgages, as well as insured mortgages whose securitization is facilitated by CMHC through the Government of Canada's National Housing Act ("NHA") Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs. In addition, the Company earns interest and dividend income from investments.

Equitable Trust's ability to fund its mortgage business by attracting depositors as a member of Canada Deposit Insurance Corporation ("CDIC") is critical to the Company's success in building a diversified mortgage portfolio secured by residential and commercial real estate. Equitable operates without a branch network, choosing instead to achieve a low-cost structure by serving independent mortgage brokers who originate mortgages and independent deposit agents who originate deposits.

The Company's business model and its strong competitive position have contributed to its excellent long-term financial results. The Company is a leader in its mortgage lending niches, which are served through three core lending businesses:

- Single Family Lending Services ("Single Family") representing $1.9 billion (or 20.2%) of mortgage principal outstanding at quarter end;
- Commercial Mortgage – Broker Services ("Broker Services") representing $961.5 million (or 10.2%) of mortgage principal outstanding at quarter end;
- Commercial Lending Services representing $1.3 billion (or 13.6%) of mortgage principal outstanding at quarter end.

At period end, 44.0% of the Company's portfolio consisted of conventional mortgages and 56.0% consisted of securitized mortgages. Please see the Company's Annual Report for further descriptions of its lending businesses, strategies and objectives.

THIRD QUARTER OVERVIEW

Asset Growth

During the third quarter, management continued to meet its objective of expanding the lending businesses in which Equitable has the best opportunity to earn attractive and sustainable risk-adjusted returns, while adhering to its proven risk management processes, capital plan and focus on high levels of productivity. As a result:

- Third quarter mortgage originations were $949.9 million compared to $672.8 a year ago, driven by 55.2% year-over-year growth in conventional single family residential mortgage production (see table 5);
- Conventional mortgage principal outstanding amounted to $4.1 billion, up 20.1% from a year ago;
- Total assets reached a record $10.3 billion at period end, up 18.9% from a year earlier.

Growth of the Company's conventional mortgage assets, particularly single family residential mortgages, is intended to enhance the Company's earnings and support return on equity ("ROE") over time.

Performance

Earnings in the third quarter were strong despite an operational provision ("the provision") relating to an alleged fraud with respect to four condominium corporation loans (see "Operational Provision" below) in the amount of $5.0 million ($0.24 per share). To assist readers in reviewing the underlying results of the business, the table below shows i) earnings per share ("EPS") on a GAAP basis, ii) Adjusted EPS, a non-GAAP measure that removes gains and losses associated with unmatched derivative measurement volatility and iii) EPS adjusted to remove these fair value fluctuations and the provision.

Diluted Earnings Per Share

	Three months ended		Nine months ended	
	September 30,2011	September 30, 2010	**September 30, 2011**	September 30, 2010
EPS – diluted	**$ 0.82**	$ 0.51	**$ 2.81**	$ 1.94
Adjusted EPS – diluted[1]	**$ 0.84**	$ 0.84	**$ 2.81**	**$** 2.56
Adjusted EPS – diluted, excluding provision[2]	**$ 1.08**	$ 0.84	**$ 3.05**	**$** 2.56

[1] Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities (see "Adjusting for Accounting Changes").
[2] Excludes the operational provision related to an alleged fraud of $0.24 per share in the third quarter of 2011.

Other third quarter highlights were as follows:

- Net income was $13.4 million, or $17.0 million excluding the provision, compared to $8.6 million in the third quarter of last year;
- Adjusted net income was $13.6 million or $17.2 million excluding the provision, compared to $13.5 million a year ago;
- Net interest income was $34.8 million, up 14.0% from $30.5 million in the corresponding period of 2010;
- ROE was 13.7% compared to 9.9% in the third quarter of 2010;
- Adjusted ROE was 14.0% or 17.9% excluding the provision, compared to 16.2% in the third quarter of 2010.

Operational Provision

In a press release dated August 23, 2011 the Company reported an alleged fraud relating to four condominium corporation loans with a total outstanding balance of approximately $14.0 million. This amount was reduced to $13.9 million as a result of a partial recovery. Management has engaged external counsel to assist in this matter. The Company has commenced an action against several parties to the subject loan transactions and has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing. Management will defend these claims and will cross claim against a number of the defendants and will continue to review all legal options available to it in pursuing its recourse. In addition to any potential recoveries under its claims, the Company will also claim under its

Financial Institution Bond, which is intended to protect against fraud losses, however, there is no assurance that proceeds or recoveries, if any, will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the loans. Accordingly, the Company recorded a pre-tax operational provision of $5.0 million ($0.24 per share) in the third quarter and reclassified the mortgages in question from mortgages receivable to other assets. The net outstanding balance reported in other assets is $8.9 million. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management has established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

Credit Quality

The Company's credit quality remained strong:

- Net impaired mortgages improved to 0.23% of total mortgage principal outstanding at the end of the third quarter, from 0.29% at June 30, 2011 and 0.38% at the end of September 2010;
- Mortgage principal in arrears 90 days or more was 0.24% of total mortgage principal outstanding at September 30, 2011 compared to 0.27% at June 30, 2011 and 0.40% a year earlier.

The Company realized net loan losses of $0.2 million in the third quarter, charging these against individual allowances recorded in prior quarters. Management is comfortable that provisions taken adequately provide for the risk of loss inherent in the Company's mortgage portfolio. At the end of the third quarter, 77.4% of the portfolio's gross impaired principal was provided for within the Company's allowance for credit losses, compared to 64.4% at the end of the prior quarter. The Company's total allowance for credit losses as a percentage of total mortgage principal outstanding amounted to 0.22% at September 30, 2011, compared to 0.26% at the end of the prior year. Total allowance for credit losses as a percentage of principal outstanding, excluding CMHC-insured mortgages, amounted to 0.53% at September 30, 2011 compared to 0.63% at year-end 2010.

Capital Measures

Equitable Trust's capital position at September 30, 2011 was strong, with a total capital ratio of 16.3% (including collective allowance). The Company's Tier 1 capital ratio and tangible common equity ratio at September 30, 2011 were 13.8% and 12.2% respectively (see explanation in the Non-GAAP Financial Measures section of this MD&A).

Dividend Increase

On November 2, 2011, the Company's Board of Directors announced a 9.1% annualized increase in the Company's common share dividends and declared the third quarter common share dividend at the higher rate of $0.12 per share, payable on January 3, 2012, to common shareholders of record at the close of business on December 15, 2011. This is the second common share dividend increase in 2011 and reflects, among other things, the Board's confidence in the growth and earnings potential of the Company, the strength of its capital position and ability to fund future asset expansion.

On November 2, 2011, the Company's Board of Directors also declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on December 31, 2011, to preferred shareholders of record at the close of business on December 15, 2011.

OUTLOOK

Management believes the current outlook for the Canadian economy will require Equitable to remain vigilant with respect to risk as it achieves its growth objectives for the year. The outlook assumes domestic GDP growth will be held in check due to ongoing weakness in the United States and the Eurozone economies, and that the Bank of Canada ("BOC") will maintain its current monetary policy with the possibility of a slight reduction in the trendsetting rate to support economic activity and employment.

In respect of Canadian real estate, management has long focused on markets where it believes long-term fundamentals support the demand for real estate, principally in urban centers that enjoy a diversified economy and population growth due to immigration both from within and outside Canada. Management will continue to apply this approach, along with its traditional discipline in setting loan-to-value ratios and other prudent lending criteria going forward within its active sales strategies. The Company's decision to expand its Single Family lending business to new urban markets over the past four years now provides Equitable with more options for growth and mortgage asset diversification. Management is particularly pleased with inroads made this year in its newest single family mortgage lending markets in Saskatchewan and expects to continue to build Equitable's presence in Saskatoon and Regina along with market shares in other urban centers in western Canada to complement the Company's longstanding strength in Ontario.

Taking into account recent momentum in single family mortgage originations and market share growth, favourable competitive dynamics, economic volatility, and the Company's strategies for managing risk, maintaining its balance sheet strength and growing earnings, management expects that in the fourth quarter: i) single family mortgage originations will remain strong and at similar levels compared to the fourth quarter of 2010 ii) the volume of conventional commercial mortgage originations will continue to reflect attractive market opportunities, although the timing of fundings quarter to quarter will remain, as always somewhat unpredictable iii) capital allocation will continue to favour conventional mortgage assets with attractive spreads and securitization activity related to multi-family insured mortgages will begin to reduce (with further reductions planned for 2012) iv) adjusted earnings (a non-GAAP financial measure) will reflect the momentum associated with recent expansion in the Company's high quality conventional mortgage assets and the maintenance of an excellent productivity ratio v) net interest margin ("NIM") will remain stable, even with the potential for a minor contraction should the BOC lower its benchmark interest rate vi) the level of arrears and defaults will remain low as the Company continues to be able to sell properties and work out problem loans in an expeditious and effective manner vii) the GIC market will continue to provide ample funding for Equitable's business viii) the Company will continue to benefit from its exclusive focus on Canadian mortgage markets with no direct exposure to the Eurozone banking system ix) capital ratios remain supportive of ongoing asset expansion.

Due to recent volatility, visibility beyond the fourth quarter in respect of economic conditions is somewhat limited, although management notes that recent forecasts from the Bank of Canada are for slower rates of GDP growth in 2012. These forecasts will be factored into the Company's 2012 growth plans. Overall, management is confident that the trends driving demand in Equitable's niches will remain well entrenched for the long term, including growth in mortgage originations through the independent mortgage broker channel, in self-employment and in immigration. Management's goal of providing outstanding service and thoughtful product solutions will continue to be pursued and is expected to produce ongoing benefits for mortgage brokers, their clients and Equitable's shareholders. In order to support growth and higher levels of service within its niches, the Company recently completed the expansion of its Toronto office facilities and during the quarter, activated a document imaging system to improve efficiencies in its Single Family business. The functionality of the imaging system will be introduced to other business units through additional phases of the project.

As part of its long-term capital plan, Equitable is committed to maintaining its robust capital base and conservative liquidity position. Management believes that these fundamentals, along with diversified mortgage lending operations and proven deposit-taking capabilities, enable the Company to capitalize on market opportunities as they arise and provide flexibility to operate profitably in challenging markets. Management also believes that Equitable's current capital ratios are more than sufficient to meet or exceed planned future requirements under proposed international banking rules known as Basel III.

Overall, while risk perceptions have been heightened, and are reflected in capital market volatility, management remains confident in Equitable's ability to create value through profitable growth at this stage of the economic cycle.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS as its financial reporting framework on January 1, 2011, with a transition date of January 1, 2010, such that prior period comparative information in the financial statements and the MD&A for each quarter of 2010 reflects conversion from previous Canadian GAAP to an IFRS basis. On transition, IFRS required the application of certain mandatory and optional transition exemptions. The details of the restatement and the mandatory and selected optional exemptions, which the Company applied on transition, are set out in Note 4 to the accompanying unaudited interim consolidated financial statements. Additionally, results for each quarter of 2010, restated on an IFRS basis, have been disclosed on pages 81 to 84 of the Company's 2010 Annual Report.

It is generally not appropriate to directly compare the Company's financial position and results of operations as stated under IFRS with those stated under previous Canadian GAAP, given the differences entailed in IFRS. Although many of the principles and standards comprising IFRS are similar to previous Canadian GAAP, certain standards are fundamentally different, resulting in significant restatement of previously reported financial results and financial position. The restatement of the Company's results and financial position to IFRS impacts asset and liability categorization as well as certain performance indicators, including credit quality and credit provision ratios, liquidity ratios, the efficiency ratio, EPS, ROE and return on assets (see Table 1, below). Readers are cautioned when making comparisons to prior periods.

The most significant impact of conversion to IFRS relates to the accounting for the Company's securitization activities and the timing of income and expense recognition related to the respective securitization assets and liabilities. IFRS has been applied retroactively to all securitization transactions occurring after January 1, 2004, with an adjustment to opening retained earnings that is intended to unwind the previously reported impact of these securitization transactions.

More specifically, transition to IFRS resulted in the re-recognition of $4.7 billion of securitized mortgage assets and the related securitization liabilities in the Company's balance sheet as at January 1, 2011. The IFRS opening retained earnings and accumulated other comprehensive income as of the transition date to IFRS of January 1, 2010 were adjusted retrospectively for the net impact of the accounting differences between previous Canadian GAAP and IFRS. This resulted in a downward adjustment to retained earnings of $37.7 million, which is now being recovered incrementally through earnings. Accumulated other comprehensive income was reduced by $6.5 million to remove fair value adjustments for debt securities issued and retained by the Company and securitization retained interests, both of which are not part of the IFRS balance sheet. Details related to components of IFRS transition adjustments can be found in the reconciliations provided in Note 4 to the accompanying unaudited interim consolidated financial statements, as well as commentary provided in managements' discussion and analysis for the three months ended March 31, 2011, which was the first time the Company results were issued under IFRS.

Under previous Canadian GAAP, assets securitized and sold by the Company were removed from its balance sheet and income and expense recognition resulted from this transaction. Under IFRS, previous securitization gains have been reversed and the securitized mortgage assets continue to reside on the Company's balance sheet. Interest income earned on the securitized assets is recognized on an effective interest rate method, amortizing origination costs over the term of the mortgage. Interest expense is recognized on the securitization liability over the term of the securitization, amortizing transaction costs and the discount or premium over that term. As such, under IFRS, securitized mortgages earn interest spread (less amortization of transaction expenses, ongoing servicing and other costs) over the course of their term.

Unlike previous Canadian GAAP, the recognition of interest prepayment penalty income associated with the prepayment of securitized mortgages is no longer offset by a write-down in the retained interests the Company held in these mortgages. The receipt of this penalty income under IFRS causes a positive income inflow that impacts the Company's results in the period received, though this may be potentially mitigated by portions of penalty fee income that are passed on to third-party investors.

In addition to being affected by differences in the method of accounting for securitized assets, described above, the restatement of the Company's financial results from previous Canadian GAAP to IFRS is affected by differences in the method of accounting for the related derivatives that are within its securitization activities, including the activities it undertakes to hedge interest rate risk associated with mortgage commitments and mortgages issued but awaiting

securitization, as well as the interest rate risk associated with the respective securitization liabilities. The Company has generally used bond forwards to hedge this interest rate risk. Under previous Canadian GAAP, the hedges and the hedged items were carried at fair value and fair value changes would typically offset each other. This is not the case under IFRS, since the hedges are accounted for at fair value and the hedged items are accounted for at amortized cost. In 2011, the Company has implemented a hedge accounting program which designates bond forward contracts as hedges of interest rate risk with respect to its securitization activities in order to remove much of the associated measurement volatility that would otherwise result under IFRS. This was not an issue under previous Canadian GAAP and although hedged on an economic basis, the requirements for hedge accounting were not in place in 2010, leading to unmatched accounting for movements in fair value and an unfavorable pre-tax impact on the measurement of 2010 results under IFRS.

Impact of Hedge Accounting on Quarterly Book Value

As discussed under the section "International Financial Reporting Standards", the Company maintains a hedge accounting program to account for its hedging activities related to its activities under CMHC's securitization programs. Using this hedging approach, bond forwards are entered into to hedge the interest rate risk associated with owning CMHC-insured mortgages prior to securitization. To the extent that the hedges are effective, any change in the value of the hedge is marked to market and charged through other comprehensive income. During the third quarter, fixed rate interest rates declined significantly with the yield on the benchmark Government of Canada 5-year bond declining from 2.33% at June 30, 2011 to 1.40% at September 30, 2011 and the yield on the 10-year bond declining from 3.11% to 2.16% over the same period. This change in the fixed income market resulted in losses from the change in fair value of $9.3 million being charged through other comprehensive income. This charge had no impact on reported EPS, but did reduce reported book value per share by $0.62 compared to the second quarter of 2011.

Adjusting for Accounting Changes

To assist readers in analyzing results during this introductory phase of the new accounting standards, the Company has supplemented its reporting by comparing its 2011 performance to 2010 on an adjusted basis. Adjusted net income, EPS and ROE result from the removal of gains and losses associated with unmatched derivative measurement volatility when comparing period-over-period results. Adjusted figures used in this MD&A are non-GAAP financial measures and do not remove the operational provision taken in the third quarter.

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended		Nine months ended	
	September 30,2011[1]	September 30, 2010	**September 30, 2011**	September 30, 2010
OPERATIONS				
Net income	**13,363**	8,586	**45,161**	31,809
Adjusted net income[2]	**13,628**	13,527	**45,162**	41,041
Net income available to common shareholders	**12,456**	7,679	**42,442**	29,090
Adjusted net income available to common shareholders[2]	**12,721**	12,620	**42,443**	38,322
EPS - basic	**$ 0.83**	$ 0.51	**$ 2.84**	$ 1.95
EPS - diluted	**$ 0.82**	$ 0.51	**$ 2.81**	$ 1.94
Adjusted EPS - basic[2]	**$ 0.85**	$ 0.85	**$ 2.84**	$ 2.57
Adjusted EPS - diluted[2]	**$ 0.84**	$ 0.84	**$ 2.81**	$ 2.56
Net interest income	**34,759**	30,493	**98,425**	87,138
Net interest margin - TEB - total assets	**1.4%**	1.5%	**1.4%**	1.5%
Net interest margin - TEB - non-securitization assets	**2.4%**	2.6%	**2.5%**	2.6%
Net interest margin - TEB - securitization assets	**0.5%**	0.5%	**0.5%**	0.5%
Return on equity - annualized[3]	**13.7%**	9.9%	**16.4%**	13.1%
Adjusted return on equity - annualized[2][3]	**14.0%**	16.2%	**16.4%**	17.0%
Return on average assets – annualized	**0.5%**	0.4%	**0.6%**	0.5%
Mortgage originations	**949,897**	672,797	**2,245,889**	1,830,949
Productivity ratio – TEB[4]	**42.8%**	26.0%	**33.3%**	26.5%
BALANCE SHEET				
Total liquid assets			**956,922**	783,699
Total assets			**10,254,391**	8,624,032
Total liquid assets as a % of non-securitization assets			**17.7%**	19.3%
Total liquid assets as a % of total assets			**9.3%**	9.1%
Mortgages receivable			**9,422,939**	7,963,445
Shareholders' equity			**408,434**	359,356
COMMON SHARES				
Number of common shares outstanding at period end			**14,984,355**	14,923,596
Dividends per common share			**$ 0.33**	$ 0.30
Book value per common share			**$ 24.02**	$ 20.83
Common share price – close			**$ 21.87**	$ 21.04
Market capitalization			**327,708**	313,992
EQUITABLE TRUST CAPITAL RATIOS[5]				
Tangible common equity ratio[6]			**12.2%**	12.1%
Tier 1 capital ratio			**13.8%**	13.9%
Total capital ratio (including collective allowance)			**16.3%**	16.5%
CREDIT QUALITY				
Realized loan losses – net of recoveries			**6,325**	1,826
Net impaired mortgages as a % of total mortgages[7]			**0.23%**	0.38%
Gross impaired mortgage principal			**27,023**	39,205
Allowance for credit losses			**20,924**	20,041
Allowance for credit losses as a % of total mortgage principal			**0.22%**	0.25%

(1) The Company took an operational provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share, in the third quarter. Excluding the provision, net income in the third quarter of 2011 was $17.0 million or $1.06 per diluted share; ROE was 17.6%; and productivity ratio-TEB was 29.2%.

(2) Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities.

(3) Return on equity is calculated based on net income available to common shareholders divided by the weighted average common equity outstanding during the period.

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

(5) Capital measures for September 30, 2010 are calculated in accordance with previous Canadian GAAP.

(6) The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.

(7) Net impaired mortgages do not include CMHC-insured mortgages that are less than 365 days in arrears and reflect gross mortgage principal of impaired mortgages less individual allowance.

FINANCIAL REVIEW - EARNINGS

Net Income

Third quarter 2011 net income increased 55.6% year over year to $13.4 million from $8.6 million in the corresponding period of 2010. Excluding the impact of the provision noted above, net income in the third quarter was $17.0 million. Net income available to common shareholders increased 62.2% to $12.5 million from $7.7 million in the third quarter of 2010. Diluted earnings per share for the quarter were $0.82 - or $1.06 excluding the provision - compared to $0.51 for the same period of 2010.

Removing the volatility associated with unmatched derivative measurement accounting from earnings, adjusted net income for the third quarter of 2011 was $13.6 million compared to $13.5 million in the corresponding period of 2010. Adjusted basic and diluted EPS for the third quarter of 2011 and 2010 were $0.85 and $0.84, respectively.

Excluding the provision, adjusted net income in the quarter increased 27.3% to $17.2 million ($1.08 per share diluted) compared to $13.5 million ($0.84 per share diluted) a year ago.

Net Interest Income

Net interest income is the main driver of profitability for the Company. It is measured on a taxable equivalent basis ("TEB" – see explanation in the Non-GAAP Financial Measures section of this MD&A) so that income from equity securities can be compared, on a pre-tax basis, to ordinary interest income. Net interest income − TEB increased $4.2 million or 13.2% to $35.8 million in the third quarter of 2011 compared to $31.6 million earned during the same period of 2010.

Total interest revenues, using the TEB approach, increased 11.6% year-over-year to $112.7 million in the third quarter. Underpinning this result was year-over-year growth in mortgage interest income, which reflected the increased size of the Company's overall mortgage portfolio during the most recent 12 month period. This increase in mortgage interest income was comprised of 15.3% and 8.2%, respectively, in non-securitized and securitized components. Given higher levels of average liquidity held and the increased returns garnered, income from the Company's liquidity investments was approximately $0.5 million more in the third quarter than in the corresponding period of the prior year. Income derived from equity securities on a TEB basis was $2.8 million in the third quarter of 2011 and 2010.

During the third quarter of 2011, interest expense on deposits increased by $4.7 million or 18.5% over the corresponding 2010 period due primarily to higher GIC balances required to support the Company's matched mortgage portfolio. During the third quarter of 2011, interest expense related to the Company's securitization liabilities increased $2.8 million over the corresponding 2010 period, also primarily due to the increased size of the obligations required to carry a larger securitized mortgage portfolio.

The Company's overall NIM was 1.4% in the third quarter of 2011 compared to 1.5% in the third quarter of 2010 reflecting a decrease in NIM on the Company's non-securitization assets (see Table 2). NIM on securitization assets of 0.5% in both periods in 2011 and 2010 was lower than on non-securitization assets in both periods because securitized assets generally earn lower interest spreads as they are insured under government programs.

Table 2 demonstrates the components of the Company's net interest income, as well as NIM for the three and nine month periods ended September 30, 2011 and the corresponding prior year periods on a TEB.

Table 2: Net interest income

($ THOUSANDS)	**Three months ended September 30, 2011**		Three months ended September 30, 2010		**Nine months ended September 30, 2011**		Nine months ended September 30, 2010	
	Revenue/ expense	**Average rate[1][2]**	Revenue/ expense	Average rate[1][2]	**Revenue/ expense**	**Average rate[1][2]**	Revenue/ expense	Average rate[1][2]
Interest revenues derived from:								
Assets:								
Liquidity investments[2]	**$ 1,792**	**1.4%**	$ 1,332	1.2%	**$ 5,607**	**1.6%**	$ 3,064	0.8%
Equity securities – TEB[2]	**2,805**	**5.6%**	2,807	5.8%	**8,059**	**5.6%**	7,816	5.9%
Mortgages	**53,627**	**5.3%**	46,531	5.6%	**151,950**	**5.4%**	130,135	5.6%
Mortgages - Securitized portfolio	**54,470**	**4.2%**	50,343	4.5%	**159,232**	**4.3%**	145,936	4.5%
Total interest earning assets – TEB	**$ 112,694**	**4.5%**	$ 101,013	4.8%	**$ 324,847**	**4.6%**	$ 286,950	4.7%
Total assets – TEB	**$ 112,694**	**4.5%**	$ 101,013	4.8%	**$ 324,847**	**4.5%**	$ 286,950	4.7%
Interest expenses related to:								
Liabilities and shareholders' equity:								
Deposits	**$ 29,992**	**2.7%**	$ 25,307	2.8%	**$ 84,984**	**2.7%**	$ 70,037	2.7%
Securitization liability	**45,757**	**3.7%**	42,951	4.0%	**135,136**	**3.8%**	123,509	4.0%
Bank term loans	**205**	**6.5%**	467	6.7%	**608**	**6.5%**	1,361	6.6%
Subordinated debentures	**880**	**6.6%**	653	6.9%	**2,612**	**6.6%**	1,929	6.8%
Other interest bearing liabilities[3]	**105**	**1.0%**	54	0.9%	**212**	**1.0%**	107	0.7%
Total interest bearing liabilities	**$ 76,939**	**3.3%**	$ 69,432	3.5%	**$ 223,552**	**3.3%**	$ 196,943	3.4%
Total liabilities and shareholders' equity	**$ 76,939**	**3.1%**	$ 69,432	3.3%	**$ 223,552**	**3.1%**	$ 196,943	3.2%
Net interest income – TEB	**$ 35,755**		$ 31,581		**$ 101,296**		$ 90,007	
Less: Taxable equivalent adjustment	**(996)**		(1,088)		**(2,871)**		(2,869)	
Net interest income	**$ 34,759**		$ 30,493		**$ 98,425**		$ 87,138	
Net interest margin – TEB								
Non-securitized assets	**$ 28,820**	**2.4%**	$ 25,672	2.6%	**$ 82,471**	**2.5%**	$ 72,288	2.6%
Securitized assets	**6,935**	**0.5%**	5,909	0.5%	**18,825**	**0.5%**	17,719	0.5%
Total assets – TEB	**$ 35,755**	**1.4%**	$ 31,581	1.5%	**$ 101,296**	**1.4%**	$ 90,007	1.5%

(1) *Average rate is a simple average calculated with reference to opening and closing period balances.*
(2) *Average rates for liquidity investments and equity securities are calculated based on the average of the month-end balances outstanding during the period.*
(3) *Average rate for other interest bearing liabilities is calculated based on the daily average balances outstanding.*

Other Income

Other income includes ancillary fees related to the origination and administration of the mortgage portfolio, sundry income, gains or losses on investments and real estate owned, as well as other non-mortgage related fees. Other income in the third quarter of 2011 grew 39.5% to $1.0 million compared to $0.8 million in the corresponding quarter of 2010.

Non-interest Expenses and Income Taxes

The increase of $7.3 million in non-interest expenses compared to the corresponding quarter of 2010 reflected: i) the provision recorded during the quarter in the amount of $5.0 million relating to the alleged fraud on four condominium corporation loans having a total outstanding balance at September 30, 2011 of $13.9 million ii) an increase in general and administrative costs of $1.2 million [which included legal costs related to the alleged fraud which, under IFRS will continue to be expensed as incurred] iii) a $1.1 million increase in payroll costs due to higher employment levels to support the Company's growth objectives and executive severance.

In both the third quarter of 2011 and 2010, non-interest expense included a charge for stock-based compensation in the amount of $0.2 million (which results in corresponding increases to contributed surplus).

The Company's productivity ratio − TEB was 42.8% in the third quarter of 2011 - or 29.2% excluding the provision - compared to 26.0% in the third quarter of 2010. Excluding the provision, the Company's third quarter productivity ratio indicates that the Company continues to operate a very efficient operation both on an absolute basis and in comparison to other financial institutions. Legal costs related to the alleged fraud and executive severance also contributed to the increase in the productivity ratio this quarter. This ratio is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income − TEB and other income. While a lower productivity ratio is generally associated with a more efficient cost structure, the Company's productivity index can also be affected by growth in single family mortgage production, increases and declines in funding volumes and the Company's need to maintain human resource staffing levels commensurate with volume expectations.

The effective tax rate for the nine month period ended September 30, 2011 was 25.2% compared to 28.5% in the corresponding prior year period and to the Company's statutory income tax rate of 28.1%.

Return on Equity and Assets

ROE was 13.7% for the third quarter of 2011 - or 17.6% excluding the provision - compared to 9.9% in the third quarter of 2010. Adjusted ROE for the three months ended September 30, 2011 was 14.0% compared to 16.2% in the third quarter of 2010. Excluding the fraud provision, adjusted ROE was 17.9% in the third quarter of 2011.

Annualized return on average assets was 0.5%, compared to 0.4% in the corresponding prior year period.

FINANCIAL REVIEW - BALANCE SHEET

Mortgage Portfolio

Equitable's mortgage portfolio is diversified across both residential and commercial real estate asset categories and consists of first charge and CMHC-insured mortgages. Net of the effects of natural amortization and the payout of mortgages, the Company's non-securitized mortgage principal increased by $690.9 million or 20.1% during the 12 months ended September 30, 2011 to $4.1 billion. This increase reflected the successful ongoing emphasis management has placed on conventional – particularly single family residential – mortgage lending. During the same period, the Company's securitized portfolio increased by $769.1 million or 17.1%. Part of this increase reflected management's decision in the third quarter to obtain insurance on $245.0 million in single family residential mortgage assets previously originated, $207.7 million of which were securitized. Of the $207.7 million, $150.7 million were sold under the NHA MBS program. This decision will lower the Company's cost of funding by replacing GIC deposits as the funding source with securitizations. In total, the Company drove a year-over-year increase of $1.5 billion or 18.4% in total mortgage principal, which stood at $9.4 billion at September 30, 2011.

Table 3: Mortgages receivable – by property type

($ THOUSANDS)	**September 30, 2011**	**% of total**	December 31, 2010	% of total	September 30, 2010	% of total
Single family dwelling[1]	**$ 2,500,561**	**26.6%**	$ 2,020,806	24.7%	$ 1,791,597	22.6%
Mixed-use property	**343,802**	**3.7%**	321,951	3.9%	321,832	4.1%
Multi-unit residential	**447,047**	**4.8%**	404,367	5.0%	398,353	5.0%
CMHC-insured multi-unit residential	**4,900,432**	**52.2%**	4,442,588	54.3%	4,356,475	54.9%
Commercial	**923,880**	**9.8%**	823,834	10.1%	862,161	10.9%
Mortgages held for sale	**38,360**	**0.4%**	44,332	0.5%	83,844	1.1%
Construction	**230,371**	**2.5%**	120,155	1.5%	110,149	1.4%
Total mortgage principal	**9,384,453**	**100.0%**	8,178,033	100.0%	7,924,411	100.0%
Deferred net mortgage commitment fees, net (discounts) premiums and sundry	**25,105**		29,283		28,791	
Mortgages receivable	**9,409,558**		8,207,316		7,953,202	
Accrued interest	**34,305**		31,088		30,284	
Allowance for credit losses	**(20,924)**		(21,103)		(20,041)	
Total mortgages receivable	**$ 9,422,939**		$ 8,217,301		$ 7,963,445	

[1] *Includes $543,546 (December 31, 2010 – $363,682, September 30, 2010 – $127,375) of CMHC-insured and $27,054 (December 31, 2010 – $30,409, September 30, 2010 – $48,643) of other insured single family dwelling mortgages.*

Fixed rate mortgages within the portfolio represented 89.6% of the portfolio at September 30, 2011, compared to 88.8% at September 30, 2010. Floating rate mortgages that had no floors amounted to 4.9% of the portfolio at September 30, 2011, compared to 5.8% at September 30, 2010.

Table 4: Mortgage principal outstanding – by lending business

($ THOUSANDS)	**September 30, 2011**	**% of total**	December 31, 2010	% of total	September 30, 2010	% of total
Single Family Lending Services	**$ 1,889,510**	**20.2%**	$ 1,556,419	19.0%	$ 1,443,063	18.2%
Commercial Mortgage – Broker Services	**961,496**	**10.2%**	831,032	10.2%	792,459	10.0%
Commercial Lending Services	**1,277,536**	**13.6%**	1,085,507	13.3%	1,202,113	15.2%
Securitized Mortgages	**5,255,911** [1]	**56.0%**	4,705,075	57.5%	4,486,776	56.6%
Total mortgage principal outstanding	**$ 9,384,453**	**100.0%**	$ 8,178,033	100.0%	$ 7,924,411	100.0%

[1] *During the third quarter of 2011, the Company securitized $207.7 million of single family mortgages that were originated as conventional mortgages.*

Commensurate with its strategic focus, $379.9 million of the $949.9 million of mortgages funded by the Company during the third quarter of 2011 were conventional single family residential mortgages. Conventional commercial mortgage production also increased substantially on a year-over-year basis reflecting the ongoing success of the Company's two commercial lending businesses. While CMHC-insured multi-unit residential production also increased, management expects to reduce this activity over the coming year as part of its strategy.

Table 5: Mortgage production – by lending business

	Three months ended				Nine months ended			
	September 30, 2011		September 30, 2010		**September 30, 2011**		September 30, 2010	
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total
Single Family Lending Services:								
CMHC-insured single family	**$ 9,920**	**1.0%**	$ 139,591	20.7%	**$ 13,652**	**0.6%**	$ 196,397	10.7%
Conventional mortgages	**379,913**	**40.0%**	244,789	36.4%	**886,232**	**39.5%**	732,874	40.1%
Commercial Mortgage – Broker Services	**84,502**	**8.9%**	48,680	7.2%	**234,661**	**10.4%**	216,488	11.8%
Commercial Lending Services:								
CMHC-insured multi-unit residential	**287,638**	**30.3%**	198,864	29.6%	**736,361**	**32.8%**	488,517	26.7%
Conventional mortgages	**187,924**	**19.8%**	40,873	6.1%	**374,983**	**16.7%**	196,673	10.7%
Total mortgage production	**$ 949,897**	**100.0%**	$ 672,797	100.0%	**$ 2,245,889**	**100.0%**	$ 1,830,949	100.0%

Credit Quality and Allowance for Credit Losses

Table 6: Mortgage credit quality

($ THOUSANDS)	**September 30, 2011**	December 31, 2010	September 30, 2010
Net realized loan losses for the three month period ended	**$ 209**	$ 1,482	$ 170
Gross impaired mortgage principal	**27,023**	43,679	39,205
Allowance for credit losses	**20,924**	21,103	20,041
Allowance for credit losses as a % of total mortgage principal	**0.22%**	0.26%	0.25%
Mortgage principal in arrears 90 days or more[1]	**22,794**	37,349	31,982
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[1]	**0.24%**	0.46%	0.40%

[1] *Mortgage principal in arrears 90 days or more does not include CMHC-insured mortgages that are less than 365 days in arrears.*

Management actively analyzes the profile of its lending businesses and its originations in tandem with external market conditions, including market values and employment conditions that prevail in the markets where it lends. When management judges that the commensurate risk associated with a particular region or product is no longer acceptable, it adjusts its underwriting criteria to ensure that its underwriting policies continue to be prudent and reflective of current and expected economic conditions and thereby safeguards the future health of its portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to ensure a prudent credit risk profile for its portfolio. The low level of loan losses that the Company incurs reflects the quality of its mortgage portfolio and the effectiveness and prudence of its underwriting.

Management's workout activities on impaired loans continue to yield positive results. Net impaired mortgages were 0.23% of total mortgage principal outstanding at September 30, 2011, compared to 0.29% at June 30, 2011 and 0.38% at the end of September 2010. Mortgages in arrears 90 days or more were 0.24% of total mortgage principal outstanding at September 30, 2011 compared to 0.40% a year earlier. Mortgages in early stage delinquency, between 30 to 89 days past due amounted to 0.30% of total outstanding principal at September 30, 2011, a decrease from 0.34% at December 31, 2010. Early stage delinquency is a leading indicator of credit quality in future periods and management believes these

continuing low levels of delinquency reflect the health of the Company's mortgage portfolio and ongoing success in managing defaults.

At September 30, 2011, total allowances for credit losses as a percentage of total mortgage principal outstanding was 0.22%, compared to 0.26% at December 31, 2010. At September 30, 2011, individual allowances amounted to $5.2 million, which is a decrease of $4.2 million compared to the individual allowances outstanding at December 31, 2010. The Company recognized $0.2 million of realized loan losses during the third quarter of 2011 and charged these against specific allowances recorded in prior quarters. As such, individual allowances as a percentage of total mortgage principal were 0.06% at the end of the third quarter of 2011, compared to 0.05% in the immediately preceding quarter. Management is comfortable that provisions taken adequately provide for the risk of loss entailed in the Company's mortgage portfolio. As a measure of the adequacy of total allowances at the end of the third quarter of 2011, 77.4% of the portfolio's gross impaired principal had been provided for within the Company's total allowances for credit losses.

In actively managing its arrears portfolio, the Company has foreclosed on certain properties in order to ensure successful collection of the respective mortgage principal. Real estate owned is recorded as held for sale at its net realizable value. Net fair value of real estate owned as a result of foreclosure was $0.4 million and related to two properties at September 30, 2011. Real estate owned at September 30, 2011 has been appraised by third-party consultants and the amounts recorded represent management's best estimate of the net proceeds to be received on sale.

Liquidity Investments and Equity Securities

The Company holds adequate levels of liquidity on its balance sheet in order to insulate the Company's business and ensure it is well-positioned to manage unexpected and unforeseen events that may impact its ability to obtain funding.

Management closely monitors the Company's liquidity position and believes that the level of liquid capital resources, together with Equitable's ability to raise GIC deposits, are sufficient to meet funding and GIC maturity commitments, as well as ensure the collection of its other receivables and the discharge of its liabilities and other obligations. Liquidity is used by the Company to manage its funding needs, which include $422.7 million in mortgage commitments issued by the Company that were outstanding at September 30, 2011 ($366.7 million at September 30, 2010). Assets held to provide liquidity protection amounted to 7.4% of Equitable Trust's total assets at September 30, 2011, compared to 6.8% at September 30, 2010. The increase reflects the timing of securitizations within the quarter rather than a strategic change in management's approach.

Equity securities in which the Company invests are comprised of preferred shares that are held to yield tax-preferred dividend income and are classified as available for sale assets for financial instrument accounting purposes. As such, unrealized changes in fair value on this portfolio are included in the Company's other comprehensive income. At September 30, 2011, equity securities were $2.0 million or 1.0% higher than at September 30, 2010 and $12.9 million or 6.9% higher than at December 31, 2010. The increased balance from September 30, 2010 was primarily a result of $3.5 million in preferred share purchases, net of sales and redemptions, and a $1.5 million increase in unrealized losses related to the net reduction in the market values of the underlying portfolio. Total net unrealized losses related to the equity portfolio at September 30, 2011 were $4.9 million compared to $2.8 million at December 31, 2010 and $3.4 million at September 30, 2010. Tax-exempt dividend income from equity securities assists in lowering the Company's effective tax rate, which was 24.5% for the quarter ended September 30, 2011 compared to the Company's statutory income tax rate of 28.1%.

Table 7: Liquid assets

($ THOUSANDS)	September 30, 2011	December 31, 2010	September 30, 2010
Eligible deposits with regulated financial institutions[1]	**$ 172,845**	$ 155,114	$ 242,641
Debt securities issued by regulated financial institutions	**99,951**	67,060	49,987
Government guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**151,268**	74,908	69,862
Debt securities issued by Government of Canada	**34,320**	26,213	–
Debt securities guaranteed by Government of Canada	**29,604**	44,159	48,107
Mortgages held in the form of debt securities guaranteed by Government of Canada	**268,546**	244,957	174,937
Assets held for the purpose of providing liquidity protection	**$ 756,534**	$ 612,411	$ 585,534
Other deposits with regulated financial institutions	**277**	128	22
Equity securities	**200,111**	187,202	198,143
Total liquid assets	**$ 956,922**	$ 799,741	$ 783,699
Total liquid assets as a % of total assets	**9.3%**	9.0%	9.1%
Total assets held for regulatory purposes as a % of total Equitable Trust assets	**7.4%**	6.9%	6.8%

[1] *Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $20.3 million (December 31, 2010 – $9.0 million, September 30, 2010 – $7.2 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $59.7 million (December 31, 2010 – $77.6 million, September 30, 2010 – $25.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

Liabilities

As a member of CDIC, Equitable Trust's ability to fund its mortgage businesses by attracting depositors and providing excellent service is critical to the success of its business. Deposits, which are primarily in the form of GICs, provide a stable source of funding that can be appropriately matched against mortgage maturities. Deposits are used to fund most of the Company's liquidity needs, including asset acquisitions, and consist of GIC deposits sourced primarily through a national distribution network of independent deposit agents. This is a deep and liquid source of funding for the Company.

Total deposit principal of $4.6 billion at September 30, 2011 increased $775.0 million or 20.4% from December 31, 2010 and increased $813.4 million or 21.6% from September 30, 2010. At September 30, 2011, cashable GICs represented 15.8% of total deposit principal outstanding versus 14.7% at December 31, 2010. The Company's cashable GIC is a one-year product, cashable on demand at any time after its initial 30-day term. Other GIC products consist of 30-day to five-year fixed term GICs. Equitable Trust is licensed to accept deposits in all Canadian jurisdictions.

The Company funds its securitized mortgage business through CMHC-sponsored securitization programs. At September 30, 2011, securitization liabilities amounting to $5.1 billion were used to fund this business, compared to $4.3 billion at September 30, 2010. The securitization liabilities outstanding at September 30, 2011 related to $1.5 billion of funding provided by the NHA MBS program and $3.4 billion of funding provided by the CMB program.

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, and the fair value of derivative financial instruments owing to hedging counterparties.

Contractual obligations by year of maturity are outlined in Table 2 on page 43 of the Company's 2010 Annual Report. There have been no material changes to contractual obligations that are outside the ordinary course of the Company's operations.

The Company is in compliance with all of the covenants required by its bank loan facilities, $12.5 million of which remained outstanding at September 30, 2011. Details related to the Company's bank term loans and subordinated debentures can be found in Notes 12 and 13 to the audited consolidated financial statements found within the Company's 2010 Annual Report.

Shareholders' Equity

Total shareholders' equity increased $27.0 million or 7.1% to $408.4 million at September 30, 2011 from $381.5 million at December 31, 2010 and grew 13.7% compared to September 30, 2010.

The Company has a Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately preceding the dividend payment date. Common shares issued as a result of participation in the DRIP are issued from the Company's treasury. During the three months ended September 30, 2011, 4,873 common shares were issued under the DRIP.

At September 30, 2011, the Company had 14,984,355 common shares issued and outstanding compared to 14,923,596 common shares issued and outstanding at September 30, 2010. At September 30, 2011 and 2010, the Company had 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding.

During the third quarter of 2011, no options were granted or exercised and 18,600 options were forfeited or expired. As such, at September 30, 2011, there were 897,650 unexercised stock options, which are or will be exercisable, to purchase 897,650 common shares for maximum proceeds of $22.4 million. There has been no additional options-related activity to date. As of November 2, 2011, the Company has 15,001,301 common shares issued and outstanding.

Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("Basel II"). In order to determine prudent capital levels and govern the quality and quantity of capital necessary to maintain the business based on its core risks, Equitable Trust utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

Over the past two years, Equitable Trust has shifted its business to lower risk-weighted assets and retained a higher proportion of its earnings. During the third quarter, the Company's decision to bulk insure $245.0 million single family conventional mortgages had the effect of reducing risk weighted assets while also reducing funding costs for $151.7 million which were subsequently securitized and sold through the NHA MBS Program. Over the course of the next year, management intends to reduce securitization activity in respect of multi-family insured mortgages in order to further optimize its capital structure and maintain a healthy assets-to-capital multiple.

Equitable Trust's total capital ratio (when collective allowance is included in capital) was 16.3% at September 30, 2011, compared to 16.5% a year earlier. As at September 30, 2011, tangible common equity improved to 12.2%, compared to 12.1% a year earlier. Tangible common equity ratio (a non-GAAP measure) is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries, less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. Equitable Trust's strong tangible common equity ratio is considered by management to be a key measure of capital strength. Management considers Equitable Trust to be well capitalized and positioned to maintain strong capital levels through the retention of earnings and the management of its risk-weighted asset mix.

Table 8: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)	September 30, 2011	December 31, 2010 [1]	September 30, 2010 [1]
Risk-weighted assets:			
Credit risk	**$ 2,990,510**	$ 2,724,055	$ 2,714,674
Operational risk[2]	**206,408**	181,457	173,431
Total risk-weighted assets	**$ 3,196,918**	$ 2,905,512	$ 2,888,105
Tier 1 capital:			
Common shares	**$ 130,533**	$ 129,823	$ 129,573
Non-cumulative preferred shares	**50,000**	50,000	50,000
Contributed surplus	**4,123**	3,520	3,369
Retained earnings	**234,898**	233,775	219,998
Accumulated other comprehensive loss[3]	**(3,176)**	(1,676)	(2,097)
IFRS transition adjustment[4]	**23,663**	-	-
Total	**440,041**	415,442	400,843
Tier 2 capital:			
Subordinated debentures (Tier 2B)[5]	**65,171**	65,171	65,171
Total	**65,171**	65,171	65,171
Total regulatory capital	**$ 505,212**	$ 480,613	$ 466,014
Regulatory capital to risk-weighted assets:			
Tier 1 capital	**13.8%**	14.3%	13.9%
Tier 2 capital	**2.0%**	2.2%	2.2%
Total regulatory capital as a % of total risk-weighted assets	**15.8%**	16.5%	16.1%
Total capital calculated as defined under ICAAP:			
Total regulatory capital	**$ 505,212**	$ 480,613	$ 466,014
Collective/General allowance[6]	**15,675**	11,541	11,077
Total capital as defined under ICAAP	**$ 520,887**	$ 492,154	$ 477,091
Total capital ratio as defined under ICAAP	**16.3%**	16.9%	16.5%
Tangible common equity ratio[7]	**12.2%**	12.6%	12.1%
Assets-to-capital multiple (ACM)	**12.9**	9.2	9.4

(1) *Capital measures for December 31, 2010 and September 30, 2010 are calculated in accordance with previous Canadian GAAP.*

(2) *For operational risk, Equitable Trust uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.*

(3) *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.*

(4) *As permitted by OSFI, the transition adjustment for IFRS will be amortized over an eight quarter period ending on December 31, 2012.*

(5) *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.*

(6) *Equitable Trust includes its collective allowance in capital when assessing its capital requirements under its ICAAP.*

(7) *The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other tangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.*

Summary of Quarterly Results

Table 9 summarizes the Company's performance over the last eight quarters. Equitable does not expect material seasonality in its earnings, but changes in short-term interest rates and the impact of these on the Company's hedging activities may cause some volatility in earnings from quarter to quarter as described elsewhere in this MD&A.

Basic and diluted EPS for the third quarter of $0.83 and $0.82, respectively, were lower than the basic and diluted EPS of $0.99 and $0.98 reported in the second quarter of 2011. The fraud provision taken in the third quarter amounted to $0.24 per share, which if excluded, would have resulted in basic and diluted EPS of $1.07 and $1.06 per share, respectively.

Table 9: Summary of quarterly results

	IFRS							Previous Canadian GAAP
	2011			2010				2009
($ THOUSANDS, EXCEPT BALANCE SHEET AND PER SHARE AMOUNTS)	**Q3**[1]	Q2	Q1	Q4	Q3	Q2	Q1	Q4
OPERATIONS								
Net income	**13,363**	15,735	16,063	24,084	8,586	11,071	12,152	15,572
Adjusted net income[2]	**13,628**	15,700	15,833	20,088	13,527	13,468	14,046	N/A
Net income available to common shareholders	**12,456**	14,829	15,157	23,178	7,679	10,165	11,246	14,360
Adjusted net income available to common shareholders	**12,721**	14,795	14,927	19,182	12,620	12,562	13,140	N/A
EPS – basic	**$ 0.83**	$ 0.99	$ 1.01	$ 1.55	$ 0.51	$ 0.68	$ 0.75	$ 0.96
EPS – diluted	**$ 0.82**	$ 0.98	$ 1.00	$ 1.54	$ 0.51	$ 0.68	$ 0.75	$ 0.96
Adjusted EPS – basic[2]	**$ 0.85**	$ 0.99	$ 1.00	$ 1.28	$ 0.85	$ 0.84	$ 0.88	N/A
Adjusted EPS – diluted[2]	**$ 0.84**	$ 0.98	$ 0.99	$ 1.28	$ 0.84	$ 0.84	$ 0.88	N/A
Net interest income	**34,759**	32,461	31,205	32,811	30,493	27,984	28,661	21,113
Net interest margin – TEB - total assets	**1.4%**	1.4%	1.4%	1.6%	1.5%	1.5%	1.5%	2.4%
Total revenues	**112,744**	107,453	104,457	106,897	100,675	93,862	91,811	50,891
Return on equity – annualized	**13.7%**	16.8%	18.0%	28.6%	9.9%	13.7%	15.9%	17.9%
Adjusted return on equity – annualized[1]	**14.0%**	16.7%	17.8%	23.8%	16.2%	16.8%	18.5%	N/A
Return on average assets – annualized	**0.5%**	0.6%	0.7%	1.1%	0.4%	0.5%	0.6%	1.6%
Productivity ratio – TEB	**42.8%**	28.7%	27.4%	25.2%	26.0%	28.3%	25.2%	25.1%
Total mortgage production	**949,897**	629,249	666,743	639,680	672,797	663,722	494,431	640,587
Conventional mortgage production	**652,339**	431,188	412,349	393,442	334,342	495,376	316,318	266,884
CMHC-insured production	**297,558**	198,061	254,394	246,238	338,455	168,346	178,113	373,703
BALANCE SHEET ($ millions)								
Total liquid assets	**957**	807	754	800	784	589	797	914
Total assets	**10,254**	9,567	9,173	8,884	8,624	8,109	7,829	3,846
Mortgages receivable	**9,423**	8,864	8,560	8,217	7,963	7,611	7,167	2,763
Shareholders' equity	**408**	409	397	381	359	350	342	374
Book value per common share	**$ 24.02**	$ 24.05	$ 23.32	$ 22.28	$ 20.83	$ 20.24	$ 19.70	$ 21.83

[1] *The Company took a pre-tax operational provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in the third quarter of 2011. Excluding the provision, net income in the third quarter of 2011 was $17.0 million or $1.06 per diluted share; ROE was 17.6%; and productivity ratio-TEB was 29.2%.*

[2] *Adjusted for fair value fluctuations on derivatives used in the Company's securitization activities.*

CHANGES IN ACCOUNTING POLICIES

The Company's current interim financial statements were prepared using the accounting policies the Company expects to adopt in its December 31, 2011 annual financial statements. In preparing the Company's first annual IFRS financial statements, the Company is required to use the standards in effect as at December 31, 2011, which may differ from the policies the Company currently expects to adopt and used in the current interim financial statements. Differences may arise as a result of new standards being issued, with an effective date of December 31, 2011 or prior, before the preparation of the Company's December 31, 2011 annual financial statements. Accordingly, to the extent that new standards are issued with an effective date of December 31, 2011 or prior, the accounting policies used in the Company's current interim financial statements would differ from those used in the Company's annual December 31, 2011 financial statements. A change in the accounting policies used may result in material changes to the Company's reported financial position, results of operations and cash flows.

Future Accounting Changes

(i) IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") was amended by the IASB in October 2010. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. The amendments include additional disclosures on transfer transactions of financial assets. These amendments will not have an impact on the results of operations of the Company as they pertain only to disclosure requirements.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iii) IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 sets out in a single IFRS framework the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates primarily relate to the areas of credit risk, allowance for credit losses and other financial instruments. The policies and methodologies used to determine these estimates and their significance to the Company's financial condition have been outlined in this MD&A, as well as Notes 1 and 2 to the audited consolidated financial statements for the year ended December 31, 2010 and the MD&A within the Company's 2010 Annual Report.

The allowance for credit losses reflects management's best estimate of probable losses in the Company's mortgage portfolio as at the consolidated balance sheet date. In order to assess the likelihood of a loss, management takes into consideration a broad range of information, including portfolio asset mix, credit risk ratings, asset coverage ratios, economic and geographic factors, as well as specific issues with respect to individual borrowers. Changes in any of these factors may cause the future assessment of credit risk to be significantly different from current assessments and could affect the level of allowance for credit losses being maintained by the Company.

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include the commitments it makes to fund its pipeline of mortgage originations (see Note 6 to the unaudited interim consolidated financial statements for the period ended September 30, 2011).

RELATED PARTY TRANSACTIONS

From time to time, certain of the Company's directors and officers purchase GICs and subordinated debentures from the Company in the ordinary course of business.

RISK MANAGEMENT

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. Management is responsible for identifying risks and developing an appropriate risk management framework. The Board of Directors and the Committees of the Board play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's key risks include credit, interest rate and funding risk. For discussion of the risks that affect the Company, please refer to pages 43 to 46 of the Company's 2010 Annual Report which is available on SEDAR at www.sedar.com.

Credit Risk

Credit risk is defined as the possibility that Equitable will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honor their obligations to the Company.

Equitable's focus is on providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section within this MD&A that is entitled Credit Quality and Allowance for Credit Losses on page 14.

The Company also invests in preferred share securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 73.9% of the preferred share equity securities portfolio at September 30, 2011, compared to 61.3% a year earlier. This corresponded to a year-over-year net increase of $16.3 million in securities rated P-2 and higher and was related to activity that included purchases, redemptions and market value movements during the intervening period.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. The Company uses simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity and on pre-tax net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of cashable GICs and early payouts of mortgages. Management's sensitivity modeling indicates that in the event of an immediate and sustained 1% interest rate increase, net interest income during the 12-month period following September 30, 2011 would increase by $3.9 million. Conversely, if interest rates were to decrease by 1% (but not decrease beyond a floor of 0% and therefore not be allowed to go negative), net interest income would decrease by $3.7 million. Equitable's interest rate risk management activities focus on minimizing the shock to economic value of equity ("EVE"). EVE is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms. As at September 30, 2011, a 2% parallel increase in interest rates would result in a increase in EVE of $2.8 million (0.8% of common shareholders' equity) and a 2% parallel decrease in interest rates would result in a decrease in EVE of $11.8 million (3.3% of common shareholders' equity). These results assume that yields can never be negative.

Funding Risk

Funding risk is defined as the possibility that the Company will be unable to generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet its commitments as they come due. Funding risk may increase if an unduly large proportion of the Company's deposit-taking business is concentrated in a single person, organization or group of related persons or a single geographic area.

Managing funding risk requires management to keep sufficient liquid assets on hand at all times to meet the mortgage funding needs, investment purchase commitments and GIC redemption and maturity obligations of Equitable Trust. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions that were held by Equitable Trust. These assets amounted to $756.5 million at September 30, 2011 and $585.5 million at September 30, 2010.

Change in Internal Control over Financial Reporting

Equitable's Senior Vice-President, Finance and Chief Financial Officer left the Company on September 12, 2011. There were no other changes in the Company's internal control over financial reporting that occurred during the third quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Management uses a variety of financial measures to evaluate the Company's performance. In addition to GAAP prescribed measures, management uses certain non-GAAP measures that it believes provide useful information to investors regarding our financial condition and results of operations. Readers are cautioned that non-GAAP measures, such as the tangible common equity ratio, do not have any standardized meaning prescribed by Canadian GAAP, and therefore, are unlikely to be comparable to similar measures presented by other companies. Tangible common equity is a key measure of capital strength that is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. The presentation of financial information on a TEB is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the nine months ended September 30, 2011 and 2010, the TEB adjustment was $2.9 million.

From time to time, the Company also utilizes non-GAAP financial measures to reflect circumstances where management separates and discloses non-recurring items from results that have otherwise been reported, in order to more accurately represent the underlying, recurring business performance. The Company believes that adjusted results can sometimes enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. An example of this is the use of adjusted net income, earnings per share and ROE metrics that are reported for the period ended September 30, 2011 and its comparative periods, which removes the impact of fair value fluctuations with respect to the Company's securitization derivatives from year-over-year comparisons. Similarly, in the third quarter, the Company provides financial metrics excluding the $5.0 million [pre-tax] fraud provision, which is an operational charge.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT SEPTEMBER 30, 2011

With comparative figures as at December 31, 2010, September 30, 2010 and January 1, 2010

($ THOUSANDS)

	September 30, 2011	December 31, 2010	September 30, 2010	January 1, 2010
Assets				
Cash and cash equivalents	**$ 173,122**	$ 155,242	$ 242,663	$ 389,170
Restricted cash	**80,050**	86,570	32,811	25,372
Investments *(note 5)*	**550,004**	413,330	377,124	302,292
Mortgages receivable *(note 6)*	**4,121,858**	3,468,507	3,434,379	2,763,020
Mortgages receivable – securitized *(notes 6 & 7)*	**5,301,081**	4,748,794	4,529,066	4,137,247
Other assets *(note 9)*	**28,276**	11,686	7,989	15,191
	$ 10,254,391	$ 8,884,129	$ 8,624,032	$ 7,632,292
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits *(note 10)*	**$ 4,671,138**	$ 3,878,853	$ 3,838,997	$ 3,332,319
Securitization liabilities *(note 7)*	**5,077,052**	4,531,680	4,335,118	3,885,187
Deferred tax liabilities	**7,930**	7,086	7,664	5,191
Other liabilities *(note 12)*	**24,666**	19,884	17,726	14,959
Bank term loans	**12,500**	12,500	27,500	27,500
Subordinated debentures	**52,671**	52,671	37,671	37,671
	9,845,957	8,502,674	8,264,676	7,302,827
Shareholders' equity:				
Preferred shares *(note 13)*	**48,494**	48,494	48,494	48,494
Common shares *(note 13)*	**129,193**	128,068	127,692	127,336
Contributed surplus *(note 14)*	**4,538**	3,935	3,784	3,267
Retained earnings	**239,689**	202,187	180,503	155,890
Accumulated other comprehensive loss	**(13,480)**	(1,229)	(1,117)	(5,522)
	408,434	381,455	359,356	329,465
	$ 10,254,391	$ 8,884,129	$ 8,624,032	$ 7,632,292

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011

With comparative figures for the three and nine month periods ended September 30, 2010

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Interest income:				
Mortgages	**$ 53,627**	$ 46,531	**$ 151,950**	$ 130,134
Mortgages – securitized	**54,470**	50,343	**159,232**	145,936
Investments	**2,624**	2,136	**7,551**	5,791
Other	**977**	915	**3,244**	2,220
	111,698	99,925	**321,977**	284,081
Interest expense:				
Deposits	**29,992**	25,307	**84,984**	70,037
Securitization liabilities *(note 7)*	**45,757**	42,951	**135,136**	123,509
Bank term loans	**205**	467	**608**	1,361
Subordinated debentures	**880**	653	**2,612**	1,929
Other	**105**	54	**212**	107
	76,939	69,432	**223,552**	196,943
Net interest income	**34,759**	30,493	**98,425**	87,138
Provision for credit losses *(note 6)*	**1,991**	2,776	**6,146**	7,204
Net interest income after provision for credit losses	**32,768**	27,717	**92,279**	79,934
Other income:				
Fees and other income	**925**	606	**2,569**	2,247
Net gain on investments	**121**	144	**108**	20
	1,046	750	**2,677**	2,267
Net interest and other income	**33,814**	28,467	**94,956**	82,201
Non-interest expenses:				
Compensation and benefits	**5,849**	4,752	**16,862**	14,073
Other *(note 9)*	**9,895**	3,653	**17,746**	10,364
	15,744	8,405	**34,608**	24,437
Income before income taxes and fair value loss	**18,070**	20,062	**60,348**	57,764
Fair value loss on derivative financial instruments – securitization activities	**(368)**	(7,118)	**(1)**	(13,300)
Income before income taxes	**17,702**	12,944	**60,347**	44,464
Income taxes *(note 11):*				
Current	**3,866**	2,706	**14,342**	11,634
Deferred	**473**	1,652	**844**	1,021
	4,339	4,358	**15,186**	12,655
Net income	**13,363**	8,586	**45,161**	31,809
Dividends on preferred shares	**907**	907	**2,719**	2,719
Net income available to common shareholders	**$ 12,456**	$ 7,679	**$ 42,442**	$ 29,090
Earnings per share *(note 15):*				
Basic	**$ 0.83**	$ 0.51	**$ 2.84**	$ 1.95
Diluted	**$ 0.82**	$ 0.51	**$ 2.81**	$ 1.94

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011

With comparative figures for the three and nine month periods ended September 30, 2010

($ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Net income	**$ 13,363**	$ 8,586	**$ 45,161**	$ 31,809
Other comprehensive income (loss), net of tax:				
Available for sale investments:				
Net unrealized gains (losses) from change in fair value[1]	**(1,781)**	2,411	**(55)**	3,418
Reclassification of net (gains) losses to income[2]	**(184)**	77	**(177)**	987
Cash flow hedges:				
Net unrealized losses from change in fair value[3]	**(9,340)**	-	**(11,841)**	-
Reclassification of net gains to income[4]	**(169)**	-	**(178)**	-
Other comprehensive (loss) income	**(11,474)**	2,488	**(12,251)**	4,405
Comprehensive income	**$ 1,889**	$ 11,074	**$ 32,910**	$ 36,214

(1) *Net of income tax benefit of $694 and $21, respectively, for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010 - tax expense of $1,060 and $1,503, respectively).*

(2) *Net of income tax benefit of $72 and $69, respectively, for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010 - tax expense of $34 and $434, respectively).*

(3) *Net of income tax benefit of $3,641 and $4,616, respectively, for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010 – N/A).*

(4) *Net of income tax benefit of $66 and $69, respectively, for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010 – N/A).*

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2011

With comparative figures for the three month period ended September 30, 2010

($ THOUSANDS)

September 30, 2011	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 129,054	$ 4,292	$ 228,881	$ (2,006)	$ 408,715
Net income	–	–	–	13,363	–	13,363
Other comprehensive income, net of tax	–	–	–	–	(11,474)	(11,474)
Contributions from reinvestment of dividends	–	139	–	–	–	139
Contributions from exercise of stock options	–	–	–	–	–	–
Dividends:						
Preferred shares	–	–	–	(907)	–	(907)
Common shares	–	–	–	(1,648)	–	(1,648)
Stock-based compensation	–	–	246	–	–	246
Transfer relating to the exercise of stock options	–	–	–	–	–	–
Balance, end of period	$ 48,494	$ 129,193	$ 4,538	$ 239,689	$ (13,480)	$ 408,434

September 30, 2010	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 127,631	$ 3,613	$ 174,316	$ (3,605)	$ 350,449
Net income	–	–	–	8,586	–	8,586
Other comprehensive income, net of tax	–	–	–	–	2,488	2,488
Contributions from reinvestment of dividends	–	61	–	–	–	61
Contributions from exercise of stock options	–	–	–	–	–	–
Dividends:						
Preferred shares	–	–	–	(907)	–	(907)
Common shares	–	–	–	(1,492)	–	(1,492)
Stock-based compensation	–	–	171	–	–	171
Transfer relating to the exercise of stock options	–	–	–	–	–	–
Balance, end of period	$ 48,494	$ 127,692	$ 3,784	$ 180,503	$ (1,117)	$ 359,356

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011

With comparative figures for the nine month period ended September 30, 2010

($ THOUSANDS)

September 30, 2011	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 128,068	$ 3,935	$ 202,187	$ (1,229)	$ 381,455
Net income	–	–	–	45,161	–	45,161
Other comprehensive income, net of tax	–	–	–	–	(12,251)	(12,251)
Contributions from reinvestment of dividends	–	415	–	–	–	415
Contributions from exercise of stock options	–	599	–	–	–	599
Dividends:						
Preferred shares	–	–	–	(2,719)	–	(2,719)
Common shares	–	–	–	(4,940)	–	(4,940)
Stock-based compensation	–	–	714	–	–	714
Transfer relating to the exercise of stock options	–	111	(111)	–	–	–
Balance, end of period	$ 48,494	$ 129,193	$ 4,538	$ 239,689	$ (13,480)	$ 408,434

September 30, 2010	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 127,336	$ 3,267	$ 155,890	$ (5,522)	$ 329,465
Net income	–	–	–	31,809	–	31,809
Other comprehensive income, net of tax	–	–	–	–	4,405	4,405
Contributions from reinvestment of dividends	–	232	–	–	–	232
Contributions from exercise of stock options	–	106	–	–	–	106
Dividends:						
Preferred shares	–	–	–	(2,719)	–	(2,719)
Common shares	–	–	–	(4,477)	–	(4,477)
Stock-based compensation	–	–	535	–	–	535
Transfer relating to the exercise of stock options	–	18	(18)	–	–	–
Balance, end of period	$ 48,494	$ 127,692	$ 3,784	$ 180,503	$ (1,117)	$ 359,356

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011

With comparative figures for the three and nine month periods ended September 30, 2010

($ THOUSANDS)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 13,363**	$ 8,586	**$ 45,161**	$ 31,809
Adjustments to determine cash flows relating to operating activities:				
Financial instruments at fair value through income	**3,537**	948	**4,636**	5,223
Amortization of capital assets	**256**	154	**493**	449
Provision for credit losses	**1,991**	2,776	**6,146**	7,204
Net gain on sale or redemption of investments	**(105)**	(41)	**(92)**	15
Income taxes	**4,339**	4,358	**15,186**	12,655
Taxes paid	**(4,861)**	(2,558)	**(14,402)**	(10,923)
Stock-based compensation	**246**	171	**714**	535
Amortization of premiums/discount on investments	**834**	553	**2,506**	1,421
Net increase in mortgages receivable	**(558,341)**	(353,520)	**(1,208,823)**	(1,068,460)
Net increase in deposits	**416,867**	378,249	**792,285**	506,678
Change in obligations related to investments sold under repurchase agreements	**(34,298)**	(37,558)	**-**	-
Net change in securitization liability	**300,811**	164,120	**545,372**	449,931
Other assets	**(22,374)**	1,976	**(27,467)**	2,350
Other liabilities	**(2,200)**	(2,687)	**(2,235)**	(1,290)
Cash flows used in operating activities	**120,065**	165,527	**159,480**	(62,403)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid on preferred shares	**(907)**	(907)	**(2,719)**	(2,719)
Dividends paid on common shares	**(1,509)**	(1,430)	**(4,527)**	(4,242)
Proceeds from issuance of common shares	**-**	-	**599**	106
Cash flows used in financing activities	**(2,416)**	(2,337)	**(6,647)**	(6,855)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**(66,260)**	(77,547)	**(125,982)**	(274,662)
Proceeds on sale or redemption of investments	**49,538**	11,639	**83,887**	153,057
Net change in Canada Housing Trust re-investment accounts	**(13,430)**	(4,377)	**(20,961)**	(7,617)
Purchase of investments under reverse repurchase agreements	**(151,268)**	(69,862)	**(181,376)**	(289,281)
Proceeds on sale or redemption of investments under reverse repurchase agreements	**5,115**	69,543	**105,016**	349,140
Changes in restricted cash	**(31,704)**	(3,396)	**6,520**	(16,172)
Purchase of capital assets	**(1,242)**	(72)	**(2,057)**	(447)
Cash flows used in investing activities	**(209,251)**	(74,072)	**(134,953)**	(85,982)
Net (decrease) increase in cash and cash equivalents	**(91,602)**	89,118	**17,880**	(155,240)
Cash and cash equivalents, beginning of period	**264,724**	153,545	**155,242**	397,903
Cash and cash equivalents, end of period	**$ 173,122**	$ 242,663	**$ 173,122**	$ 242,663
Supplementary cash flow information				
Net cash provided by (used in) operating activities include:				
Interest paid	**$ 66,088**	$ 63,329	**$ 184,246**	$ 167,729
Interest received	**108,356**	94,788	**312,609**	274,856
Dividends received	**2,594**	2,512	**7,477**	6,638

See accompanying notes to interim consolidated financial statements.

1. Reporting entity:

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust is federally regulated under the Trust and Loan Companies Act (Canada) by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company is a deposit-taking institution investing in mortgages. As such, the Company operates principally in one industry segment.

2. Statement of compliance:

These interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting ("IAS 34")* as issued by the International Accounting Standard Board ("IASB") and using the accounting policies the Company will also adopt in its consolidated financial statements as at and for the year ending December 31, 2011. These financial statements were authorized for issuance by the Board of Directors of the Company on November 2, 2011.

Given that the interim consolidated financial statements for the first, second and third quarters are the Company's first financial statements prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS, that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), have been included in the interim consolidated financial statements for the comparative period.

These interim consolidated financial statements should be read in conjunction with the Company's 2010 annual audited consolidated financial statements and in consideration of the IFRS transition disclosures included in Note 4 to these financial statements.

3. Significant accounting policies:

The following notes describe the Company's significant accounting policies. These accounting policies have been applied consistently to all periods presented in these interim consolidated financial statements and in preparing the opening IFRS consolidated balance sheet as at January 1, 2010 for purposes of the transition to IFRS.

(a) Basis of presentation and measurement:

The interim consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Trust, after the elimination of intercompany transactions and balances. The Company has control of Equitable Trust since it has the power directly or indirectly, to govern its financial and operating policies so as to obtain benefit from its activities.

The interim consolidated financial statements have been prepared on the historical cost basis except for the following items, derivative financial instruments, financial assets and liabilities at fair value through income and available for sale financial assets.

(b) Functional currency:

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

3. Significant Accounting Policies (continued):

(c) Financial instruments:

The Company's consolidated balance sheet consists primarily of financial instruments and the majority of net income is derived from income and expenses, as well as gains and losses related to the respective financial instruments.

Financial instrument assets include cash and cash equivalents, restricted cash, investments purchased under reverse repurchase agreements, investments, mortgages receivable and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, derivative financial instruments, obligations under repurchase agreements, bank term loans and subordinated debentures.

(i) Classification of financial assets and liabilities

Financial assets and liabilities are recognized in the consolidated balance sheets at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments.

Financial instruments at fair value through income

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. They are carried at fair value and the related realized and unrealized gains and losses are recognized through income.

Classified as held for trading

Instruments are classified as held for trading if they are acquired principally for the purposes of selling or repurchasing in the near term or a derivative (except for a derivative that is a designated and effective hedging instrument). Upon initial recognition, transaction costs are expensed as incurred.

Designated as at fair value through income

Instruments designated as at fair value through income must meet one of the following criteria: (a) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (b) a group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (c) the instrument contains one or more embedded derivatives unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis that separation is prohibited.

Net income from financial instruments designated as at fair value through income relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated as at fair value through income, and includes all realized and unrealized fair value changes and is recognized in the interim consolidated statements of income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less allowance for credit losses.

3. Significant Accounting Policies (continued):

Available for sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the categories described above. They are initially recognized at fair value plus any transaction costs. Subsequent to initial recognition, available for sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income. When the instrument is derecognized, the cumulative gain or loss in other comprehensive income is transferred to income.

Financial liabilities

Financial liabilities are measured at amortized cost, except for liabilities designated at fair value through income.

(ii) Determination of fair value

When a financial instrument is initially recognized, its fair value is the amount of consideration for which the financial instruments would be exchanged in an arm's-length transaction between knowledgeable parties who are under no compulsion to act.

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

(iii) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability in the consolidated balance sheets. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in income.

The Company's securitizes insured residential mortgages through the creation of mortgage backed securities ("MBS") and sells the MBS to third parties. The transactions do not qualify for derecognition as the Company has not transferred all its rights to receive the cash flows from the asset and the Company has not assumed an obligation to pay the cash flows from the asset under a pass-through arrangement. The transactions are accounted for as secured financing.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

3. Significant Accounting Policies (continued):

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Risks associated with financial instruments:

The use of financial instruments exposes the Company to credit risk, interest rate risk and funding risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of the Company's September 30, 2011 Management's Discussion and Analysis and the corresponding section of the Company's 2010 Annual Report.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at date of purchase is less than three months. Interest earned on cash and cash equivalents is included in interest income – other in the consolidated statements of income. These short-term investments are carried at amortized cost plus accrued interest, which approximates fair value.

(e) Investments purchased under reverse repurchase agreements:

Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada guaranteed debt securities by the Company transacted with a simultaneous agreement to sell the assets back at a specified price on a specified future date, which is generally short term. Debt securities are held on the consolidated balance sheets as investments and are recorded at amortized cost, which approximates fair value. The interest income related to these investments is recorded on an accrual basis and is included in interest income − investments.

(f) Investments:

Investments have been designated as available for sale, are accounted for at settlement date, and are reported on the consolidated balance sheets at fair value. Unrealized gains and losses, net of income taxes, are reported in other comprehensive income, until the investment is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to income.

Investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. If impairment in value is other than temporary, any write-down to net realizable value is reported in income. Gains and losses realized on sale or redemption and impairment write-downs are recorded in other income in the consolidated statements of income.

For debt securities, where an impairment loss subsequently reverses, the carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously. The amount of the reversal is recorded in other income in the consolidated statements of income. Impairment losses on equity securities are not subsequently reversed through net income.

Interest income earned, amortization of premiums and discounts and dividends are included in interest income − investments in the consolidated statements of income. The fair values of investments are generally based on quoted market prices.

3. Significant Accounting Policies (continued):

(g) Mortgages receivable and revenue recognition:

(i) Mortgages receivable designated as loans and receivables

Mortgages are recorded at amortized cost plus accrued interest, net of unamortized origination fees and deferred commitment income, unamortized premiums or discounts and an allowance for credit losses. Net fees relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in interest income – mortgages in the consolidated statements of income.

(ii) Other mortgages designated as at fair value through income

Certain mortgages designated as at fair value through income are carried at fair value with changes in fair value included in interest income – mortgages in the consolidated statements of income.

Interest on mortgages receivable is recorded on the accrual basis. The Company classifies a mortgage receivable 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. Individual allowance is set up for conventional mortgages where payment is contractually past due 90 days and mortgages guaranteed by the Government of Canada where payment is contractually past due 365 days unless management is reasonably assured as to the recoverability of principal and interest.

When an impaired mortgage is identified, the carrying amount of the mortgage is reduced to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the mortgage's effective interest rate. This impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the mortgage are credited to the allowance for credit losses on the consolidated balance sheets.

(h) Allowance for credit losses:

Allowance for credit losses on mortgage assets consists of both individually and collectively assessed impairment allowances.

Individual allowance

At each reporting date, the Company first assesses whether objective evidence of impairment exists individually for mortgage assets. The individual allowance is measured as the difference between the mortgage's carrying amount and present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of the mortgage reflects the cash flows that may result from power of sale or foreclosure less costs for obtaining and selling the collateral.

Collective allowances

If no objective evidence of impairment exists for an individual mortgage, the Company includes the mortgage in a group of mortgage assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an individual allowance has been recognized are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, mortgage assets are grouped on the basis of similar credit risk characteristics (i.e. on the Company's risk-rating system that considers economic conditions, security and mortgage type, concentration risks, geographical exposure, loan to value ratios and other relevant factors).

3. Significant Accounting Policies (continued):

(i) Securitized mortgages and securitization liabilities:

In the normal course of business, the Company securitizes Government of Canada guaranteed residential mortgages through the creation of MBS and the ultimate sale of MBS to third party investors or through the Canada Mortgage Bond ("CMB") program.

The sale of MBS through the NHA MBS and CMB programs do not qualify for derecognition and the mortgages are continued to be accounted for at amortized cost on the consolidated balance sheets. These mortgages are reclassified as securitized mortgages on the consolidated balance sheets upon securitization. In addition, these transactions are considered secured borrowings and result in the recognition of securitization liabilities when cash is received from the securitization entities.

Securitization liabilities, including any premiums or discounts and transaction costs incurred in obtaining the secured financing, are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that discounts estimated future cash outflows over the expected life of the liability.

(j) Dividend income:

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are recognized as a component of interest income − investments, net of amortization of discounts and premiums in the consolidated statements of income.

(k) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative products that are primarily used are interest rate swaps and bond forwards. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposure for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued.

Hedge Accounting

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items caused by the risk being hedged or changes in the amount of future cash flows.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. Any ineffectiveness in the hedging relationship is recognized in fair value gain or loss on derivative financial instruments – securitization activities in the consolidated statement of income as it arises.

3. Significant Accounting Policies (continued):

Cash Flow Hedges

The Company's cash flow hedges are hedges of anticipated cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, *Financial Instruments; Recognition and Measurement*. The Company enters into forward agreements to sell government guaranteed debt securities of terms up to 10 years. To the extent that changes in the fair value of the derivative (forward sale agreements) offset changes in the fair value of the hedged item, they are recorded in other comprehensive income. Any portion of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item (the "ineffectiveness of the hedge") is recorded directly in fair value gain or loss on derivative financial instruments – securitization activities, in the consolidated statement of income.

For cash flow hedges that are discontinued before the end of the original hedge term, the unrealized gain or loss recorded in other comprehensive income is amortized to fair value gain or loss on derivative financial instruments – securitization activities, in the consolidated statement of income as the hedged item affects income. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in fair value gain or loss on derivative financial instruments – securitization activities, in the consolidated statement of income.

(l) Employee benefits include:

(i) Deferred profit sharing plan

The Company has a deferred profit sharing plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions are recognized as an expense in income when they are due in respect of services rendered before the end of the reporting period.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Share-based payments

The Company has a stock option plan for directors and eligible employees of Equitable Trust. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares on the date prior to the date the options were granted. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight line basis over the vesting period of the options granted as compensation expense with a corresponding increase in contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and amortized separately. Expected forfeitures are periodically adjusted in the event of actual forfeitures or for changes in expectations. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock. Compensation expense related to the stock-based compensation plan is included in the consolidated statements of income.

3. Significant Accounting Policies (continued):

In addition to the stock option plan, the Company has a Deferred Share Unit ("DSU") plan for directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in other liabilities in the consolidated balance sheets. The change in the obligation attributable to the change in stock price and dividends paid on common shares is recognized in compensation expense in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of the Company on the Toronto Stock Exchange ("TSX") for the five trading days prior to the date the individual ceases to be a director.

(m) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amounts of the assets and liabilities and their values for tax purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the years that include the date of enactment or substantive enactment.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

(n) Capital assets:

Capital assets are carried at cost less accumulated depreciation. Amortization is calculated using a declining balance method over the estimated useful lives of the assets at the following annual rates as this most closely reflects the pattern of consumption of the future economic benefits:

Capital asset categories	Rate of amortization
Furniture, fixtures and office equipment	20%
Computer hardware and software	30%

Leasehold improvements are amortized on a straight-line basis over the shorter of remaining term of the lease and their useful life.

Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

3. Significant Accounting Policies (continued):

(o) Leases:

Operating leases

Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the property is available for use. Free rent periods are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis.

(p) Deposits:

Deposits are comprised of guaranteed investment certificates ("GICs") issued to depositors. Deposits, with the exception of those designated as at fair value through income, are recorded on the consolidated balance sheets at amortized cost using the effective interest method. Deferred deposit agent commissions are accounted for as a component of deposits with the amortization of these commissions — with the exception of commissions relating to deposits designated as at fair value through income, which are expensed as incurred — being calculated on an effective yield basis as a component of interest expense.

(q) Bank term loans and subordinated debentures:

Bank term loans and subordinated debentures are recorded in the consolidated balance sheets at amortized cost using the effective interest method.

(r) Earnings per share:

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share calculations is determined using the treasury stock method. Under this method, stock options which exercise price is less than the average market price of the Company's common shares are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of diluted earnings per share.

(s) Liability provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

3. Significant Accounting Policies (continued):

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

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the interim consolidated financial statements and the reported amounts of revenue and expenses during the periods. The critical estimates and judgments utilized in preparing the Company's interim consolidated financial statements affect the assessment of allowance for credit losses, the fair values of financial assets and liabilities, derecognition of financial assets transferred upon securitization transactions, effectiveness of financial hedges for accounting purposes and income taxes.

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

(u) Future accounting changes include:

(i) IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") was amended by the IASB in October 2010. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. The amendments comprise additional disclosures on transfer transactions of financial assets. These amendments will not have an impact on the results of operations of the Company as they are disclosure requirements only.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iii) IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 sets out in a single IFRS framework the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied.

4. Transition to IFRS:

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements.

In preparing these interim consolidated financial statements, the Company applied all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011 in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 also provides for certain optional and mandatory exceptions for first-time IFRS adopters.

Initial elections upon adoption

(i) Designation of previously recognized financial instruments

The Company elected to re-designate mortgage commitments (previously fair-valued) as well as mortgages held for securitization, which were previously designated as held for trading, as loans and receivables.

Mandatory exceptions from retrospective application

(i) Derecognition of financial assets and financial liabilities

IFRS 1 provides an election that allows entities to apply the derecognition requirements in IAS 39 prospectively for transactions occurring on or after January 1, 2010. The Company has elected to retrospectively apply the derecognition requirements for securitization transactions as directed by OSFI.

(ii) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date of January 1, 2010 to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were fair valued and recorded in the consolidated balance sheets as a non-hedging derivative financial instrument. The Company did not apply hedge accounting under Canadian GAAP.

(iii) Estimates

Hindsight is not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

4. Transition to IFRS (continued):

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

The Company is required under IFRS 1 to provide the following reconciliations from Canadian GAAP to IFRS for its shareholders' equity, net income and comprehensive income.

RECONCILIATION OF SHAREHOLDERS' EQUITY

($ THOUSANDS)

	Note	December 31, 2010	September 30, 2010	January 1, 2010
Shareholders' equity reported under Canadian GAAP		$ 423,462	$ 412,430	$ 373,861
Differences increasing (decreasing) reported shareholders' equity:				
Securitization activities	i	(56,161)	(67,887)	(58,425)
Interest on non-performing mortgages	ii	3,124	2,405	1,302
Provision for credit losses	ii	(3,224)	(2,405)	(1,302)
Leases	iii	(294)	(301)	(304)
Income taxes	iv	14,548	15,114	14,333
Shareholders' equity reported under IFRS		$ 381,455	$ 359,356	$ 329,465

RECONCILIATION OF NET INCOME

($ THOUSANDS)

	Note	Year ended December 31, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2010
Net income reported under Canadian GAAP		$ 54,267	$ 38,116	$ 13,570
Differences increasing (decreasing) reported net income:				
Securitization activities	i	985	(6,228)	(4,820)
Interest on non-performing mortgages	ii	1,822	1,103	425
Provision for credit losses	ii	(1,922)	(1,103)	(425)
Leases	iii	10	3	7
Income taxes	iv	731	(82)	(171)
Net income reported under IFRS		$ 55,893	$ 31,809	$ 8,586

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

	Note	Year ended December 31,2010	Nine months ended September 30, 2010	Three months ended September 30, 2010
Comprehensive income reported under Canadian GAAP		$ 57,796	$ 44,891	$ 17,293
Differences increasing (decreasing) reported comprehensive income:				
Differences in net income		1,626	(6,307)	(4,984)
Securitization activities	i	1,100	(3,413)	(1,778)
Income taxes	iv	(336)	1,043	543
Comprehensive income reported under IFRS		$ 60,186	$ 36,214	$ 11,074

4. Transition to IFRS (continued):

Notes to the Above Reconciliations

(i) Securitization of mortgages

The Company securitizes Government of Canada guaranteed residential mortgages through the creation of MBS. These MBS are sold through the NHA MBS and CMB programs.

Canadian GAAP

The Company accounted for securitization transactions as sales when control over the mortgages had been surrendered and consideration, in addition to beneficial interests in the transferred mortgages, had been received in exchange. At the time of sale, a gain was recognized based on the Company's best estimate of the net present value of expected future cash flows, primarily the retained interests, net of an estimate for the cost of servicing obligations as the Company retained the responsibility for servicing the mortgages. Retained interests were classified as available for sale assets and were stated at their fair value at the date of transfer with unrealized changes in fair value reported in other comprehensive income. The servicing liabilities were included with other liabilities and stated originally at their fair value and amortized into income over the term of the securitized mortgages.

IFRS

The difference in accounting treatment between Canadian GAAP and IFRS for these securitization transactions has resulted in the following adjustments to the Company's consolidated financial statements:

- The sale of MBS through the NHA MBS and CMB programs does not qualify for derecognition under IFRS as the Company has not transferred all its rights to receive the cash flows from the assets and the Company has not assumed an obligation to pay the cash flows from the asset under a pass-through arrangement. As such, the securitized mortgages are accounted for in the same manner as non-securitized mortgages, remaining on the consolidated balance sheets at amortized cost, with interest income recognized in the consolidated statements of income.
- Gains and losses on securitizations previously recognized in net income under Canadian GAAP have been reversed under IFRS.
- Retained interests recognized on the consolidated balance sheets under Canadian GAAP have been removed from the consolidated balance sheets under IFRS.
- Amortization of retained interests recognized in net income under Canadian GAAP has been reversed under IFRS.
- Unrealized changes in fair value of retained interests recognized in other comprehensive income under Canadian GAAP have been reversed under IFRS.
- The servicing liability included in other liabilities on the consolidated balance sheets under Canadian GAAP has been removed from the consolidated balance sheets under IFRS.
- Amortization of servicing liability recognized in net income under Canadian GAAP has been reversed under IFRS.
- MBS issued by the Company but not yet sold to third parties were reclassified to securitized residential mortgages from available for sale securities under Canadian GAAP. Unrealized changes in fair value recognized in accumulated other comprehensive income were reversed under IFRS.
- Interest income earned on the securitized mortgages not previously recognized under Canadian GAAP has been recognized in net income under IFRS.
- Securitization transactions are accounted for as secured financings (not previously recognized under Canadian GAAP).

4. Transition to IFRS (continued):

- An obligation to repay the funding received in the securitization transaction is recognized on the consolidated balance sheets as securitization liabilities and the related interest expense is recognized in the consolidated statements of income.
- Interest expense on the securitization liabilities not previously recognized under Canadian GAAP has been recognized in net income under IFRS.
- Transaction costs that formed part of the gain or loss on securitization under Canadian GAAP have been capitalized and recognized in interest income and expense under IFRS using the effective interest rate method.
- Accumulated interest cash flows from MBS sold through the CMB Program, not yet paid to the CMB investor, are recognized on the Company's consolidated balance sheets as part of restricted cash. Interest earned on these accumulated interest cash flows are recorded in interest income – other.
- Accumulated principal cash flows from MBS sold through the CMB Program, invested in non-Company issued securities are recognized on the Company's consolidated balance sheets as part of investments ("Canada Housing Trust – re-investment accounts"). Interest earned on Canada Housing Trust – re-investment accounts is recorded in interest income – investments in the Company's statements of income.

Adjustments related to securitization transactions occurring before the date of transition have been adjusted through retained earnings or accumulated other comprehensive income in the consolidated balance sheet of the Company as at January 1, 2010. Adjustments related to securitization transactions occurring on or after the date of transition have been reflected in the consolidated statements of comprehensive income for the periods then ended.

The overall impact of the difference in accounting treatment between Canadian GAAP and IFRS for these securitization transactions results in differences as to the timing of the recognition of income. Ultimately, on maturity of each securitization pool, the same cumulative total amount of income will have been recognized in shareholders' equity under both previous Canadian GAAP and IFRS.

(ii) Accrued interest on non-performing mortgages

Canadian GAAP

The Company suspended the accrual of interest when a mortgage became non-performing. Interest that was subsequently recovered was recognized at the time of recovery, but only after prior write-offs and provision for losses had been recovered, provided there was no further doubt as to the collectability of principal.

IFRS

Interest on non-performing mortgages continues to be accrued. Consequently, the Company sets up individual allowances against the accrued interest receivable on these non-performing mortgages where the Company does not expect to recover all of the accrued interest.

An adjustment from Canadian GAAP to IFRS has been made to retained earnings as at January 1, 2010 to reflect accrued interest on non-performing mortgages up to the date of transition. Interest on non-performing mortgages subsequent to the date of transition has been recognized in net income.

4. Transition to IFRS (continued):

(iii) Leases

Canadian GAAP

Lease payments were expensed as incurred with lease inducements amortized on a straight line basis over the lease term.

IFRS

Lease payments and lease inducements expected at the inception of the lease are amortized on a straight line basis over the lease term.

An adjustment from Canadian GAAP to IFRS has been made to retained earnings as at January 1, 2010 to reflect the lease expense up to the date of transition. Additional lease expense subsequent to the date of transition has been recognized in net income in the relevant period.

(iv) Income tax effects related to share issuance costs

Canadian GAAP

Income taxes were recognized in a manner consistent with the underlying transaction when the transaction occurs within the same period as the income tax effects are being recognized. However, when the income taxes were being recognized in a subsequent period, they were charged to the income statement. Future tax benefits related to share issuance costs were recorded as part of shareholders' equity. Subsequent change in future tax benefits due to change in tax rate was recognized in net income.

IFRS

Deferred taxes that are related to items that have been charged to equity in the same or different periods are charged directly to equity in a manner consistent with the underlying transaction. Deferred tax benefits related to share issuance costs are recorded as part of shareholders' equity. Subsequent changes in deferred tax benefits due to change in tax rate is also recognized as part of shareholders' equity.

An adjustment from Canadian GAAP to IFRS has been made to retained earnings and common and preferred shares as at January 1, 2010 to reflect the change in deferred tax benefit up to the date of transition.

4. Transition to IFRS (continued):

The following reconciliations outline the impact of IFRS on the consolidated balance sheets as at January 1, 2010, September 30, 2010 and December 31, 2010.

RECONCILIATION OF CONSOLIDATED BALANCE SHEET

($ THOUSANDS)

As at January 1, 2010		Previous Canadian GAAP		Effect of transition to IFRS		**IFRS**
Assets						
Cash and cash equivalents	$	395,835	$	(6,665)	**$**	**389,170**
Restricted cash		5,000		20,372		**25,372**
Investments		517,758		(215,466)		**302,292**
Mortgages receivable		2,763,020		–		**2,763,020**
Mortgages receivable – securitized		–		4,137,247		**4,137,247**
Securitization retained interests		147,195		(147,195)		**–**
Other assets		17,266		(2,075)		**15,191**
	$	3,846,074	$	3,786,218	**$**	**7,632,292**
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits	$	3,332,319	$	–	**$**	**3,332,319**
Securitization liabilities		–		3,885,187		**3,885,187**
Deferred tax liabilities		19,999		(14,808)		**5,191**
Other liabilities		54,724		(39,765)		**14,959**
Bank term loans		27,500		–		**27,500**
Subordinated debentures		37,671		–		**37,671**
		3,472,213		3,830,614		**7,302,827**
Shareholders' equity:						
Preferred shares		48,523		(29)		**48,494**
Common shares		127,424		(88)		**127,336**
Contributed surplus		3,267		–		**3,267**
Retained earnings		193,635		(37,745)		**155,890**
Accumulated other comprehensive income (loss)		1,012		(6,534)		**(5,522)**
		373,861		(44,396)		**329,465**
	$	3,846,074	$	3,786,218	**$**	**7,632,292**

4. Transition to IFRS (continued):

RECONCILIATION OF CONSOLIDATED BALANCE SHEET

($ THOUSANDS)

As at September 30, 2010		Previous Canadian GAAP		Effect of transition to IFRS		**IFRS**
Assets						
Cash and cash equivalents	$	249,996	$	(7,333)	**$**	**242,663**
Restricted cash		7,240		25,571		**32,811**
Investments		541,035		(163,911)		**377,124**
Mortgages receivable		3,437,117		(2,738)		**3,434,379**
Mortgages receivable – securitized		–		4,529,066		**4,529,066**
Securitization retained interests		154,832		(154,832)		**–**
Other assets		9,538		(1,549)		**7,989**
	$	4,399,758	$	4,224,274	**$**	**8,624,032**
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits	$	3,838,997	$	–	**$**	**3,838,997**
Securitization liabilities		–		4,335,118		**4,335,118**
Deferred tax liabilities		22,675		(15,011)		**7,664**
Other liabilities		60,485		(42,759)		**17,726**
Bank term loans		27,500		–		**27,500**
Subordinated debentures		37,671		–		**37,671**
		3,987,328		4,277,348		**8,264,676**
Shareholders' equity:						
Preferred shares		48,523		(29)		**48,494**
Common shares		127,780		(88)		**127,692**
Contributed surplus		3,784		–		**3,784**
Retained earnings		224,556		(44,053)		**180,503**
Accumulated other comprehensive income (loss)		7,787		(8,904)		**(1,117)**
		412,430		(53,074)		**359,356**
	$	4,399,758	$	4,224,274	**$**	**8,624,032**

4. Transition to IFRS (continued):

RECONCILIATION OF CONSOLIDATED BALANCE SHEET

($ THOUSANDS)

As at December 31, 2010		Previous Canadian GAAP		Effect of transition to IFRS		**IFRS**
Assets						
Cash and cash equivalents	$	163,797	$	(8,555)	**$**	**155,242**
Restricted cash		8,965		77,605		**86,570**
Investments		644,498		(231,168)		**413,330**
Mortgages receivable		3,468,607		(100)		**3,468,507**
Mortgages receivable – securitized		–		4,748,794		**4,748,794**
Securitization retained interests		153,567		(153,567)		**–**
Other assets		14,032		(2,346)		**11,686**
	$	4,453,466	$	4,430,663	**$**	**8,884,129**
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits	$	3,878,853	$	–	**$**	**3,878,853**
Securitization liabilities		–		4,531,680		**4,531,680**
Deferred tax liabilities		22,163		(15,077)		**7,086**
Other liabilities		63,817		(43,933)		**19,884**
Bank term loans		12,500		–		**12,500**
Subordinated debentures		52,671		–		**52,671**
		4,030,004		4,472,670		**8,502,674**
Shareholders' equity:						
Preferred shares		48,523		(29)		**48,494**
Common shares		128,156		(88)		**128,068**
Contributed surplus		3,935		–		**3,935**
Retained earnings		238,307		(36,120)		**202,187**
Accumulated other comprehensive income (loss)		4,541		(5,770)		**(1,229)**
		423,462		(42,007)		**381,455**
	$	4,453,466	$	4,430,663	**$**	**8,884,129**

4. Transition to IFRS (continued):

The following is a reconciliation of the impact of IFRS on comprehensive income for the year ended December 31, 2010.

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

Year ended December 31, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Interest income:			
Mortgages	$ 176,540	$ 1,574	**$ 178,114**
Mortgages – securitized	–	199,980	**199,980**
Investments	16,029	(7,346)	**8,683**
Other	2,744	491	**3,235**
	195,313	194,699	**390,012**
Interest expense:			
Deposits	96,462	–	**96,462**
Securitization liabilities	–	168,796	**168,796**
Bank term loans	2,059	–	**2,059**
Subordinated debentures	2,626	–	**2,626**
Other	120	–	**120**
	101,267	168,796	**270,063**
Net interest income	94,046	25,903	**119,949**
Provision for credit losses	7,826	1,922	**9,748**
Net interest income after provision for credit losses	86,220	23,981	**110,201**
Other income:			
Fees and other income	2,882	121	**3,003**
Net gain on investments	230	–	**230**
Gains on securitization activities and income from retained interests	12,691	(12,691)	**–**
	15,803	(12,570)	**3,233**
Net interest income and other income	102,023	11,411	**113,434**
Non-interest expenses:			
Compensation and benefits	18,599	33	**18,632**
Other	11,979	2,939	**14,918**
	30,578	2,972	**33,550**
Income before income taxes and fair value loss	71,445	8,439	**79,884**
Fair value loss on derivative financial instruments – securitization activities	–	(7,544)	**(7,544)**
Income before income taxes	71,445	895	**72,340**
Income taxes:			
Current	16,466	(462)	**16,004**
Deferred	712	(269)	**443**
	17,178	(731)	**16,447**
Net income	54,267	1,626	**55,893**
Dividends on preferred shares	3,625	–	**3,625**
Net income available to common shareholders	$ 50,642	$ 1,626	**$ 52,268**
Net income	$ 54,267	$ 1,626	**$ 55,893**
Other comprehensive income, net of tax:			
Available for sale investments:			
Net unrealized gains from change in fair value	8,635	(5,264)	**3,371**
Reclassification of net (gains) losses to income	(5,106)	6,028	**922**
Other comprehensive income	3,529	764	**4,293**
Comprehensive income	$ 57,796	$ 2,390	**$ 60,186**

4. Transition to IFRS (continued):

The following is a reconciliation of the impact of IFRS on comprehensive income for the nine month period ended September 30, 2010.

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

Nine months ended September 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Interest income:			
Mortgages	$ 129,463	$ 671	**$ 130,134**
Mortgages – securitized	–	145,936	**145,936**
Investments	11,123	(5,332)	**5,791**
Other	1,942	278	**2,220**
	142,528	141,553	**284,081**
Interest expense:			
Deposits	70,037	–	**70,037**
Securitization liabilities	–	123,509	**123,509**
Bank term loans	1,361	–	**1,361**
Subordinated debentures	1,929	–	**1,929**
Other	107	–	**107**
	73,434	123,509	**196,943**
Net interest income	69,094	18,044	**87,138**
Provision for credit losses	6,101	1,103	**7,204**
Net interest income after provision for credit losses	62,993	16,941	**79,934**
Other income:			
Fees and other income	2,146	101	**2,247**
Net loss on investments	20	–	**20**
Gains on securitization activities and income from retained interests	7,831	(7,831)	**–**
	9,997	(7,730)	**2,267**
Net interest income and other income	72,990	9,211	**82,201**
Non-interest expenses:			
Compensation and benefits	14,048	25	**14,073**
Other	8,254	2,110	**10,364**
	22,302	2,135	**24,437**
Income before income taxes and fair value loss	50,688	7,076	**57,764**
Fair value loss on derivative financial instruments – securitization activities	–	(13,300)	**(13,300)**
Income before income taxes	50,688	(6,224)	**44,464**
Income taxes:			
Current	11,348	286	**11,634**
Deferred	1,224	(203)	**1,021**
	12,572	83	**12,655**
Net income	38,116	(6,307)	**31,809**
Dividends on preferred shares	2,719	–	**2,719**
Net income available to common shareholders	$ 35,397	$ (6,307)	**$ 29,090**
Net income	$ 38,116	$ (6,307)	**$ 31,809**
Other comprehensive income, net of tax:			
Available for sale investments:			
Net unrealized gains from change in fair value	10,626	(7,208)	**3,418**
Reclassification of net (gains) losses to income	(3,851)	4,838	**987**
Other comprehensive income	6,775	(2,370)	**4,405**
Comprehensive income	$ 44,891	$ (8,677)	**$ 36,214**

4. Transition to IFRS (continued):

The following is a reconciliation of the impact of IFRS on comprehensive income for the three month period ended September 30, 2010.

RECONCILIATION OF COMPREHENSIVE INCOME

($ THOUSANDS)

Three months ended September 30, 2010	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
Interest income:			
Mortgages	$ 46,123	$ 408	**$ 46,531**
Mortgages – securitized	–	50,343	**50,343**
Investments	3,524	(1,388)	**2,136**
Other	765	150	**915**
	50,412	49,513	**99,925**
Interest expense:			
Deposits	25,307	–	**25,307**
Securitization liabilities	–	42,951	**42,951**
Bank term loans	467	–	**467**
Subordinated debentures	653	–	**653**
Other	54	–	**54**
	26,481	42,951	**69,432**
Net interest income	23,931	6,562	**30,493**
Provision for credit losses	2,351	425	**2,776**
Net interest income after provision for credit losses	21,580	6,137	**27,717**
Other income:			
Fees and other income	580	26	**606**
Net loss on investments	144	–	**144**
Gains on securitization activities and income from retained interests	3,026	(3,026)	**–**
	3,750	(3,000)	**750**
Net interest income and other income	25,330	3,137	**28,467**
Non-interest expenses:			
Compensation and benefits	4,743	9	**4,752**
Other	2,830	823	**3,653**
	7,573	832	**8,405**
Income before income taxes and fair value loss	17,757	2,305	**20,062**
Fair value loss on derivative financial instruments – securitization activities	–	(7,118)	**(7,118)**
Income before income taxes	17,757	(4,813)	**12,944**
Income taxes:			
Current	2,469	237	**2,706**
Deferred	1,718	(66)	**1,652**
	4,187	171	**4,358**
Net income	13,570	(4,984)	**8,586**
Dividends on preferred shares	907	–	**907**
Net income available to common shareholders	$ 12,663	$ (4,984)	**$ 7,679**
Net income	$ 13,570	$ (4,984)	**$ 8,586**
Other comprehensive income, net of tax:			
Available for sale investments:			
Net unrealized gains (losses) from change in fair value	5,130	(2,719)	**2,411**
Reclassification of net (gains) losses to income	(1,407)	1,484	**77**
Other comprehensive income	3,723	(1,235)	**2,488**
Comprehensive income	$ 17,293	$ (6,219)	**$ 11,074**

4. Transition to IFRS (continued):

Material adjustments to the statement of cash flows for 2010

The transition from Canadian GAAP to IFRS resulted in certain cash flows included in financing and investing activities under Canadian GAAP to be reclassified to cash flows from operating activities under IFRS. In addition, the consolidated statement of cash flows has been affected by recognition of mortgages that previously qualified for derecognition on transfer under Canadian GAAP.

5. Investments:

Carrying value:

	September 30, 2011	December 31, 2010	September 30, 2010
Debt securities issued by regulated financial institutions	**$ 99,951**	$ 67,060	$ 49,987
Debt securities issued by Government of Canada	**34,320**	26,213	-
Debt securities guaranteed by Government of Canada	**29,604**	44,159	48,107
Equity securities – preferred shares	**200,111**	187,202	198,143
Canada Housing Trust re-investment accounts	**34,750**	13,788	11,025
Investments purchased under reverse repurchase agreements	**151,268**	74,908	69,862
	$ 550,004	$ 413,330	$ 377,124

Investments are accounted for at settlement date.

Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada guaranteed debt securities by the Company effected with a simultaneous agreement to sell the assets back at a specified price on a specified future date, which is generally short-term.

Net unrealized gains (losses) included in carrying value on the consolidated balance sheets are as follows:

	September 30, 2011	December 31, 2010	September 30, 2010
Debt securities issued by regulated financial institutions	**$ (81)**	$ (16)	$ (101)
Debt securities issued by Government of Canada	**675**	15	-
Debt securities guaranteed by Government of Canada	**1,594**	425	1,291
Equity securities – preferred shares	**(4,916)**	(2,825)	(3,430)
	$ (2,728)	$ (2,401)	$ (2,240)

6. Mortgages receivable:

(a) Mortgages receivable:

September 30, 2011		Allowance for credit losses			
	Gross amount	**Individual**	**Collective**	**Total**	**Net amount**
Residential mortgages	**$ 2,871,750**	**$ 2,699**	**$ 11,959**	**$ 14,658**	**$ 2,857,092**
Securitized residential mortgages	**5,283,734**	**-**	**-**	**-**	**5,283,734**
Other mortgages	**1,037,687**	**2,550**	**3,664**	**6,214**	**1,031,473**
Mortgages held for securitization or for sale	**216,387**	**-**	**52**	**52**	**216,335**
Accrued interest	**34,305**	**-**	**-**	**-**	**34,305**
	$ 9,443,863	**$ 5,249**	**$ 15,675**	**$ 20,924**	**$ 9,422,939**

December 31, 2010		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Residential mortgages	$ 2,482,217	$ 2,080	$ 8,004	$ 10,084	$ 2,472,133
Securitized residential mortgages	4,733,452	-	-	-	4,733,452
Other mortgages	873,718	7,383	3,243	10,626	863,092
Mortgages held for securitization or for sale	117,929	-	393	393	117,536
Accrued interest	31,088	-	-	-	31,088
	$ 8,238,404	$ 9,463	$ 11,640	$ 21,103	$ 8,217,301

September 30, 2010		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Residential mortgages	$ 2,283,418	$ 1,080	$ 8,579	$ 9,659	$ 2,273,759
Securitized residential mortgages	4,513,618	369	(369)	-	4,513,618
Other mortgages	912,244	7,516	2,423	9,939	902,305
Mortgages held for securitization or for sale	243,922	-	443	443	243,479
Accrued interest	30,284	-	-	-	30,284
	$ 7,983,486	$ 8,965	$ 11,076	$ 20,041	$ 7,963,445

6. Mortgages receivable (continued):

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $176,624 (December 31, 2010 – $72,855, September 30, 2010 – $158,520). Also included in this balance are mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date at their investment cost. These mortgages are carried at amortized cost.

Included in other mortgages are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in interest income − mortgages. As at September 30, 2011, mortgage principal outstanding for these mortgages was $50,254 (December 31, 2010 – $50,890, September 30, 2010 – $51,096) and the fair value adjustment was $4,021 (December 31, 2010 – $1,058, September 30, 2010 – $2,467).

Real estate owned held for sale at September 30, 2011 amounted to $401 (December 31, 2010 − $1,105, September 30, 2010 – $761) and is included in other assets (note 9).

At September 30, 2011, the company had commitments to fund a total of $422,706 (December 31, 2010 − $436,369, September 30, 2010 – $366,650) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest. As a matter of practice, conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.

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

			September 30, 2011	December 31, 2010	September 30, 2010
	Gross	**Individual allowance**	**Net**	Net	Net
Residential mortgages	**$ 18,944**	**$ 2,699**	**$ 16,245**	$ 23,037	$ 15,052
Securitized residential mortgages	**-**	**-**	**-**	1,486	1,590
Other mortgages	**8,079**	**2,550**	**5,529**	9,693	13,598
Mortgages held for securitization or for sale	**-**	**-**	**-**	-	-
	$ 27,023	**$ 5,249**	**$ 21,774**	$ 34,216	$ 30,240

6. Mortgages receivable (continued):

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

				September 30, 2011
	30 – 59 days	**60 – 89 days**	**90+ days**	**Total**
Residential mortgages	**$ 9,427**	**$ 5,926**	**$ 434**	**$ 15,787**
Securitized residential mortgages	**11,224**	**1,122**	**3,150**	**15,496**
Other mortgages	**440**	**-**	**-**	**440**
Mortgages held for securitization or for sale	**-**	**-**	**-**	**-**
	$ 21,091	**$ 7,048**	**$ 3,584**	**$ 31,723**

				December 31, 2010
	30 – 59 days	60 – 89 days	90+ days	Total
Residential mortgages	$ 10,352	$ 4,643	$ 522	$ 15,517
Securitized residential mortgages	12,474	-	2,472	14,946
Other mortgages	-	-	-	-
Mortgages held for securitization or for sale	-	-	-	-
	$ 22,826	$ 4,643	$ 2,994	$ 30,463

(c) Allowance for credit losses:

			September 30, 2011
	Individual allowance	**Collective allowance**	**Total**
Balance, beginning of period	**$ 9,463**	**$ 11,640**	**$ 21,103**
Provision for credit losses	**1,573**	**4,573**	**6,146**
Allowance for credit losses on acquired portfolio	**538**	**(538)**	**-**
Realized losses	**(6,388)**	**-**	**(6,388)**
Recoveries	**63**	**-**	**63**
Balance, end of period	**$ 5,249**	**$ 15,675**	**$ 20,924**

			September 30, 2010
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 5,671	$ 10,266	$ 15,937
Provision for credit losses	4,846	2,358	7,204
Allowance for credit losses on acquired portfolio	274	(1,548)	(1,274)
Realized losses	(1,960)	-	(1,960)
Recoveries	134	-	134
Balance, end of period	$ 8,965	$ 11,076	$ 20,041

7. Securitization:

In the normal course of business, the Company securitizes Government of Canada guaranteed residential mortgages through the creation of MBS and the ultimate legal sale of MBS through the NHA MBS and CMB programs. The legal sale of MBS through the NHA MBS and CMB programs do not qualify for derecognition as the Company has not transferred all its rights to receive the cash flows from the assets and the Company has not assumed an obligation to pay the cash flows from the assets under a pass-through arrangement. The transfers are accounted for as secured financing transactions.

The following table presents the principal amount of the mortgages outstanding that did not qualify for derecognition and their associated financial liabilities:

	September 30, 2011		December 31, 2010		September 30, 2010	
	Mortgage principal[1]	**Principal amount of associated liabilities[2]**	Mortgage principal[1]	Principal amount of associated liabilities[2]	Mortgage principal[1]	Principal amount of associated liabilities[2]
Canada mortgage bonds	**$ 3,461,888**	**$ 3,559,278**	$ 2,900,740	$ 2,968,318	$ 2,702,765	$ 2,733,013
Mortgage backed securities	**1,498,201**	**1,510,718**	1,561,642	1,567,774	1,604,268	1,613,257
	$ 4,960,089	**$ 5,069,996**	$ 4,462,382	$ 4,536,092	$ 4,307,033	$ 4,346,270

[1] *Mortgage principal does not include deferred origination costs, accrued interest, or mortgage principal associated with securitized mortgages for which a securitization liability has not been issued.*
[2] *Principal amount of associated liabilities does not include discounts and premiums, deferred transaction costs or accrued interest.*

The Company estimates that the securitization liabilities will be paid as follows:

	MBS liability principal	**CMB liability principal**	**Total liability principal**
2011	**$ 125,825**	**$ 10,751**	**$ 136,576**
2012	**334,232**	**–**	**334,232**
2013	**538,121**	**724,662**	**1,262,783**
2014	**113,873**	**1,219,506**	**1,333,379**
2015	**93,665**	**461,731**	**555,396**
Thereafter	**305,002**	**1,142,628**	**1,447,630**
	$ 1,510,718	**$ 3,559,278**	**$ 5,069,996**

8. Derivative financial instruments:

(a) Hedge instruments:

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

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income. The hedging instruments used to manage this exposure are short sale and repurchase agreements of Government of Canada guaranteed debt securities. The Company does not apply hedge accounting to these hedging relationships.

All hedging activities are transacted with counterparties that are chartered banks, their subsidiaries or other financial intermediaries.

The hedge instruments outstanding at September 30, 2011, December 31, 2010, and September 30, 2010 are as follows:

	September 30, 2011			December 31, 2010			September 30, 2010		
Term (years)[1]	**Notional amount**	**Fair value**	**Unrealized (gain) loss[2][3]**	Notional amount	Fair value	Unrealized (gain) loss[2][3]	Notional amount	Fair value	Unrealized (gain) loss[2][3]
1 to 5	**$ 106,545**	**$ 107,113**	**$ 923**	$ 35,450	$ 35,077	$ (261)	$ 50,400	$ 51,150	$ 526
6 to 10	**126,400**	**122,614**	**3,786**	86,045	86,225	(213)	85,145	89,487	2,592
	$ 232,945	**$ 229,727**	**$ 4,709**	$ 121,495	$ 121,302	$ (474)	$ 135,545	$ 140,637	$ 3,118

(1) The terms of the bond forward contracts and short sale and repurchase agreements are based on the terms of the underlying bonds and debt securities.

(2) Hedge instruments to manage interest rate exposures on securitization activities are cash flow hedges carried at fair value with changes in fair value included in other comprehensive income. Any ineffectiveness in the hedging relationship is recognized in fair value gains or losses on derivative financial instruments – securitization activities in the consolidated statements of income. The unrealized losses at September 30, 2010 and 2011 are included in other liabilities (Note 12). The unrealized gain as at December 31, 2010 is included in other assets (Note 9).

(3) Hedge instruments to manage interest rate exposures on certain mortgages designated as at fair value through income are fair value hedges and are carried at fair value with changes in fair value included in interest income – mortgages in the consolidated statements of income. The fair values of the hedge instruments are determined by reference to the ask side of the related Government of Canada guaranteed debt securities at the reporting date. The unrealized gains at September 30, 2011 are included in other assets (Note 9). The unrealized losses as at December 31, 2010 and September 30, 2010 are included in other liabilities (Note 12).

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

	September 30, 2011	December 31, 2010	September 30, 2010
Fair value changes recorded in other comprehensive income	**$ (16,457)**	$ -	$ -
Fair value changes recorded in income	**(249)**	-	-

8. Derivative financial instruments (continued):

(b) Interest rate swaps:

The Company enters into interest rate swaps to manage interest rate exposures on certain mortgages designated as at fair value through income, as well as on GICs used to fund floating rate mortgages. These hedging facilities are secured by investments in preferred shares and cash equivalents.

For September 30, 2011, December 31, 2010 and September 30, 2010 the fair value of interest rate swap agreements for mortgages designated as at fair value through income are included in other liabilities (note 12) with changes in fair value recorded in interest income – mortgages. Changes in fair value of mortgages designated as at fair value through income are also included in interest income − mortgages.

Approved counterparties are limited to chartered banks, their subsidiaries and other financial intermediaries.

Interest rate swaps outstanding at period end are as follows:

	September 30, 2011		December 31, 2010		September 30, 2010	
Swap term (years)	**Notional amount**	**Fair value**	Notional amount	Fair value	Notional amount	Fair value
6 to 10	**$ 37,493**	**$ (2,704)**	$ 37,995	$ (331)	$ 38,157	$ (1,496)

9. Other assets:

	September 30, 2011	December 31, 2010	September 30, 2010
Prepaid expenses and other	**$ 14,725**	$ 4,087	$ 1,905
Income taxes recoverable	**7,076**	2,247	1,778
Capital assets	**3,697**	2,131	2,208
Receivable relating to securitization activities	**1,640**	825	756
Accrued interest and dividends on non-mortgage assets	**737**	754	581
Real estate owned	**401**	1,105	761
Derivative financial instruments - securitization activities	**-**	537	-
	$ 28,276	$ 11,686	$ 7,989

In a press release dated August 23, 2011 the Company reported an alleged fraud relating to four condominium corporation loans with a total outstanding balance of $14.0 million. This amount was reduced to $13,863 as a result of a partial recovery. Management has engaged external counsel to assist in this matter. The Company has commenced an action against several parties to the subject loan transactions and has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing. Management will defend these claims and will cross claim against a number of the defendants and will continue to review all legal options available to it in pursuing its recourse. In addition to any potential recoveries under its claims, the Company will also claim under its Financial Institution Bond, which is intended to protect against fraud losses, however, there is no assurance that proceeds or recoveries, if any, will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the loans. Accordingly, the Company recorded a pre-tax operational provision of $5.0 million ($0.24 per share) in the third quarter and reclassified the mortgages in question from mortgages receivable to other assets. The net outstanding balance reported in other assets is $8,863 and is included in Prepaid expenses and other. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management has established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

10. Deposits:

	September 30, 2011	December 31, 2010	September 30, 2010
Cashable GICs, payable on demand	**$ 721,868**	$ 560,729	$ 587,577
GICs with fixed maturity dates	**3,859,075**	3,245,208	3,179,983
Accrued interest	**103,225**	85,138	83,845
Deferred deposit agent commissions	**(13,030)**	(12,222)	(12,408)
	$ 4,671,138	$ 3,878,853	$ 3,838,997

11. Income taxes:

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

	September 30, 2011	September 30, 2010
Current tax expense:		
Current year	**$ 14,342**	$ 11,522
Adjustments for prior years	**-**	112
	14,342	11,634
Deferred tax expense:		
Origination and reversal of temporary differences	**837**	16
Reduction in tax rate	**7**	1,005
	844	1,021
Total income tax expense	**$ 15,186**	$ 12,655

	September 30, 2011	September 30, 2010
Canadian statutory income tax rate	**28.1%**	30.6%
Increase (decrease) resulting from:		
Tax-exempt income	**(3.4%)**	(3.8%)
Future tax rate changes	**-**	1.5%
Non-deductible expenses and other	**0.5%**	0.2%
Effective income tax rate	**25.2%**	28.5%

12. Other liabilities:

	September 30, 2011	December 31, 2010	September 30, 2010
Accounts payable and accrued liabilities	**$ 10,058**	$ 4,844	$ 7,758
Mortgagor realty taxes	**7,195**	14,646	5,354
Derivative financial instruments - securitization activities	**4,669**	-	2,998
Derivative financial instruments - interest rate swaps	**2,704**	331	1,496
Derivative financial instruments - hedges	**40**	63	120
	$ 24,666	$ 19,884	$ 17,726

13. Shareholders' equity:

(a) Capital stock:

Authorized:
Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1
Unlimited number of non-cumulative floating rate preferred shares, Series 2
Unlimited number of common shares

Issued and outstanding shares:

	September 30, 2011			September 30, 2010		
	Number of shares	**Amount**	**Dividends per share**	Number of shares	Amount	Dividends per share
Preferred shares, Series 1:						
Balance, beginning of period	**2,000,000**	**$ 48,494**		2,000,000	$ 48,494	
Issued	**-**	**-**		-	-	
Balance, end of period	**2,000,000**	**$ 48,494**	**$ 1.36**	2,000,000	$ 48,494	$ 1.36

	September 30, 2011			September 30, 2010		
	Number of shares	**Amount**	**Dividends per share**	Number of shares	Amount	Dividends per share
Common shares:						
Balance, beginning of period	**14,943,437**	**$ 128,068**		14,903,846	$ 127,336	
Contributions from reinvestment of dividends	**14,918**	**415**		10,550	232	
Contributions from exercise of stock options	**26,000**	**599**		9,200	106	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**111**		-	18	
Balance, end of period	**14,984,355**	**$ 129,193**	**$ 0.33**	14,923,596	$ 127,692	$ 0.30

13. **Shareholders' equity (continued):**

(b) Preferred shares:

Series 1 - 5-Year Rate Reset Preferred Shares

Holders of Series 1 Preferred Shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 7.25% per share for an initial period ending September 30, 2014. Thereafter, the dividend rate will reset every five years at a level of 4.53% over the then five-year Government of Canada bond yield. Series 1 Preferred Shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on September 30, 2014 and September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 1 Preferred Shares are convertible at the holder's option, subject to certain conditions, to non-cumulative floating rate preferred shares, Series 2 (the "Series 2 Preferred Shares") on September 30, 2014 and on September 30 every five years thereafter.

Series 2 - Floating Rate Preferred Shares

Holders of the Series 2 Preferred Shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.53%, as and when declared by the Board of Directors. Redeemable in cash at the Company's option, subject to prior regulatory approval, (i) on September 30, 2019 and September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2014. Convertible at the holder's option, subject to certain conditions, to non-cumulative 5-year rate reset preferred shares, Series 1 (the "Series 1 Preferred Shares") on September 30, 2019 and on September 30 every five years thereafter.

(c) Common shares:

Issuances of common shares

During the period ended September 30, 2011, 26,000 (September 30, 2010 − 9,200) shares were issued as a result of the exercise of stock options for cash consideration of $599 (September 30, 2010 − $106) and $111 (September 30, 2010 − $18) was transferred from contributed surplus to common shares as a result of these exercises. In addition, 14,918 (September 30, 2010 − 10,550) common shares were issued under the Company's Dividend Reinvestment Plan.

(d) Dividend reinvestment plan:

The Company has a Dividend Reinvestment Plan. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price.

(e) Dividend restrictions:

The Company's subsidiary, Equitable Trust, is subject to minimum capital requirements, as prescribed by OSFI under the Trust and Loan Companies Act (Canada). In addition, OSFI must be notified of any dividend declaration, and prescribes restrictions as to the amount of dividends which can be paid out in any fiscal year.

14. Stock-based compensation:

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five or six years and vest over a five-year period. The maximum number of common shares available for issuance under the plan is 10% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to December 2016. A summary of the Company's stock option activity and related information for the periods ended September 30, 2011 and September 30, 2010 is as follows:

	September 30, 2011		September 30, 2010	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**966,150**	**$ 24.20**	814,750	$ 23.71
Granted	**-**	**-**	-	-
Exercised	**(26,000)**	**23.03**	(9,200)	11.55
Forfeited/cancelled	**(42,500)**	**21.53**	(19,400)	21.74
Outstanding, end of period	**897,650**	**$ 24.36**	786,150	$ 23.90
Exercisable, end of period	**393,900**	**$ 26.97**	250,850	$ 27.43

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $714 (September 30, 2010 − $535) related to grants of options under the stock option plan. This amount has been credited to contributed surplus. The Company did not grant any stock options during the periods ended September 30, 2011 and September 30, 2010.

(b) Deferred share unit plan:

The company has a Deferred Share Unit ("DSU") plan for Directors. Under the DSU plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. When an individual ceases to be a Director (the "Separation Date"), the DSUs shall be redeemed for cash no later than the end of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days prior to the Separation Date. In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU plan, any proportionate adjustment as it considers appropriate to reflect that change. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The DSU plan is administered by the Board or a committee thereof. For the period ended September 30, 2011, 6,773 (September 30, 2010 – 8,146) DSUs had been granted by the Company. During the period, the Company has recorded compensation expense in the amount of $85 (September 30, 2010 − $168) related to grants of DSUs that have occurred since the inception of the plan.

15. Earnings per share:

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

	September 30, 2011	September 30, 2010
Earnings per common share – basic:		
Net income	**$ 45,161**	$ 31,809
Dividends on preferred shares	**2,719**	2,719
Net income available to common shareholders	**$ 42,442**	$ 29,090
Weighted average basic number of common shares outstanding	**14,967,773**	14,918,630
Earnings per common share – basic	**$ 2.84**	$ 1.95
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 42,442**	$ 29,090
Weighted average basic number of common shares outstanding	**14,967,773**	14,918,630
Adjustment to weighted average number of common shares outstanding:		
Stock options	**135,521**	72,855
Weighted average diluted number of common shares outstanding	**15,103,294**	14,991,485
Earnings per common share – diluted	**$ 2.81**	$ 1.94

For the period ended September 30, 2011, the calculation of the diluted earnings per share excluded 435,762 (September 30, 2010 – 465,291) average options outstanding with a weighted average exercise price of $30.61 (September 30, 2010 – $27.18) as the exercise price of these options was greater than the average price of the Company's common shares.

16. Capital management:

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision (Basel II). This guideline requires deposit-taking financial institutions to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be Tier 1 capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that deposit-taking institutions need to maintain a minimum total capital ratio of 10%, with a Tier 1 ratio of not less than 7%. Equitable Trust's Tier 1 capital is comprised of common and preferred shareholder's equity while Tier 2 capital is comprised of subordinated debentures. In addition to Tier 1 and total capital ratios, Canadian deposit-taking institutions are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed the maximum level prescribed by OSFI.

Equitable Trust maintains capital management policies to govern the quality and quantity of capital utilized in its operations. The objective of these policies is to ensure that adequate capital requirements are met, while providing sufficient return to investors. During the year, Equitable Trust complied with all internal and external capital requirements.

As a result of an advisory issued by OSFI in March 2010, Equitable Trust is permitted to phase in the January 1, 2010 IFRS transition adjustment to retained earnings over an eight quarter period, to be completed by the quarter ending December 31, 2012. The amount amortized to retained earnings for the nine months ended September 30, 2011 was $14.2 million. In the absence of this election, Equitable Trust's Tier 1 and Total Capital would have been $416.4 million and $481.5 million, respectively, as at September 30, 2011.

16. Capital management (continued):

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

	September 30, 2011	January 1, 2011
Tier 1 capital:		
Common shares	$ 130,533	$ 129,823
Non-cumulative preferred shares	50,000	50,000
Contributed surplus	4,123	3,520
Retained earnings	234,898	197,539
Accumulated other comprehensive loss[1]	(3,176)	(1,676)
IFRS transition adjustment[2]	23,663	37,862
Total	440,041	417,068
Tier 2 capital:		
Subordinated debentures (Tier 2B)[3]	65,171	65,171
Total	65,171	65,171
Total regulatory capital	$ 505,212	$ 482,239

(1) *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.*
(2) *As permitted by OSFI, the transition adjustment for IFRS will be amortized over an eight quarter period ending on December 31, 2012.*
(3) *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.*

17. Interest rate sensitivity:

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at September 30, 2011.

								September 30, 2011
	Floating rate or within 1 month	1 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total[1]
Total assets	$ 1,300,490	$ 579,777	$ 1,455,804	$ 3,336,071	$ 5,459,508	$ 1,354,375	$ 104,436	$ 10,254,391
Total liabilities and equity[2]	(735,561)	(795,747)	(1,654,195)	(3,185,503)	(5,379,391)	(1,199,710)	(489,787)	(10,254,391)
Off-balance sheet items[3]	-	59,860	10,956	70,816	33,792	(104,607)	-	-
Interest rate sensitive gap	$ 564,929	$ (156,110)	$ (187,435)	$ 221,384	$ 113,909	$ 50,058	$ (385,351)	$ -
Cumulative gap	$ 564,929	$ 408,819	$ 221,384	$ 221,384	$ 335,293	$ 385,351	$ -	$ -
Cumulative gap as a percentage of total assets	5.51%	3.99%	2.16%	2.16%	3.27%	3.76%	0.00%	0.00%

(1) *Accrued interest is excluded in calculating interest sensitive assets and liabilities.*
(2) *Cashable GICs are included with floating rate or within 1 month liabilities as these are cashable by the depositor upon demand. Any prepayments of subordinated debentures, contractual or otherwise, have not been estimated as these would require regulatory pre-approval.*
(3) Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

DIRECTORS

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Chairman, Oakwest Corporation Limited,
an investment holding company

Eric Beutel

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

Joseph Dickstein

Vice-Chairman, PPI Financial Group,
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Eric Kirzner

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

David LeGresley

Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company
and Equitable Trust

Katherine Rethy

Corporate Director and President, KAR Development
Corp., a leadership consulting company

Lionel Robins

President, PFDL Investments Limited,
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Morris Shohet

Principal, The Dorchester Corporation,
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Michael Shulman

President, The Birchwood Group Inc.,
an investment holding company

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Chief Risk Officer of Equitable Trust

Kimberley Graham

Vice-President, General Counsel,
Chief Compliance Officer and Secretary
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Vice-President, Finance of the Company
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David Soni

Vice-President, Financial Controls
of Equitable Trust

Jody Sperling

Vice-President, Human Resources
of Equitable Trust

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Dividend Reinvestment Plan

For information regarding Equitable Group's Dividend Reinvestment Plan, please contact the Plan Agent at www.computershare.com or toll free at 1.800.564.6253. To obtain a copy of the Offering Circular, Enrollment Form and to review commonly asked questions, please visit the Company's website at www.equitabletrust.com under Investor Relations.