

EQUITABLE

FIRST QUARTER 2015

**INTERIM FINANCIAL
STATEMENTS**



**EQUITABLE
GROUP INC.**

EQUITABLE GROUP INC.

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

For the three months ended March 31, 2015

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") ended March 31, 2015. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements and the accompanying notes for the quarter ended March 31, 2015, 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, 2014, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at May 12, 2015. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q1 2015 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total assets under management of approximately \$15.1 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

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

Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadian savers with savings accounts and Guaranteed Investment Certificates (“GIC”s) that offer security and competitive interest rates. We serve these customers through our extensive partnerships with Canada’s mortgage brokers, mortgage bankers, deposit agents, investment dealers and financial planners who provide independent professional advice to Equitable’s customers.

For further information on Equitable’s strategy, capabilities, key performance indicators, and business lines please refer to our 2014 annual Management’s Discussion and Analysis.

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended				
	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change
RESULTS OF OPERATIONS					
Net income	\$ 29,461	\$ 26,885	10%	\$ 25,291	16%
Net income available to common shareholders	28,270	24,993	13%	24,385	16%
Total revenues	137,279	134,928	2%	126,387	9%
EPS – basic	\$ 1.83	\$ 1.62	13%	\$ 1.59	15%
EPS – diluted	\$ 1.81	\$ 1.59	14%	\$ 1.56	16%
ROE ⁽¹⁾	17.9%	16.0%	1.9%	17.9%	-%
Return on average assets ⁽¹⁾	0.9%	0.8%	0.1%	0.8%	0.1%
NIM – TEB – total assets ⁽¹⁾	1.73%	1.76%	0.03%	1.66%	0.07%
Efficiency ratio – TEB ⁽¹⁾⁽²⁾	32.4%	35.4%	3.0%	31.9%	(0.5%)
BALANCE SHEET					
Total assets	13,387,915	12,854,903	4%	11,886,479	13%
Assets under management ⁽¹⁾	15,075,279	14,373,911	5%	12,971,390	16%
Mortgages receivable	12,785,852	12,269,945	4%	11,204,349	14%
Mortgages under management ⁽¹⁾	14,437,643	13,759,706	5%	12,265,257	18%
Shareholders' equity	723,606	703,694	3%	611,456	18%
CREDIT QUALITY					
Impairment provision (recovery) ⁽³⁾	246	643	62%	(42)	(686%)
Net impaired mortgages as a % of total mortgage assets ⁽⁴⁾	0.28%	0.30%	(0.02%)	0.35%	(0.07%)
Allowance for credit losses as a % of total mortgage assets	0.26%	0.27%	(0.01%)	0.28%	(0.02%)
COMMON SHARE INFORMATION					
Shares outstanding	15,452,125	15,435,356	0%	15,388,866	0%
Book value per share ⁽¹⁾	\$ 42.13	\$ 40.90	3%	\$ 36.58	15%
Share price – close	\$ 56.51	\$ 65.67	(14%)	\$ 57.84	(2%)
Market capitalization	873,200	1,013,640	(14%)	890,092	(2%)
EQUITABLE BANK CAPITAL RATIOS⁽¹⁾					
Common Equity Tier 1 capital ratio	13.2%	13.5%	1.3%	12.9%	1.9%
Total capital ratio	17.0%	17.3%	(0.3%)	16.6%	0.4%

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

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

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

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

Q1 2015 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record earnings and successfully delivered on several strategic priorities in the first quarter of 2015:

Strategic Objectives	Accomplishments
Grow by providing effective service, competitive products and cost-effective operations	- Increased Mortgages under Management⁽¹⁾ ("MUM") by 18% over Q1 2014 - Originated a first quarter record of \$568 million of Single Family Lending mortgages, which represents a 41% increase over last year - Grew our Single Family Lending portfolio by 31% over the past twelve months
Build our capabilities and brand	- Built our <i>Equitable Bank High Interest Savings Account</i> balances to \$504 million, further broadening our portfolio of safe and secure deposit solutions - Issued an \$85 million floating rate note at the end of March, building momentum in our deposit note issuance program - Continued to grow our Home Equity Line of Credit ("HELOC") portfolio within our Single Family business and to extend our prime single family offering
Consistently create shareholder value	- Delivered record EPS of \$1.81, up 16% over Q1 of the prior year and 14% over the prior quarter - Produced an ROE of 17.9% (above our five-year average of 17.5%) - Declared common share dividends that were 13% higher than in Q1 2014
Maintain a low risk profile	- Maintained a loan-to-value ratio of 71% on our residential mortgage portfolio - Recorded an impairment provision of \$0.2 million in the quarter, representing just one bp of the average loan principal outstanding - Reported a Common Equity Tier 1 ("CET1") capital⁽¹⁾ ratio of 13.2%, which was well ahead of regulatory minimums and most industry benchmarks

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

ITEMS OF NOTE

There were no items of note in our Q1 2015 financial results.

Our Q1 2014 financial results were impacted by the following item:

- \$0.6 million of incremental compensation and benefits costs due to the appreciation of our stock price and severance costs during the quarter, reducing our diluted EPS by \$0.04.

Our Q4 2014 financial results were impacted by the following item:

- \$0.7 million of 'excess' preferred share dividends paid during the quarter, as the dividends paid on shares issued in August 2014 covered the period from August 8, 2014 to December 31, 2014, reducing our diluted EPS by \$0.04.

REPORTING CHANGES EFFECTIVE Q1 2015

We introduced three changes to the format of our external reporting in Q1 in order to more clearly present the results of our business and to better align with industry practice.

Marketing Expenses

In prior quarters, we recorded certain incentive payments made to mortgage brokers as marketing expenses. The expenses were accrued each quarter based on actual YTD originations and estimated originations for the remainder of the year. Beginning in Q1, we aligned our treatment of these expenses with our treatment of other originations costs. We now defer the incentive costs and amortize them against interest income over the life of the associated mortgages, and will apply the changes only prospectively.

Business Line Reporting

Subsequent to the origination of some alternative single family mortgages, we are able to obtain mortgage insurance for the assets and to securitize them. Prior to being securitized, these mortgages have historically been reported in our Core Lending portfolio and have been moved to Securitization Financing afterward. The result is that the assets of our alternative single family business are spread across two portfolios, aligned with their source of funding, and the true performance of that business is not clear to the readers of our Financial Statements.

Beginning in Q1, we will report all of our alternative single family assets together in the Core Lending portfolio regardless of the source of financing. In the opinion of management, the change presents a clearer picture of both our Alternative Single Family business and our Prime Single Family business. Prime Single Family is reported in Securitization Financing and will no longer be comingled with Alternative Single Family assets. This change results in a recategorization of revenue between the Core Lending and Securitization Financing interest income lines on our Income Statement and a recategorization of balances between the two Mortgages Receivable lines on our Balance Sheet. It also affects the net interest income and mortgage principal disclosures in our MD&A.

We have applied this change retrospectively and have provided eight quarters of restated historical net interest income tables in our Q1 2015 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

Net Interest Margins

The net interest margin calculations (net interest income divided by average assets) in the net interest income table of our MD&A have previously included non-interest bearing assets in the denominator. As non-interest bearing assets have grown in recent periods, driven by retained interests on derecognized mortgages and capitalized costs related to our strategic investments, this calculation methodology has begun to present a less accurate picture of our margins. As a result, we have updated our methodology so that our net interest margin calculations no longer factor in these non-interest bearing assets.

We have applied this change retrospectively and have provided eight quarters of restated historical net interest income tables in our Q1 2015 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

DIVIDENDS

On May 12, 2015, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.19 per common share, payable on July 3, 2015, to common shareholders of record at the close of business on June 15, 2015. This dividend represents a 12% increase over dividends declared in May 2014.

In addition, on May 12, 2015, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on June 30, 2015, to preferred shareholders of record at the close of business on June 15, 2015.

BUSINESS OUTLOOK

In the first quarter of 2015, our performance demonstrated the strength of our franchise and the benefits of our relentless focus on service excellence. We expect that our strategy, including our disciplined approach to capital allocation, will continue to deliver high returns on our shareholders' equity throughout the year.

Core Lending

In Q1 2015, our Single Family mortgage business set a new record for first quarter originations, driven by our superior levels of customer service. At the end of the quarter, the portfolio was at a record level of \$5.7 billion and up 31% year-over-year. We expect that the performance of the Single Family portfolio will remain strong for the remainder of 2015. Growth will be aided by our recent geographic expansion and continued product diversification.

Management anticipates that the commercial portfolio may contract slightly throughout the remainder of 2015. Based on recent trends, we expect our business of lending to small and medium size enterprises to remain steady but the large commercial market will be more challenging as a result of competitive conditions and the economic slowdown in Alberta. Our focus for the year will be on deepening our existing distribution partnerships and increasing our operating efficiencies.

Securitization Financing

Our Securitization Financing business is comprised of two distinct portfolios: our traditional multi-unit residential ("Multis") and our more recent prime single family residential mortgages ("Prime").

In 2015, we believe that growth of our multi-unit residential MUM will accelerate, as we aim for a level of securitization activity that utilizes the majority of our expected \$300 million of quarterly CMB capacity (\$0.9 billion for the remainder of the year). These new securitizations will be partly offset by almost half a billion dollars of mortgage maturities and natural amortization, and as a result multi-unit residential MUM should grow by roughly \$400 million, from \$5.7 billion at the end of Q1 2015. Approximately one-third of assets securitized are being derecognized, so we expect multi-unit residential Securitization Financing assets reported on our balance sheet to grow by just over \$200 million by the end of the year. The overall volume of our Multi business is dependent on the level of CMHC's CMB allocations, which may change from period-to-period.

In addition, we plan to originate and securitize a significant volume of Prime single family mortgages over the next three quarters, driving further growth in our overall Securitization Financing MUM. We believe that the level of origination and securitization activity will increase each quarter as we develop our market presence. Our intention is to sell the retained interests in most of these securitizations, which will result in derecognition of the mortgages. As a result, they will contribute to our MUM but not to balance sheet growth and will create a gain on sale during the quarter in which they are derecognized.

Credit Quality

Management continues to manage credit risk through the application of our traditional prudent lending practices. Accordingly, we expect our Single Family arrears rates and impairment provisions to remain low throughout 2015 at a national level, assuming that Canadian economic conditions stay within the range of broad market expectations. Our loan-by-loan and overall analysis of our commercial portfolio indicates that losses within that book should also stay low. Loss and arrears rates may, however, return to more normal levels from the exceptionally low rates experienced over the past several quarters.

Given recent oil price declines and the expected economic impact thereof, we anticipate that our overall arrears rates in Alberta and Saskatchewan will rise this year though the timing of that increase is uncertain. Due to our conservative underwriting approach, our robust workout process, and our focus on lending in the larger urban centres within these provinces, such as Calgary, we do not expect to incur significant losses. We will continue to monitor economic developments closely and will adjust our risk management approach in both markets if warranted. We have provided

further details of our Alberta and Saskatchewan portfolios in Table 9 of our Q1 2015 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

Net Interest Margin

We maintain a low level of interest rate risk in our book, and as such, do not expect that rate decisions by the Bank of Canada or adjustments to our prime rate (we decreased our prime rate by 15 bps to 2.85% on January 28th) will have a significant impact on our margins in 2015. An interest rate sensitivity analysis is provided in Table 15 of this MD&A.

Net Interest Income ("NII") should increase at low double-digit annual growth rates through the remaining quarters of 2015 due to continued growth of our assets. Management believes that our total Net Interest Margin ("NIM") will decrease slightly throughout the rest of the year. More specifically, relative to Q1 2015 levels, we expect that over the remainder of the year:

- Sustained growth of our alternative Single Family business will cause Core Lending NIM to decrease slightly, as the portfolio mix shifts toward these lower spread, but higher return on equity, Single Family assets. Within Core Lending, Commercial NIM will decrease slightly while Single Family NIM will remain stable.
- The Securitization Financing portfolio will grow, with the spreads on new and renewed mortgages being at just slightly lower levels than the overall portfolio. Consequently, Securitization Financing NIM should decrease marginally over the year.
- Growth rates of the Company's Core Lending and Securitization portfolios will converge this year and we will benefit to a lesser extent than in recent quarters from the mix shift towards our higher margin Core Lending business. As a result of this convergence and the trends within each portfolio, total NIM should decrease slightly quarter-to-quarter throughout the year.

Quarterly NIM may experience fluctuations due to mortgage prepayment charge income and other factors.

Non-Interest Expenses

We continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. Management intends to increase marketing expenditures by approximately \$3 to 5 million in 2015 in order to broaden consumer brand awareness of the Bank and support our longer-term product diversification strategy (see strategic initiatives below). The majority of this additional spend will occur in the second half of 2015 and we may adjust the level over time as our business plans evolve. We also intend to continue building our team and investing in our systems to support our key initiatives. Over the full year, the expense impact of these strategic investments should be largely offset by the revenue generated from securitizing Prime single family mortgages, and as a result the net impact on earnings will be minimal.

We anticipate that all other expenses will increase at rates in line with the growth of the overall business, as the Bank hires more people to support its larger lending and savings portfolios.

We expect that our efficiency ratio will be at approximately the same level in Q2 as in Q1 and then rise again beginning in the middle of 2015 when our marketing investments begin to accelerate. Even with this increase, the Bank will continue to operate efficiently on both an absolute and relative basis compared to other financial institutions, particularly taking into account the relative scale of our operations, as a result of our branchless business model.

Strategic Initiatives

Our key strategic initiatives for 2015 are focused on diversifying the products and services with which we serve our customers. We believe that the Bank is well positioned to develop new products targeted at market niches not well-served by Canada's larger financial institutions or in which we have a unique advantage.

Management launched a Prime single family mortgage business in August 2014 and intends to build in-house capabilities to originate \$1 to \$2 billion of prime loans annually within the next three to five years. We are pleased by the progress of our

in-house offering to date; we closed \$56 million of mortgages in Q1 and our pipeline is building well. Over the near term, as we develop our capabilities and systems we will supplement our internal originations with mortgages sourced through business partners, in order to optimize use of our available MBS capacity.

We also intend to broaden the range of products we offer to savers. Our near-term focus will be on growing the recently launched *Equitable Bank High Interest Savings Account*, a product that has been well received by Canadian savers and investment advisors. We are also working to position ourselves for the launch of a digital banking platform in late 2015. Management will provide the specifics of our strategy and platform in future quarters. These and other initiatives aimed at providing improved services for Canadian savers build our brand and franchise value in the Canadian financial services market, reinforce our diversification strategy, and provide important risk management benefits.

Lastly, we are in the early stages of exploring a migration to the Advanced Internal Ratings Based (“AIRB”) approach for risk-weighting our assets. We believe that this approach could have many benefits for Equitable, such as providing us with enhanced risk management models, matching appropriate levels of capital to our risks, and introducing a methodology that better allocates capital across a broader range of asset types. Management intends to determine the appropriate path forward by the end of fiscal 2015.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended				
	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change
Net income	\$ 29,461	\$ 26,885	10%	\$ 25,291	16%
EPS – diluted	\$ 1.81	\$ 1.59	14%	\$ 1.56	16%
Net interest income ⁽¹⁾	56,337	54,220	4%	48,684	16%
Provision for credit losses	814	842	(3%)	507	61%
Non-interest expenses	19,700	20,552	(4%)	16,445	20%
Income taxes	10,169	9,270	10%	8,790	16%

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

NET INTEREST INCOME

Please see page 5 for an explanation of a reporting change that we introduced in the quarter that affected the presentation of our Net Interest Income by portfolio.

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

Table 3: Net interest income

(\$ THOUSANDS)	Three months ended					
	Mar 31, 2015		Dec 31, 2014		Mar 31, 2014	
	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾	Revenue/ Expense	Average rate ⁽¹⁾
Core Lending:						
<i>Revenues derived from:</i>						
Mortgages	\$ 93,333	4.80%	\$ 89,882	4.84%	\$ 80,125	4.89%
Liquidity investments	1,076	1.36%	1,214	1.48%	1,272	1.40%
Equity securities – TEB ⁽²⁾	2,047	5.42%	2,459	7.28%	1,596	5.77%
	96,456	4.68%	93,555	4.74%	82,993	4.72%
<i>Expenses related to:</i>						
Deposits	39,937	2.27%	40,086	2.31%	35,758	2.35%
Debentures and bank facilities	1,691	2.53%	1,497	4.45%	1,414	5.77%
Securitization liabilities	784	2.40%	762	2.26%	932	2.71%
	42,412	2.28%	42,345	2.35%	38,104	2.41%
Net interest income – TEB ⁽²⁾⁽³⁾	54,044	2.60%	51,210	2.61%	44,889	2.53%
Taxable Equivalent Basis – adjustment ⁽²⁾	(624)		(499)		(532)	
Core Lending	\$ 53,420		\$ 50,711		\$ 44,357	
Securitization Financing:						
<i>Revenues derived from:</i>						
Mortgages	\$ 37,296	3.20%	\$ 38,052	3.37%	\$ 40,849	3.55%
Liquidity investments	344	1.77%	491	1.78%	728	1.92%
	37,640	3.18%	38,543	3.34%	41,577	3.50%
<i>Expenses related to:</i>						
Securitization liabilities	32,218	3.08%	32,651	3.15%	35,692	3.23%
Deposits and secured funding facility	2,505	2.24%	2,383	2.37%	1,559	2.26%
	34,723	2.99%	35,034	3.08%	37,251	3.18%
Securitization Financing	\$ 2,917	0.23%	\$ 3,509	0.30%	\$ 4,326	0.37%
Total assets – TEB ⁽²⁾⁽³⁾	\$ 56,961	1.73%	\$ 54,719	1.76%	\$ 49,216	1.66%

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

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

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

Q1 2015 v Q1 2014

Net interest income was up \$7.7 million due to an increase in our average asset balances of \$1.2 billion or 10% and a widening of our NIM. NIM increased 7 bps as our asset mix continued to shift towards our higher margin Core Lending business and we achieved higher margins within Core Lending.

NIM earned on Core Lending assets increased 7 bps due to more efficient management of our low margin liquidity portfolio and higher mortgage prepayment income. Our efforts to optimize renewal pricing in Single Family also helped NIM but were offset by a shift in the portfolio mix towards lower spread but higher ROE single family assets.

Securitization Financing NIM was down by 14 bps as a result of spread compression within the book and lower mortgage prepayment income. The rate compression experienced in this business over the past several quarters is the result of the maturity of five year mortgages originated during the credit crisis at wider spreads than those being originated or renewed now. These wider spread mortgages substantially all matured by the end of 2014, so we expect less margin compression in future periods.

Q1 2015 v Q4 2014

Net interest income was up 4% sequentially, as the impact of 5% asset growth offset a 3 bp decrease in NIM. The decrease in NIM was driven primarily by a lower level of prepayment income in our Securitization portfolio and reduced returns on our equity securities portfolio.

The drivers of the changes in NIM from Q1 2014 and Q4 2014 are provided in more details in Table 4 below:

Table 4: Factors affecting NIM

(IN BASIS POINTS)	Q1 2015 vs. Q4 2014	Q1 2015 vs. Q1 2014
Core Lending NIM:		
Mortgage prepayment income	(1)	2
Size and rate of liquidity investments	1	5
Size and rate of equity securities holdings	(3)	(1)
Other, including improved spreads within the mortgage portfolio ⁽¹⁾	2	1
Total change in NIM	(1)	7
Securitization Financing NIM:		
Mortgage prepayment income	(3)	(5)
Size and rate of liquidity investments	2	1
Other ⁽¹⁾	(6)	(10)
Total change in NIM	(7)	(14)

⁽¹⁾ Other may include the effects of various factors such as the shift in mix of the mortgage portfolio, pricing refinements, the timing of new originations and renewals, and the timing of securitizations.

PROVISION FOR CREDIT LOSSES

The credit quality of our mortgage portfolio continues to be strong. Our provision for credit losses was \$0.8 million in the quarter, \$0.3 million higher than in the same quarter last year and in line with Q4 2014.

The majority of the provision was represented by \$0.6 million of additions to our collective allowance. After our normal extensive review of our mortgage assets and collective allowance, management determined that this amount of provision in the quarter would maintain our collective allowance at an appropriate level.

Our Impairment Provision represents the remaining \$0.2 million of the total provision. Management uses the term impairment provision to refer to the provision that we have taken during the quarter on loans that we specifically identified as impaired, each of which is individually assessed for potential loss. We view the impairment provision metric as the most important indicator of the credit quality of our portfolio. During Q1 2015, the Company recorded an impairment provision of \$0.2 million, compared to an impairment provision of \$0.6 million in Q4 2014 and an impairment recovery of \$42 thousand in Q1 2014.

OTHER INCOME

Table 5: Other income

(\$ THOUSANDS)	Three months ended				
	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change
Fees and other income	\$ 2,308	\$ 2,480	(7%)	\$ 1,466	57%
Net (loss) gain on investments	(203)	(1)	N/A	17	N/A
Securitization activities:					
Gains on securitization and income from retained interests	1,805	1,259	43%	920	96%
Fair value (losses) gains on derivative financial instruments	(103)	(409)	(75%)	(54)	(91%)
Total	\$ 3,807	\$ 3,329	14%	\$ 2,349	62%

Q1 2015 v Q1 2014

Other income increased \$1.4 million compared with Q1 2014. The increase is attributable mainly to:

- an increase in gains recorded on securitization and income from retained interests, driven by an increase in securitization transactions that qualify for derecognition and a higher gain on sale percentage; and
- an increase in mortgage administration fees, driven in part by growth in the mortgage portfolio;

Offset by:

- an investment loss recorded on the sale of a certain equity security during the quarter.

Q1 2015 v Q4 2014

Other income increased by \$0.5 million mainly due to the reasons stated above in comparing Q1 2015 to the prior year.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and efficiency ratio

(\$ THOUSANDS, EXCEPT FTE)	Three months ended				
	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change
Compensation and benefits	\$ 11,386	\$ 11,443	(0%)	\$ 10,136	12%
Premises, equipment and system costs	2,408	1,977	22%	1,630	48%
Professional services	1,322	1,897	(30%)	693	91%
Other	1,237	1,108	12%	873	42%
Licenses, regulatory fees and insurance	1,010	1,135	(11%)	786	28%
Mortgage servicing	999	961	4%	904	11%
Marketing, travel and communications	681	1,340	(49%)	660	3%
Amortization	657	691	(5%)	763	(14%)
Total	\$ 19,700	\$ 20,552	(4%)	\$ 16,445	20%
Efficiency ratio – TEB	32.4%	35.4%	3.0%	31.9%	(0.5%)
Full-time employees ("FTE") – period average	412	391	5%	308	34%

Q1 2015 v Q1 2014

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our efficiency ratio was 32.4% in the quarter, up 0.5 percentage points, reflecting an increase in non-interest expenses. The increase in non-interest expenses reflects the successful growth in our business, as well as strategic investments made to enable future growth and to maintain the high level of service that we provide to mortgage brokers and borrowers. In most cases, these investments were made ahead of associated benefits, and as such, reduced our net income and increased our efficiency ratio in the current period. The investments will help to improve our growth and efficiency in future quarters.

The majority of the \$3.3 million net increase in our expenses was driven by:

Growth of Our Franchise: \$2.4 million or 73% of the net increase

- Compensation and other costs such as premises and equipment increased, driven mainly by 27% growth in our FTE. A \$0.4 RSU/DSU recovery resulting from a decline in our stock price partially offset the impact of our larger FTE complement.

Investments in Our Future: \$0.9 million or 27% of the net increase

- Compensation and other costs such as premises and equipment increased as a result of 23 additional FTE hired to support our strategic initiatives
- Consulting costs related to our digital banking and other strategic initiatives were higher. These costs include \$0.2 million invested to conclude the first phase of our AIRB assessment, a project that we expect to resume in Q3 of this year.

Q1 2015 v Q4 2014

As discussed above, Q1 2015 was another period of strong growth in our existing businesses and investment in Equitable's future, though at lower levels than last quarter. Compared to Q4 2014, our efficiency ratio improved by 3 percentage points, driven by a decrease in non-interest expenses.

The majority of the \$0.9 million net decrease in our expenses was driven by:

Growth of Our Franchise: \$0.2 million or 25% of the net decrease

- Compensation and related costs such as premises and equipment were slightly higher, as the impact of 14 more FTE was offset partly by an RSU/DSU recovery that resulted from a decrease in our stock price; and
- Marketing expenses were lower, driven by incentives paid to mortgage brokers for achieving certain origination thresholds. Incentives were down in dollar terms and we also changed our accounting treatment for these costs (see Reporting Changes on page 5).

Investments in Our Future: \$0.6 million or 75% of the net decrease

- Consulting costs decreased and we experienced a minor increase in compensation expenses to support our key strategic initiatives such as prime single family and digital banking.

INCOME TAXES

Q1 2015 v Q1 2014

Our effective income tax rate for the quarter was 25.6% compared to 25.8% in Q1 2014. The 0.2% decrease was due to higher tax-exempt income received in the quarter and other adjustments booked in Q1 2014.

Q1 2015 v Q4 2014

Our Q1 2015 effective income tax rate was consistent with Q4 2014 at 25.6%.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

(\$ THOUSANDS)	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change
Total assets	\$ 13,387,915	\$ 12,854,903	4%	\$ 11,886,479	13%
Mortgage principal – Core Lending	8,020,115	7,265,225	10%	6,440,186	25%
Mortgage principal – Securitization Financing	4,730,163	4,975,473	(5%)	4,740,160	(0%)
Deposit principal	7,633,996	7,385,456	3%	6,455,503	18%
Total liquid assets as a % of total assets ⁽¹⁾	5.6%	5.3%	0.3%	6.0%	(0.4%)

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

TOTAL MORTGAGE PRINCIPAL

Please see page 5 for an explanation of a reporting change that we introduced in the quarter that affected the presentation of our mortgage assets.

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize our ROE, while focusing our strategic growth efforts on Single Family Lending Services. The following tables provide quarterly mortgage principal continuity schedules by lending business for Q1 2015 and Q1 2014:

Table 8: Mortgage principal continuity schedule

(\$ THOUSANDS)	Three months ended March 31, 2015						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q4 2014 closing balance	\$ 5,385,848	\$ 2,305,375	\$ 7,691,223	\$ 4,549,475	\$ 12,240,698	\$ 1,519,008	\$ 6,068,483
Originations	568,278	207,767	776,045	468,722	1,244,767	-	468,722
Securitized and derecognized	-	-	-	(180,753)	(180,753)	180,753	-
Net repayments	(262,661)	(184,491)	(447,152)	(107,281)	(554,433)	(12,397)	(119,678)
Q1 2015 closing balance	\$ 5,691,465	\$ 2,328,651	\$ 8,020,116	\$ 4,730,163	\$ 12,750,279	\$ 1,687,364	\$ 6,417,527
% Change from Q4 2014	6%	1%	4%	4%	4%	11%	6%
% Change from Q1 2014	31%	(2%)	19%	6%	14%	56%	16%
Net repayments percentage ⁽⁴⁾	4.9%	8.0%	5.8%	2.4%	4.5%	0.8%	2.0%

(\$ THOUSANDS)	Three months ended March 31, 2014						
	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽²⁾	Securitization Financing MUM ⁽³⁾
Q4 2013 closing balance	\$ 4,115,689	\$ 2,398,931	\$ 6,514,621	\$ 4,592,427	\$ 11,107,048	\$ 998,920	\$ 5,591,347
Originations	403,710	125,664	529,374	277,760	807,134	-	277,760
Securitized and derecognized	-	-	-	(94,852)	(94,852)	94,852	-
Net repayments	(185,187)	(136,524)	(321,712)	(317,273)	(638,985)	(8,861)	(326,134)
Q1 2014 closing balance	\$ 4,334,212	\$ 2,388,071	\$ 6,722,283	\$ 4,458,062	\$ 11,180,345	\$ 1,084,911	\$ 5,542,973
% Change from Q4 2013	5%	(0%)	3%	(3%)	1%	9%	(1%)
Net repayments percentage ⁽³⁾	4.5%	5.7%	4.9%	6.9%	5.8%	0.9%	5.8%

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

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

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

Q1 2015 v Q1 2014

Total mortgage principal increased 14% from a year ago, driven by 19% growth in Core Lending balances.

The growth in Core Lending was attributable to Single Family Lending and was achieved despite a small decrease in Commercial Lending balances. The main driver of the growth in Single Family Lending was a high level of originations in the quarter. While we continue to benefit from our strong business partnerships, Commercial Lending balances decreased as a result of our commitment to pricing discipline and risk parameters in a highly competitive market.

Securitization Financing Mortgages under Management ("Securitization Financing MUM"), which includes \$1.7 billion of derecognized mortgage principal, is more reflective of the performance of the underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM grew from 2014 levels largely due to our successful entry into the prime single family business in Q3 of 2014.

Q1 2015 v Q4 2014

The Single Family Lending portfolio increased 6% since December 31, 2014, and was the primary contributor to growth in Core Lending and total mortgage principal. The growth in Single Family assets was attributable to a high level of mortgage originations in the quarter.

Securitization Financing MUM increased due to strong levels of activity in both the multi and prime single family markets, combined with a low level of multi maturities during the quarter.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending Services, and as such, we do not focus on sequential origination comparisons. The table below provides mortgage originations for Q1 2015 and for the same period in 2014:

Table 9: Mortgage origination – by lending business

(\$ THOUSANDS)	Three months ended					
	Mar 31, 2015		Mar 31, 2014			
	Mortgage principal funded	% of total	Mortgage principal funded	% of total	% Change	
Core Lending:						
Single Family Lending Services	\$ 568,278	45.7%	\$ 403,710	76.3%	41%	
Commercial Lending Services	207,767	16.6%	125,664	23.7%	65%	
	776,045	62.3%	529,374	100.0%	47%	
Securitization Financing:						
Multi-unit residential	277,308	22.3%	277,760	52.5%	(0%)	
Single family residential	191,414	15.4%	-	0.0%	100%	
	468,722	37.7%	277,760	52.5%	69%	
Total mortgage origination	\$ 1,244,767	100.0%	\$ 807,134	100.0%	135%	

Q1 2015 v Q1 2014

The Company delivered record quarterly mortgage origination volumes in Q1 2015.

The Company's Core Lending origination volumes grew as a result of an increase in both Single Family and Commercial Lending activity. This performance is attributable to the strength of the Canadian housing market and our consistently high levels of service quality, which we achieved while maintaining our pricing discipline and risk parameters.

Securitization Financing originations were up in the quarter reflecting the success of our Prime Single Family business. We originate Prime Single Family loans internally or through third-party agents and then securitize them through the CMHC's MBS program. Originations of multi-unit residential mortgages remained on par with the same period of the prior year. We aim to originate multis such that we utilize the full amount of our CMB capacity each quarter, after considering our renewal volumes.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. If the securitized mortgages and the structure of a transaction meet specific criteria, they may qualify for balance sheet derecognition. The table below provides a summary of the mortgages securitized and derecognized in the quarter, as well as the associated retained interests and gain on sale amounts.

Table 10: Securitization and derecognition activity

(\$ THOUSANDS)	Three months ended					
	Mar 31, 2015	Dec 31, 2014	% Change	Mar 31, 2014	% Change	
Securitized and derecognized ⁽¹⁾	\$ 180,753	\$ 166,710	8%	\$ 94,852	91%	
Retained interests recorded	9,631	5,922	63%	3,936	145%	
Gains on sale	1,530	1,154	33%	751	104%	
Gains on sale – percentage ⁽²⁾	0.85%	0.69%	0.16%	0.79%	0.06%	

⁽¹⁾ All securitized and derecognized mortgages disclosed in the table above resulted in retained interests being recorded.

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

Q1 2015 v Q1 2014

Gains on sale were up due to increases in both volumes derecognized and the gain on sale percentage. Volumes derecognized were up as a result of higher demand for non-prepayable mortgage products, which generally qualify for derecognition. The 85 bps of gains recognized in the quarter relative to the principal derecognized were higher than in Q1 2014 largely due to differences in the cash flow discount rates used to calculate the gains. The spreads on the underlying mortgages remained relatively consistent period over period.

Q1 2015 v Q4 2014

The reasons for the improvement in our performance during Q1 2015 are the same as those cited when comparing Q1 2015 to the prior year above.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

Beginning Q4 2014, management has been extensively examining and stress testing our exposure to the Alberta and Saskatchewan markets, given the economic risks associated with declining oil prices. We are comfortable that our current portfolios in those provinces are well managed and believe that there is a low likelihood of Equitable incurring any significant credit losses. The highlights of our investments in Alberta and Saskatchewan at March 31, 2015 include:

- \$2.34 billion or 19% of the Company's total mortgage principal is in these two provinces.
 - \$1.16 billion or 49% of those assets are insured. \$0.39 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
 - \$1.18 billion of the assets are uninsured, with \$0.85 billion of that total being single family residential and \$0.33 billion being commercial. These uninsured assets represent only 9% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, \$0.97 billion or 83% are in the cities of greater Edmonton and Calgary. Similarly, \$97.2 million or 8% are in Regina and Saskatoon. Those cities have diversified economies and strong real estate markets and in our belief can better withstand economic shocks.
- The average loan to value of our uninsured single family residential portfolio in these provinces is 67%.

Details of our Alberta and Saskatchewan lending portfolios can be found in Table 9 of our Q1 2015 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

Table 11: Mortgage credit metrics

(\$ THOUSANDS)	Mar 31, 2015	Dec 31, 2014	Mar 31, 2014
Impairment (recovery) provision ⁽¹⁾	\$ 246	\$ 643	\$ (42)
Impairment (recovery) provision – rate ⁽¹⁾	0.01%	0.02%	(0.00%)
Gross impaired mortgage assets ⁽²⁾	39,436	41,253	42,437
Net impaired mortgage assets ⁽²⁾⁽³⁾	35,742	37,316	39,223
Net impaired mortgage assets as a % of total mortgage assets ⁽²⁾⁽³⁾	0.28%	0.30%	0.35%
Allowance for credit losses	33,772	33,447	31,859
Allowance for credit losses as a % of total mortgage assets	0.26%	0.27%	0.28%
Allowances for credit losses as a % of gross impaired mortgage assets	86%	81%	75%

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

⁽²⁾ 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.

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

Q1 2015 v Q1 2014

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q1 2015.

- Our Impairment Provision was only 1 bp as a result of low impairment formations and low loss estimates on impaired assets. We believe that losses on these assets will be nominal due to our effective workout process and the quality of collateral supporting the loans.
- The allowance for credit losses remains sufficient in the opinion of management, though was down slightly in the period as a percentage of our assets. The increase in allowances for credit losses in dollar terms reflects the growth in our assets.
- Impaired mortgages decreased slightly in both dollar terms and relative to total mortgage assets. Impairment rates remained low by historical standards.

Q1 2015 v Q4 2014

Our key credit risk metrics also compared well to the prior quarter for the reasons discussed above in comparing the results to Q1 2014.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

Table 12: Liquid assets⁽¹⁾

(\$ THOUSANDS)	Mar 31, 2015	Dec 31, 2014	Mar 31, 2014
Eligible deposits with regulated financial institutions ⁽²⁾	\$ 243,269	\$ 229,462	\$ 303,082
Debt securities issued by regulated financial institutions	-	-	45,136
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	10,535	9,998	20,172
Debt securities guaranteed by Government of Canada	20,881	20,597	35,156
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽³⁾	552,739	316,501	190,275
Obligations under repurchase agreements	(225,698)	(52,413)	-
Liquid assets held for regulatory purposes	601,726	524,145	593,821
Other deposits with regulated financial institutions	364	601	580
Equity securities ⁽⁴⁾	153,927	151,813	116,984
Total liquid assets ⁽¹⁾	\$ 756,017	\$ 676,559	\$ 711,385
Total assets held for regulatory purposes as a % of total Equitable Bank assets	4.5%	4.1%	5.0%
Total liquid assets as a % of total assets	5.6%	5.3%	6.0%

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

⁽²⁾ Eligible deposits with regulated financial institutions represent deposits of Equitable Bank which are held with major Canadian financial institutions and excludes \$11.2 million (December 31, 2014 – \$13.6 million, March 31, 2014 – \$15.1 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$52.9 million (December 31, 2014 – \$54.1 million, March 31, 2014 – \$42.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

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

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

Q1 2015 v Q1 2014

Liquid assets held for regulatory purposes relative to total assets were down from March 31, 2014 levels, as the effect of higher mortgage commitments in the current quarter compared to a year ago was offset by lower GIC maturities and other cash outflows expected in the weeks subsequent to quarter end.

Q1 2015 v Q4 2014

Liquid assets held for regulatory purposes as a percentage of total assets were up mainly due to higher mortgage commitment levels at March 31, 2015 relative to the prior quarter.

OTHER ASSETS

Q1 2015 v Q1 2014

Other assets were \$48.6 million at the end of Q1 2015, up by 74% or \$20.7 million over Q1 2014. The increase was mainly due to:

- \$9.3 million increase in capitalized system development costs, of which the majority will be amortized over a 10 year period;
- \$4.3 million of income tax receivable; and
- \$3.2 million increase in the fair value of interest rate swaps.

Included in Prepaid expenses and other is a net receivable of \$3.2 million (March and December 31, 2014 – \$3.2 million) related to an alleged fraud that was identified in 2011. The Company is currently pursuing a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

Q1 2015 v Q4 2014

Other assets increased by \$12.2 million or 33% from December 31, 2014. The change was due to an increase of \$3.4 in capitalized system development costs, the recording of a \$4.3 million income tax receivable, and a \$3.7 million increase in the fair value of derivative financial instruments – interest rate swaps.

DEPOSITS

Deposit balances were up by 18% over Q1 2014 and 3% over Q4 2014. Deposits have grown in-line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

SECURITIZATION LIABILITIES

Securitization liability principal was in line with Q1 2014 and up 3% over Q4 2014, with the amount of the liability being generally consistent with the level of our securitized assets.

BANK FACILITIES AND DEBENTURES

The Company has a \$300 million credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. At the end of Q1 2015, the outstanding balance was \$67.1 million compared to \$92.2 million a year ago and \$92.0 million at December 31, 2014.

There was no change to our debentures in the current quarter. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2014 Annual Report.

CAPITAL MANAGEMENT – EQUITABLE BANK

We manage the Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP"). There have been no material changes to our capital management framework from that described in our 2014 Annual Report.

OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian Banks. OSFI mandated all Canadian-regulated financial institutions to meet a target CET1 ratio of 7% on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments). For Tier 1 and Total capital ratios, the "all-in" capital targets are 8.5% and 10.5%.

Management believes that the Bank's current level of capital and its earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Equitable Bank's CET1 ratio on an "all-in" basis was 13.2% as at March 31, 2014, while our Tier 1 and Total capital ratios were 14.6% and 17.0%, respectively, exceeding the regulatory minimums on an "all-in" basis. Our Tier I and Total Capital ratios were up compared with Q1 of last year mainly reflecting internal capital generation driven by our strategy of retaining the vast majority of our earnings. Sequentially, our capital ratios decreased as our assets increased by 4% but our capital increased by only 1%. Capital growth in Q1 was impacted by mark-to-market losses on our preferred share portfolio and a capital deduction for intangible assets related to our new product initiatives.

We record the book losses on our preferred share portfolio through OCI and not through our Income Statement under IFRS standards since we do not believe that the assets are impaired. The deficit is a function of current market conditions, specifically reduced expectations for future yields on rate-reset preferred shares. There has not been a deterioration in the credit quality of the issuers and we do not believe there is a risk of credit loss on our holdings.

Effective Q1 2015, Canadian Banks are required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the ACM framework. OSFI has established leverage ratio targets on a confidential, institution by institution basis. We began to disclose our leverage ratio this quarter and are fully compliant with regulatory requirements. The leverage ratio is not applicable for prior periods so disclosure is limited to Q1 2015.

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

Table 13: Capital measures of Equitable Bank⁽¹⁾

(\$ THOUSANDS)	Mar 31, 2015	Dec 31, 2014	Mar 31, 2014
Total risk-weighted assets ("RWA")	\$ 4,867,218	\$ 4,721,131	\$ 4,369,407
Common Equity Tier 1 capital ("CET1"):			
Common shares	143,728	143,141	141,868
Contributed surplus	5,596	5,423	4,970
Retained earnings	516,230	490,774	420,557
Accumulated other comprehensive (loss) income ("AOCI") ⁽²⁾	(8,263)	(2,453)	(3,422)
Less: Total Regulatory adjustments to Common Equity Tier 1	(11,396)	(1,723)	(1,167)
Common Equity Tier 1 capital	645,895	635,162	562,806
Additional Tier 1 capital:			
Non-cumulative preferred shares ⁽³⁾	72,554	72,409	40,000
Less: Regulatory adjustments	(4,735)	(4,806)	-
Tier 1 capital	713,714	702,765	602,806
Tier 2 capital:			
Collective allowance	29,082	29,510	28,645
Subordinated debentures	85,000	85,000	92,483
Tier 2 capital	114,082	114,510	121,128
Total capital	\$ 827,796	\$ 817,275	\$ 723,934
Capital ratios and multiples ⁽¹⁾ :			
Common Equity Tier 1 capital ratio	13.2%	13.5%	12.9%
Tier 1 capital ratio	14.6%	14.9%	13.8%
Total capital ratio	17.0%	17.3%	16.6%
Leverage ratio ⁽⁴⁾	5.5%	N/A	N/A

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

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

⁽³⁾ Under Basel III rules, Equitable Bank's Series 1 preferred shares outstanding at March 31, 2014 were subject to phase-out at a rate of 10% per year. The Series 3 preferred shares, which were outstanding at December 31, 2014 and March 31, 2015 are Basel III compliant and not subject to phase out.

⁽⁴⁾ Non Domestic Systemically Important Banks are required to disclose the Leverage Ratio and its components, which has replaced the OSFI Assets-to-capital multiple (ACM), effective the end of the first fiscal quarter of 2015. The Leverage Ratio is not applicable for prior periods.

SUMMARY OF QUARTERLY RESULTS

Table 14 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

Table 14: Summary of quarterly results

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
RESULTS OF OPERATIONS								
Net income	\$ 29,461	\$ 26,885	\$ 27,764	\$ 26,778	\$ 25,291	\$ 26,492	\$ 23,226	\$ 22,898
Net income available to common shareholders	28,270	24,993	26,857	25,872	24,385	25,586	22,319	21,992
EPS – basic	\$ 1.83	\$ 1.62	\$ 1.74	\$ 1.68	\$ 1.59	\$ 1.67	\$ 1.46	\$ 1.44
EPS – diluted	\$ 1.81	\$ 1.59	\$ 1.71	\$ 1.65	\$ 1.56	\$ 1.65	\$ 1.44	\$ 1.43
Net interest income ⁽¹⁾	56,337	54,220	51,716	49,902	48,684	47,264	44,705	42,406
NIM – TEB: ⁽¹⁾⁽²⁾								
Total Assets	1.73%	1.76%	1.76%	1.70%	1.66%	1.63%	1.52%	1.46%
Core Lending	2.60%	2.61%	2.66%	2.57%	2.53%	2.50%	2.46%	2.40%
Securitization Financing	0.23%	0.30%	0.28%	0.31%	0.37%	0.40%	0.32%	0.35%
Total revenues ⁽¹⁾	137,279	134,928	131,900	129,752	126,387	128,813	127,861	127,380
ROE ⁽³⁾	17.9%	16.0%	17.8%	18.0%	17.9%	19.2%	17.5%	18.2%
Return on average assets ⁽³⁾	0.9%	0.8%	0.9%	1.0%	0.8%	0.9%	0.8%	0.8%
Efficiency ratio – TEB ⁽³⁾	32.4%	35.4%	31.5%	31.3%	31.9%	28.4%	31.8%	30.3%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	568,278	758,442	645,842	501,434	403,710	506,244	463,961	400,403
Commercial Lending Services	207,767	253,961	193,668	187,036	125,664	183,008	265,383	210,694
Core Lending	776,045	1,012,403	839,510	688,470	529,374	689,252	729,344	611,097
Securitization Financing	468,722	576,527	479,104	237,522	277,760	365,771	190,537	280,932
BALANCE SHEET								
Total assets	13,387,915	12,854,903	12,193,335	11,785,388	11,886,479	11,816,453	11,831,155	11,837,872
Mortgages receivable	12,785,852	12,269,945	11,555,700	11,128,395	11,204,349	11,129,867	10,970,223	10,806,401
MUM ⁽³⁾	14,437,643	13,759,706	12,897,242	12,287,267	12,265,257	12,105,968	11,737,731	11,360,724
Liquid assets ⁽³⁾	756,017	676,559	664,663	707,631	711,385	704,012	858,349	845,033
Shareholders' equity	723,606	703,694	682,863	636,376	611,456	588,318	565,506	545,919
SHARE CAPITAL								
Dividends declared per:								
Common share	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.15
Preferred share	\$ 0.40	\$ 0.63	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45
Common shares outstanding:								
Weighted average basic	15,440,328	15,416,625	15,408,311	15,398,461	15,371,973	15,326,042	15,294,743	15,262,648
Weighted average diluted	15,660,067	15,683,821	15,672,253	15,644,288	15,588,303	15,526,253	15,480,627	15,417,784
Book value per common share	\$ 42.13	\$ 40.90	\$ 39.61	\$ 38.16	\$ 36.58	\$ 35.14	\$ 33.77	\$ 32.55

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

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

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

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q1 2015 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2014. Refer to Note 3 of the audited consolidated financial statements in the Company's 2014 Annual Report.

FUTURE ACCOUNTING POLICIES

Financial Instruments – IFRS 9

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

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

Revenue from Contracts with Customers – IFRS 15

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

IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2017 and the Company is in the process of evaluating the impact of IFRS 15 on its financial statements.

CRITICAL ACCOUNTING ESTIMATES

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 years. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Company's interim consolidated financial statements affect the assessment of the allowance for credit losses on mortgages, the impairment of other financial instruments, the fair values of financial assets and liabilities, the derecognition of financial assets transferred in securitization transactions, the 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 and loss given default for mortgages receivable, discount rates utilized in the valuation of the Company's financial assets and liabilities, the creditworthiness 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 market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and

there are no known trends, commitments, 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. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods. For further information regarding critical accounting estimates, please refer to the notes to the interim consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions that qualify for derecognition, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements in the Company's 2014 Annual Report) and letters of credit issued in the normal course of business.

SECURITIZATION OF FINANCIAL ASSETS

Securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$1.7 billion at March 31, 2015 (December 31, 2014 – \$1.5 billion; March 31, 2014 – \$1.1 billion). The securitization retained interests recorded with respect to these securitization transactions were \$53.0 million (December 31, 2014 – \$45.0 million; March 31, 2014 – \$33.4 million) and the associated servicing liability was \$12.4 million at March 31, 2015 (December 31, 2014 – \$11.2 million; March 31, 2014 – \$8.5 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$843 million of mortgages in the ordinary course of business at March 31, 2015 (December 31, 2014 – \$778 million; March 31, 2014 – \$560 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of \$7.0 million were outstanding at March 31, 2015 (December 31, 2014 – \$5.9 million; March 31, 2014 – \$2.7 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in GIC deposits and/or subordinated debentures of the Company in the ordinary course of business, on market terms and conditions. See Note 23 to the consolidated financial statements in the Company's 2014 Annual Report for further details.

RISK MANAGEMENT

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

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, liquidity and funding risk, and market risk. For a detailed discussion of the risks that affect the Company, please refer to pages 65 to 74 of the Company's 2014 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

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

The Company's primary lending business is providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses on page 16 of this MD&A.

The Company also invests in equity securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 51% or \$74.8 million of the preferred share equity securities portfolio at March 31, 2015, compared to 44% or \$45.0 million a year earlier.

LIQUIDITY AND FUNDING RISK

Liquidity and Funding risk is defined as the possibility that the Company will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet its financial obligations as they come due. These financial obligations mainly arise from the maturity of deposits, maturity of mortgage backed securities and commitments to extend credit. The objective of liquidity risk management is to protect the Company's ability to meet all payment obligations as they come due.

The Company has a low tolerance for liquidity and funding risk and adheres to a Liquidity and Funding Risk Management policy that requires it to maintain a pool of high quality liquid assets. Assets held for the purpose of providing liquidity protection may consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. These assets amounted to \$602 million at March 31, 2015 and \$594 million at March 31, 2014.

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at March 31, 2015, see Note 19 to the consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders equity ("EVE") and on NII.

The table below illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following March 31, 2015. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 15: Net interest income shock

(\$ THOUSANDS)	Increase in interest rates		Decrease in interest rates ⁽¹⁾	
100 basis point shift				
Impact on net interest income	\$	3328	\$	832
Impact on EVE	\$	(8,503)	\$	10,635
EVE impact as a % of common shareholders' equity		(1.3%)		1.6%
200 basis point shift				
Impact on net interest income	\$	7,596	\$	832
Impact on EVE	\$	(16,025)	\$	15,263
EVE impact as a % of common shareholders' equity		(2.5%)		2.4%

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

Equity Price Risk is defined as the risk of loss due to an adverse movement in the value of the Company's securities portfolio due to volatility in financial markets.

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

UPDATED SHARE INFORMATION

At May 12, 2015, the Company had 15,460,125 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 615,375 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$23.3 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- **Adjusted results:** in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.
- **Assets-to-capital multiple ("ACM"):** is measured by dividing Equitable Bank's gross adjusted assets by total regulatory capital. The ACM is calculated on the "transitional" basis in accordance with OSFI's CAR Guideline.
- **Assets under management:** is the sum of total assets reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.
- **Book value per common share:** is calculated by dividing common shareholder's equity by the number of common shares outstanding.
- **Capital Ratios:**
 - **Common Equity Tier 1 Capital ("CET1") ratio:** this key measure of capital strength is defined as CET1 as a percentage of total risk-weighted assets. This ratio is calculated for the Company's subsidiary, Equitable Bank, in accordance with the guidelines issued by OSFI. CET1 is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income.
 - **Tier 1, Tier 2 and Total capital ratios:** these adequacy ratios are calculated for Equitable Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1, Tier 2 or Total capital by total risk-weighted assets.
 - **Leverage Ratio:** this measure is calculated by dividing Tier 1 capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.
 - The capital ratios are calculated on the "all-in" basis in accordance with OSFI's CAR Guideline.
- **Economic Value of Shareholders' Equity ("EVE"):** is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.
- **Efficiency ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower efficiency ratio reflects a more efficient cost structure.
- **Impairment provision (recovery):** is the portion of the total provision for credit losses recorded during the year that relates to loans that have been individually assessed as impaired by management.
- **Impairment provision (recovery) rate:** this credit quality metric is calculated on an annualized basis and is defined as the impairment provision (recovery) as a percentage of average loan portfolio outstanding during the period.
- **Liquid assets:** is a measure of the Company's liquid resources, held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.
- **Mortgages under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.
- **Net Interest Margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets for the period.
- **Net revenue:** is calculated as the sum of net interest income; other income; and the TEB adjustment.

- **Return on average assets:** this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.
- **Return on Shareholders' Equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period. For the period ended March 31, 2015, ROE equaled 17.9% (Q4 2014 – 16.0%, Q1 2014 – 17.9%) – net income available to common shareholders of \$28,270 (Q4 2014 – \$24,993, Q1 2014 – \$24,385) divided by weighted average common equity outstanding of \$641,075 (Q4 2014 – \$620,705, Q1 2014 – \$551,435).
- **Risk-weighted assets:** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company.
- **Taxable Equivalent Basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and efficiency ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the three months ended March 31, 2015, the TEB adjustment was \$0.6 million as compared to \$0.5 million for the same period in 2014 and Q4 2014.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

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

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2015

With comparative figures as at December 31, 2014 and March 31, 2014

(\$ THOUSANDS)

	March 31, 2015	December 31, 2014	March 31, 2014
Assets:			
Cash and cash equivalents	\$ 243,634	\$ 230,063	\$ 303,662
Restricted cash	64,117	67,690	57,687
Securities purchased under reverse repurchase agreements	10,535	18,117	20,172
Investments (Note 6)	182,221	187,664	239,305
Mortgages receivable – Core Lending (Note 7)	8,014,573	7,684,425	6,717,019
Mortgages receivable – Securitization Financing (Notes 7 & 8)	4,771,279	4,585,520	4,487,330
Securitization retained interests (Note 8)	52,957	44,983	33,386
Other assets (Note 10)	48,599	36,441	27,918
	\$ 13,387,915	\$ 12,854,903	\$ 11,886,479
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits (Note 11)	\$ 7,750,244	\$ 7,489,418	\$ 6,563,120
Securitization liabilities (Note 8)	4,457,760	4,355,328	4,471,954
Obligations under repurchase agreements	225,698	52,413	-
Deferred tax liabilities (Note 12)	18,507	14,843	11,406
Other liabilities (Note 13)	60,014	61,971	44,066
Bank facilities (Note 14)	67,086	92,236	91,994
Debentures	85,000	85,000	92,483
	12,664,309	12,151,209	11,275,023
Shareholders' equity:			
Preferred shares (Note 15)	72,557	72,412	48,494
Common shares (Note 15)	141,245	140,657	139,107
Contributed surplus (Note 16)	4,505	4,331	5,385
Retained earnings	521,587	496,097	426,391
Accumulated other comprehensive loss	(16,288)	(9,803)	(7,921)
	723,606	703,694	611,456
	\$ 13,387,915	\$ 12,854,903	\$ 11,886,479

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015

With comparative figures for the three month period ended March 31, 2014

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended	
	March 31, 2015	March 31, 2014
Interest income:		
Mortgages – Core Lending	\$ 93,333	\$ 80,125
Mortgages – Securitization Financing	37,296	40,849
Investments	1,578	1,479
Other	1,265	1,585
	133,472	124,038
Interest expense:		
Deposits	41,828	36,803
Securitization liabilities	33,002	36,623
Debentures	1,277	1,394
Bank facilities	614	513
Other	414	21
	77,135	75,354
Net interest income	56,337	48,684
Provision for credit losses (Note 7)	814	507
Net interest income after provision for credit losses	55,523	48,177
Other income:		
Fees and other income	2,308	1,466
Net (loss) gain on investments	(203)	17
Gains on securitization activities and income from securitization retained interests (Note 8)	1,702	866
	3,807	2,349
Net interest and other income	59,330	50,526
Non-interest expenses:		
Compensation and benefits	11,386	10,136
Other	8,314	6,309
	19,700	16,445
Income before income taxes	39,630	34,081
Income taxes (Note 12):		
Current	6,609	8,209
Deferred	3,560	581
	10,169	8,790
Net income	\$ 29,461	\$ 25,291
Earnings per share (Note 17):		
Basic	\$ 1.83	\$ 1.59
Diluted	\$ 1.81	\$ 1.56

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015

With comparative figures for the three month period ended March 31, 2014

(\$ THOUSANDS)

	Three months ended	
	March 31, 2015	March 31, 2014
Net income	\$ 29,461	\$ 25,291
Other comprehensive income – items that may be reclassified subsequently to income:		
Available for sale investments:		
Net unrealized (losses) gains from change in fair value	(6,302)	1,573
Reclassification of net losses (gains) to income	375	(9)
	(5,927)	1,564
Income tax recovery (expense)	1,565	(413)
	(4,362)	1,151
Cash flow hedges (Note 9):		
Net unrealized losses from change in fair value	(3,516)	(2,058)
Reclassification of net losses to income	632	517
	(2,884)	(1,541)
Income tax recovery	761	407
	(2,123)	(1,134)
Total other comprehensive (loss) income	(6,485)	17
Total comprehensive income	\$ 22,976	\$ 25,308

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015

With comparative figures for the three month period ended March 31, 2014

(\$ THOUSANDS)

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
March 31, 2015								
Balance, beginning of period	\$ 72,412	\$ 140,657	\$ 4,331	\$ 496,097	\$ (5,902)	\$ (3,901)	\$ (9,803)	\$ 703,694
Net income	-	-	-	29,461	-	-	-	29,461
Other comprehensive (loss) income, net of tax	-	-	-	-	(2,123)	(4,362)	(6,485)	(6,485)
Issuance cost	145	-	-	-	-	-	-	145
Exercise of stock options	-	494	-	-	-	-	-	494
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(2,780)	-	-	-	(2,780)
Stock-based compensation	-	-	268	-	-	-	-	268
Transfer relating to the exercise of stock options	-	94	(94)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 141,245	\$ 4,505	\$ 521,587	\$ (8,025)	\$ (8,263)	\$ (16,288)	\$ 723,606

	Accumulated other comprehensive income (loss)							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
March 31, 2014								
Balance, beginning of period	\$ 48,494	\$ 137,969	\$ 5,326	\$ 404,467	\$ (3,364)	\$ (4,574)	\$ (7,938)	\$ 588,318
Net income	-	-	-	25,291	-	-	-	25,291
Other comprehensive (loss) income, net of tax	-	-	-	-	(1,134)	1,151	17	17
Reinvestment of dividends	-	266	-	-	-	-	-	266
Exercise of stock options	-	712	-	-	-	-	-	712
Dividends:								
Preferred shares	-	-	-	(906)	-	-	-	(906)
Common shares	-	-	-	(2,461)	-	-	-	(2,461)
Stock-based compensation	-	-	219	-	-	-	-	219
Transfer relating to the exercise of stock options	-	160	(160)	-	-	-	-	-
Balance, end of period	\$ 48,494	\$ 139,107	\$ 5,385	\$ 426,391	\$ (4,498)	\$ (3,423)	\$ (7,921)	\$ 611,456

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015

With comparative figures for the three month period ended March 31, 2014

(\$ THOUSANDS)

	Three months ended	
	March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	\$ 29,461	\$ 25,291
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	(3,238)	(467)
Amortization of premium/discount on investments	196	585
Amortization of capital assets	335	303
Amortization of deferred costs	411	556
Provision for credit losses	814	507
Securitization gains	(1,530)	(751)
Net (loss) gain on sale or redemption of investments	203	(17)
Stock-based compensation	268	219
Income taxes	10,169	8,790
Changes in operating assets and liabilities:		
Restricted cash	3,573	29,632
Securities purchased under reverse repurchase agreements	7,582	34,688
Mortgages receivable	(705,238)	(173,426)
Other assets	(658)	1,135
Deposits	256,701	91,908
Securitization liabilities	102,432	(119,450)
Obligations under repurchase agreements	173,284	(8,143)
Bank facilities	(25,150)	91,994
Other liabilities	(1,925)	(3,044)
Income taxes paid	(10,852)	(16,426)
Proceeds from loan securitizations	180,685	95,165
Securitization retained interests	2,273	1,339
Cash flows from operating activities	19,796	60,388
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on preferred shares	(1,191)	(906)
Dividends paid on common shares	-	(2,190)
Preferred share issuance cost	145	-
Proceeds from issuance of common shares	494	712
Cash flows used in financing activities	(552)	(2,384)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(12,844)	(39,396)
Proceeds on sale or redemption of investments	3,498	45,189
Net change in Canada Housing Trust re-investment accounts	7,841	(3,633)
Purchase of capital assets and system development costs	(4,168)	(147)
Cash flows (used in) from investing activities	(5,673)	2,013
Net increase in cash and cash equivalents	13,571	60,017
Cash and cash equivalents, beginning of period	230,063	243,645
Cash and cash equivalents, end of period	\$ 243,634	\$ 303,662
Cash flows from operating activities include:		
Interest received	\$ 131,538	\$ 123,697
Interest paid	(59,130)	(48,311)
Dividends received	1,765	1,509

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company’s 2014 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company’s Board of Directors (the “Board”) on May 12, 2015.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

(e) Consolidation:

The interim consolidated financial statements as at and for the three months ended March 31, 2015 and March 31, 2014 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

Accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2014. Refer to Note 3 of the audited consolidated financial statements in the Company's 2014 Annual Report.

Future accounting policies:

(a) Financial Instruments (IFRS 9):

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

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

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

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

IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2017 and the Company is in the process of evaluating the impact of IFRS 15 on its financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 65 to 74 of the Company's 2014 Annual Report.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

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

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

(vi) Debentures

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

(vii) Derivatives

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

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at March 31, 2015 and December 31, 2014. The tables do not include assets and liabilities that are not considered financial instruments.

	March 31, 2015							
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value	
Financial assets:								
Cash and cash equivalents	\$ 243,634	\$ -	\$ -	\$ -	\$ -	\$ 243,634	\$ 243,634	
Restricted cash	64,117	-	-	-	-	64,117	64,117	
Securities purchased under reverse repurchase agreements	-	-	-	-	10,535	10,535	10,535	
Investments	6,399	-	6,413	168,409	1,000	182,221	182,221	
Mortgages receivable – Core Lending	-	49,132	-	-	7,965,441	8,014,573	8,064,008	
Mortgages receivable – Securitization Financing	81,079	-	-	-	4,690,200	4,771,279	4,988,453	
Securitization retained interests	-	-	-	52,957	-	52,957	52,957	
Other assets:								
Derivative financial instruments – interest rate swaps	5,652	-	-	-	-	5,652	5,652	
Mortgage commitments	3	-	-	-	-	3	3	
Other	-	-	-	-	11,692	11,692	11,692	
Total financial assets	\$ 400,884	\$ 49,132	\$ 6,413	\$ 221,366	\$ 12,678,868	\$ 13,356,663	\$ 13,623,272	
Financial liabilities:								
Deposits	\$ -	\$ 46,989	\$ -	\$ -	\$ 7,703,255	\$ 7,750,244	\$ 7,793,467	
Securitization liabilities	-	-	-	-	4,457,760	4,457,760	4,680,861	
Obligations under repurchase agreements	-	-	-	-	225,698	225,698	225,698	
Other liabilities:								
Derivative financial instruments – bond forwards	422	-	-	-	-	422	422	
Other	-	-	-	-	54,831	54,831	54,831	
Bank facilities	-	-	-	-	67,086	67,086	67,086	
Debentures	-	-	-	-	85,000	85,000	86,518	
Total financial liabilities	\$ 422	\$ 46,989	\$ -	\$ -	\$ 12,593,630	\$ 12,641,041	\$ 12,908,883	

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

December 31, 2014									
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value		
Financial assets:									
Cash and cash equivalents	\$ 230,063	\$ -	\$ -	\$ -	\$ -	\$ 230,063	\$ 230,063		
Restricted cash	67,690	-	-	-	-	67,690	67,690		
Securities purchased under reverse repurchase agreements	-	-	-	-	18,117	18,117	18,117		
Investments	6,399	-	14,254	166,011	1,000	187,664	187,664		
Mortgages receivable – Core Lending	-	49,122	-	-	7,635,303	7,684,425	7,698,794		
Mortgages receivable – Securitization Financing	41,310	-	-	-	4,544,210	4,585,520	4,713,069		
Securitization retained interests	-	-	-	44,983	-	44,983	44,983		
Other assets:									
Derivative financial instruments – interest rate swaps	1,916	-	-	-	-	1,916	1,916		
Mortgage commitments	16	-	-	-	-	16	16		
Other	-	-	-	-	6,330	6,330	6,330		
Total financial assets	\$ 347,394	\$ 49,122	\$ 14,254	\$ 210,994	\$ 12,204,960	\$ 12,826,724	\$ 12,968,642		
Financial liabilities:									
Deposits	\$ -	\$ 135,732	\$ -	\$ -	\$ 7,353,686	\$ 7,489,418	\$ 7,500,809		
Securitization liabilities	-	-	-	-	4,355,328	4,355,328	4,496,820		
Obligations under repurchase agreements	-	-	-	-	52,413	52,413	52,413		
Other liabilities:									
Derivative financial instruments – bond forwards	908	-	-	-	-	908	908		
Other	-	-	-	-	60,314	60,314	60,314		
Bank facilities	-	-	-	-	92,236	92,236	92,236		
Debentures	-	-	-	-	85,000	85,000	85,474		
Total financial liabilities	\$ 908	\$ 135,732	\$ -	\$ -	\$ 11,998,977	\$ 12,135,617	\$ 12,288,974		

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

The following table presents the financial instruments recorded in the consolidated balance sheets, classified using the fair value hierarchy:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 174,808	\$ 6,413	\$ 1,000	\$ 182,221
Mortgages receivable – Core Lending	-	49,132	8,014,876	8,064,008
Mortgages receivable – Securitization Financing	-	81,079	4,907,374	4,988,453
Securitization retained interests	-	52,957	-	52,957
Other assets:				
Derivative financial instruments – interest rate swaps	-	5,652	-	5,652
Mortgage commitments	-	3	-	3
Total financial assets	\$ 174,808	\$ 195,236	\$ 12,923,250	\$ 13,293,294
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 7,793,467	\$ 7,793,467
Securitization liabilities	-	1,825,985	2,854,876	4,680,861
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	422	-	422
Debentures	-	86,518	-	86,518
Total financial liabilities	\$ -	\$ 1,912,925	\$ 10,648,343	\$ 12,561,268

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

	December 31, 2014			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 172,410	\$ 14,254	\$ 1,000	\$ 187,664
Mortgages receivable – Core Lending	-	49,122	7,649,672	7,698,794
Mortgages receivable – Securitization Financing	-	41,310	4,671,759	4,713,069
Securitization retained interests	-	44,983	-	44,983
Other assets:				
Derivative financial instruments – interest rate swaps	-	1,916	-	1,916
Mortgage commitments	-	16	-	16
Total financial assets	\$ 172,410	\$ 151,601	\$ 12,322,431	\$ 12,646,442
Financial liabilities:				
Deposits	\$ -	\$ -	\$ 7,500,809	\$ 7,500,809
Securitization liabilities	-	1,908,915	2,587,905	4,496,820
Other liabilities:				
Derivative financial instruments – bond forwards	-	908	-	908
Debentures	-	85,474	-	85,474
Total financial liabilities	\$ -	\$ 1,995,297	\$ 10,088,714	\$ 12,084,011

Note 6 – Investments

Carrying value:

	March 31, 2015	December 31, 2014	March 31, 2014
Debt securities issued by regulated financial institutions	\$ -	\$ -	\$ 45,136
Debt securities guaranteed by Government of Canada	20,881	20,597	35,156
Debt securities – corporate debt	1,000	1,000	-
Equity securities – preferred shares	147,528	143,054	102,680
Equity securities – common shares	6,399	8,759	14,304
Canada Housing Trust re-investment accounts ⁽¹⁾⁽²⁾	6,413	14,254	42,029
	\$ 182,221	\$ 187,664	\$ 239,305

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

⁽²⁾ Excludes reverse repurchase agreements of \$10.5 million (December 31, 2014 – \$8.1 million, March 31, 2014 – nil) which are reclassified to Securities purchased under reverse repurchase agreements.

Net unrealized gains (losses) on available for sale investments recorded in the consolidated statements of comprehensive income are as follows:

	March 31, 2015	December 31, 2014	March 31, 2014
Debt securities issued by regulated financial institutions	\$ -	\$ -	\$ 11
Debt securities guaranteed by Government of Canada	1,567	1,147	918
Equity securities – preferred shares	(14,513)	(7,149)	(7,130)
Equity securities – common shares	-	(396)	1,032
	\$ (12,946)	\$ (6,398)	\$ (5,169)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

March 31, 2015	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending	\$ 8,019,539	\$ 3,694	\$ 30,078	\$ 33,772	\$ 7,985,767
Mortgages – Securitization Financing	4,759,867	-	-	-	4,759,867
Accrued interest	40,218	-	-	-	40,218
	\$ 12,819,624	\$ 3,694	\$ 30,078	\$ 33,772	\$ 12,785,852

December 31, 2014	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending ⁽¹⁾	\$ 7,690,252	\$ 3,937	\$ 29,510	\$ 33,447	\$ 7,656,805
Mortgages – Securitization Financing ⁽¹⁾	4,574,251	-	-	-	4,574,251
Accrued interest	38,889	-	-	-	38,889
	\$ 12,303,392	\$ 3,937	\$ 29,510	\$ 33,447	\$ 12,269,945

March 31, 2014	Allowance for credit losses				Net amount
	Gross amount	Individual	Collective	Total	
Mortgages – Core Lending ⁽¹⁾	\$ 6,723,963	\$ 3,214	\$ 28,645	\$ 31,859	\$ 6,692,104
Mortgages – Securitization Financing ⁽¹⁾	4,474,740	-	-	-	4,474,740
Accrued interest	37,505	-	-	-	37,505
	\$ 11,236,208	\$ 3,214	\$ 28,645	\$ 31,859	\$ 11,204,349

⁽¹⁾ In prior quarters, alternative single family mortgages were reported under Mortgages – Core Lending before being securitized and under Mortgages – Securitization Financing after securitization. As at March 31, 2015, the Company is reporting all its alternative single family mortgages under Mortgages – Core Lending as it reflects a clearer picture of both our Alternative Single Family business and our Prime Single Family business. Accordingly at December 31, 2014, the Company has reclassified \$425,831 (March 31, 2014 – \$282,501) of securitized alternative single family mortgages from Securitization Financing to Core Lending. The Company has also reclassified \$2,853 of Interest income from Mortgages – Securitization Financing to Mortgages – Core Lending for the period ending March 31, 2014.

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale which consist of insured residential mortgages of \$319,890 (December 31, 2014 – \$356,479, March 31, 2014 – \$138,642), of which \$81,079 (December 31, 2014 – \$41,310, March 31, 2014 – \$10,589) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment as at March 31, 2015 is \$18 (December 31, 2014 – \$218, March 31, 2014 – (\$12)).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at March 31, 2015, mortgage principal outstanding for these mortgages was \$46,921 (December 31, 2014 – \$47,180, March 31, 2014 – \$47,938) and the fair value adjustment was \$2,211 (December 31, 2014 – \$1,942, March 31, 2014 – \$2,405).

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

	March 31, 2015	March 31, 2014
Changes in fair value for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	\$ (200)	\$ 95
Changes in fair value for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	269	86

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

At March 31, 2015, the Company had commitments to fund a total of \$842,991 (December 31, 2014 – \$777,890, March 31, 2014 – \$560,376) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

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

As at March 31, 2015, accrued interest on impaired mortgages amounted to \$2,032 (December 31, 2014 – \$2,153, March 31, 2014 – \$1,645).

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

	March 31, 2015			December 31, 2014	March 31, 2014
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	\$ 39,145	\$ 3,694	\$ 35,451	\$ 36,511	\$ 38,262
Mortgages – Core Lending – Insured	-	-	-	148	-
Mortgages – Securitization Financing – Insured	291	-	291	657	961
	\$ 39,436	\$ 3,694	\$ 35,742	\$ 37,316	\$ 39,223

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

	March 31, 2015			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 41,457	\$ 14,144	\$ -	\$ 55,601
Mortgages – Core Lending – Insured	568	1,975	9,276	11,819
Mortgages – Securitization Financing – Insured	3,656	671	746	5,073
	\$ 45,681	\$ 16,790	\$ 10,022	\$ 72,493

	December 31, 2014			
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	\$ 35,522	\$ 8,679	\$ -	\$ 44,201
Mortgages – Core Lending – Insured	890	508	291	1,689
Mortgages – Securitization Financing – Insured	1,983	1,980	1,091	5,054
	\$ 38,395	\$ 11,167	\$ 1,382	\$ 50,944

(c) Allowance for credit losses:

	March 31, 2015		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,937	\$ 29,510	\$ 33,447
Provision for credit losses	246	568	814
Realized losses	(491)	-	(491)
Recoveries	2	-	2
Balance, end of period	\$ 3,694	\$ 30,078	\$ 33,772

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

	March 31, 2014		
	Individual allowance	Collective allowance	Total
Balance, beginning of period	\$ 3,381	\$ 28,096	\$ 31,477
Provision for credit losses	(42)	549	507
Realized losses	(136)	-	(136)
Recoveries	11	-	11
Balance, end of period	\$ 3,214	\$ 28,645	\$ 31,859

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2014 Annual Report.

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

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

	March 31, 2015		December 31, 2014		March 31, 2014	
	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	\$ 5,026,231	\$ 225,698	\$ 4,656,651	\$ 52,413	\$ 4,631,638	\$ -
Carrying amount of associated liability	4,457,760	225,698	4,355,328	52,413	4,471,954	-
Fair value of assets	5,246,867	225,698	4,783,429	52,413	4,723,897	-
Fair value of associated liability	4,680,861	225,698	4,496,820	52,413	4,571,636	-
Fair value, net position	\$ 566,006	\$ -	\$ 286,609	\$ -	\$ 152,261	\$ -

The carrying amount of assets include securitized assets that were not transferred to third parties of \$546,571 (December 31, 2014 – \$309,797, March 31, 2014 – \$191,823). The fair value of these assets are \$550,180 (December 31, 2014 – \$310,754, March 31, 2014 – \$193,078).

The carrying amount of assets exclude mortgages held for securitization of \$320,359 (December 31, 2014 – \$356,650, March 31, 2014 – \$138,938).

The Company's outstanding securitization liabilities are as follows:

	March 31, 2015	December 31, 2014	March 31, 2014
Securitization principal	\$ 4,466,151	\$ 4,368,886	\$ 4,473,080
Deferred net discounts and issuance costs	(25,847)	(25,307)	(22,564)
Accrued interest	17,456	11,749	21,438
Total	\$ 4,457,760	\$ 4,355,328	\$ 4,471,954

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

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

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

	March 31, 2015	March 31, 2014
Mortgages securitized and sold	\$ 180,753	\$ 94,852
Carrying value and fair value of Securitization retained interests	9,631	3,933
Carrying value of Securitized mortgage servicing liability	1,743	960
Fair value of Securitized mortgage servicing liability	(4)	1
Gains on mortgages securitized and sold	1,530	751
Income from securitization activities and retained interests	172	115

Note 9 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond forwards 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.

Fair value hedges

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

(b) Financial impact of derivatives:

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

March 31, 2015				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Hedging bond forwards				
1 or less	\$ 108,533	\$ -	\$ (392)	\$ (392)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	185,000	232	-	232
1 to 5	322,000	5,420	-	5,420
Bond forwards				
1 or less	73,850	-	(30)	(30)
	\$ 689,383	\$ 5,652	\$ (422)	\$ 5,230
December 31, 2014				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Hedging bond forwards				
1 or less	\$ 100,684	\$ -	\$ (660)	\$ (660)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	185,000	83	-	83
1 to 5	322,000	1,827	-	1,827
Interest rate swaps				
1 or less	90,000	6	-	6
Bond forwards				
1 or less	42,300	-	(248)	(248)
	\$ 739,984	\$ 1,916	\$ (908)	\$ 1,008

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

March 31, 2014				
Derivative instrument and term (years)	Notional amount	Fair value		Net ⁽¹⁾
		Assets	Liabilities	
Cash flow hedges:				
Hedging bond forwards				
1 or less	\$ 66,275	\$ -	\$ (45)	(45)
Fair value hedges:				
Interest rate swaps				
1 or less	140,000	23	-	23
1 to 5	407,000	2,240	-	2,240
Bond forwards				
1 or less	275,000	162	-	162
Short sale and repurchase agreement				
1 or less	15,100	11	-	11
	\$ 903,375	\$ 2,436	\$ (45)	2,391

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

Cash flow hedges:

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

	March 31, 2015	March 31, 2014
Fair value changes recorded in Other comprehensive income	\$ (2,884)	\$ (1,541)
Fair value changes recorded in Income	(103)	(54)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(632)	(517)

Fair value hedges:

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

	March 31, 2015	March 31, 2014
Interest rate swaps – hedge accounting	\$ 3,743	\$ 874
Interest rate swaps	(6)	(99)
Bond forwards	217	(123)
Changes in fair value recognized in income	\$ 3,954	\$ 652

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 10 – Other Assets

	March 31, 2015	December 31, 2014	March 31, 2014
Deferred system costs	\$ 15,073	\$ 11,669	\$ 5,786
Real estate owned	7,779	7,473	7,144
Receivable relating to securitization activities	6,217	8,333	2,488
Derivative financial instruments - interest rate swaps	5,652	1,916	2,425
Prepaid expenses and other	5,314	2,658	5,641
Income taxes recoverable	4,302	-	-
Capital assets	3,983	3,964	3,865
Accrued interest and dividends on non-mortgage assets	276	412	568
Mortgage commitments	3	16	1
	\$ 48,599	\$ 36,441	\$ 27,918

Note 11 – Deposits

	March 31, 2015	December 31, 2014	March 31, 2014
Term and other deposits	\$ 7,633,996	\$ 7,385,456	\$ 6,455,503
Accrued interest	133,418	122,670	125,637
Deferred deposit agent commissions	(17,170)	(18,708)	(18,020)
	\$ 7,750,244	\$ 7,489,418	\$ 6,563,120

Term and other deposits include \$46,640 (December 31, 2014 – \$135,841, March 31, 2014 – \$320,407) of deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at March 31, 2015 is \$348 (December 31, 2014 – (\$109), March 31, 2014 – \$138).

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

	March 31, 2015	March 31, 2014
Changes in fair value recognized in income	\$ (457)	\$ (308)

Term and other deposits also include \$501,507 (December 31, 2014 – \$502,060, March 31, 2014 – \$544,781) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at March 31, 2015 is \$5,431 (December 31, 2014 – \$1,764, March 31, 2014 – \$2,121).

The impact of changes in fair value attributable to deposits designated in hedging relationships is as follows:

	March 31, 2015	March 31, 2014
Changes in fair value recognized in income	\$ (3,667)	\$ (875)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 12 – Income Taxes

(a) Income tax provision:

	March 31, 2015	March 31, 2014
Current tax expense:		
Current period	\$ 6,609	\$ 8,200
Adjustments for prior years	-	9
	6,609	8,209
Deferred tax expense:		
Reversal of temporary differences	3,560	552
Change in tax rates	-	29
	3,560	581
Total income tax expense	\$ 10,169	\$ 8,790

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

	March 31, 2015	March 31, 2014
Canadian statutory income tax rate	\$ 26.4%	\$ 26.4%
Increase (decrease) resulting from:		
Tax-exempt income	(1.1%)	(1.0%)
Future tax rate changes	-	0.1%
Non-deductible expenses and other	0.3%	0.3%
Effective income tax rate	\$ 25.6%	\$ 25.8%

(b) Deferred tax liabilities:

Net deferred tax liabilities is comprised of:

	March 31, 2015	December 31, 2014	March 31, 2014
Deferred income tax assets:			
Allowance for credit losses	\$ 8,039	\$ 7,896	\$ 7,603
Share issue expenses	1,239	1,427	-
Other	1,049	1,165	537
	10,327	10,488	8,140
Deferred income tax liabilities:			
Securitization activities	15,700	13,974	11,139
Deposit agent commissions	4,397	4,822	4,758
Net mortgage costs	5,284	3,720	3,581
Other	3,453	2,815	68
	28,834	25,331	19,546
Net deferred income tax liabilities	\$ 18,507	\$ 14,843	\$ 11,406

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 13 – Other Liabilities

	March 31, 2015	December 31, 2014	March 31, 2014
Mortgagor realty taxes	\$ 27,034	\$ 31,512	\$ 22,996
Accounts payable and accrued liabilities	20,204	16,075	11,733
Securitized mortgage servicing liability	12,354	11,192	8,530
Derivative financial instruments – bond forwards	422	908	34
Income taxes payable	-	2,284	773
	\$ 60,014	\$ 61,971	\$ 44,066

Note 14 – Bank Facilities

The Company has a \$300,000 credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. The balance outstanding on this facility as at March 31, 2015 is \$67,086 (December 31, 2014 – \$92,236, March 31, 2014 – \$91,994). For further details on bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2014 Annual Report.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 15 – Shareholders’ Equity

Capital stock:

Authorized:

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

Issued and outstanding shares:

	March 31, 2015			March 31, 2014		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Preferred shares:						
Series 1 - Balance, beginning of period	-	\$ -		2,000,000	\$ 50,000	
Balance, end of period	-	\$ -		2,000,000	\$ 50,000	
Series 3 - Balance, beginning of period	3,000,000	\$ 75,000		-	\$ -	
Balance, end of period	3,000,000	\$ 75,000		-	\$ -	
Balance, end of period, before issuance cost	3,000,000	\$ 75,000		2,000,000	\$ 50,000	
Issuance cost		(2,443)			(1,506)	
Balance, end of period, after issuance cost	3,000,000	\$ 72,557	0.40	2,000,000	\$ 48,494	0.45
	March 31, 2015			March 31, 2014		
	Number of shares	Amount	Dividends per share ⁽¹⁾	Number of shares	Amount	Dividends per share ⁽¹⁾
Common shares:						
Balance, beginning of period	15,435,356	\$ 140,657		15,355,405	\$ 137,969	
Contributions from reinvestment of dividends	-	-		5,375	266	
Contributions from exercise of stock options	16,769	494		28,086	712	
Transferred from contributed surplus relating to the exercise of stock options	-	94		-	160	
Balance, end of period	15,452,125	\$ 141,245	0.18	15,388,866	\$ 139,107	0.16

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 16 – Stock-Based Compensation**(a) Stock-based compensation plan:**

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As at March 31, 2015, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2022. A summary of the Company's stock option activity and related information for the periods ended March 31, 2015 and March 31, 2014 is as follows:

	March 31, 2015		March 31, 2014	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	544,449	\$ 33.52	521,631	\$ 28.54
Granted	101,695	59.98	100,430	52.90
Exercised	(16,769)	29.40	(28,086)	25.32
Forfeited/cancelled	(6,000)	64.36	(8,100)	42.83
Outstanding, end of period	623,375	\$ 37.65	585,875	\$ 32.67
Exercisable, end of period	313,876	\$ 29.42	207,010	\$ 26.44

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$268 (March 31, 2014 – \$219) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended March 31, 2015 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2015	March 31, 2014
Risk-free rate	0.7%	1.6%
Expected option life (years)	4.8	4.8
Expected volatility	22.4%	23.3%
Expected dividends	1.1%	1.5%
Weighted average fair value of each option granted	\$ 10.56	\$ 9.04

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

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

During the period ended March 31, 2015, the Company expensed \$139 (March 31, 2014 – \$96) under this plan.

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

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. For further details, refer to Note 19 to the audited consolidated financial statements in the Company's 2014 Annual Report.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

A summary of the Company's DSU activity for the periods ended March 31, 2015 and March 31, 2014 is as follows:

	March 31, 2015	March 31, 2014
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	24,709	32,754
Granted	107	-
Dividends reinvested	69	106
Outstanding, end of period	24,885	32,860

The liability associated with DSUs outstanding as at March 31, 2015 was \$1,413 (March 31, 2014 – \$1,935). During the quarter, a Compensation recovery of \$173 was recorded relating to DSUs outstanding during the period as a result of declines in the stock price (March 31, 2014 – DSU expense of \$356).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). For further details, refer to Note 19 to the audited consolidated financial statements in the Company's 2014 Annual Report.

A summary of the Company's RSU activity for the periods ended March 31, 2015 and March 31, 2014 is as follows:

	March 31, 2015	March 31, 2014
	Number of RSUs	Number of RSUs
Outstanding, beginning of year	39,794	44,376
Granted	25,908	21,455
Dividends reinvested	44	88
Exercised	-	-
Forfeited/cancelled	(984)	(657)
Outstanding, end of year	64,762	65,262

Compensation expense recorded relating to RSUs outstanding during the three months ended March 31, 2015 amounted to \$67 (March 31, 2014 – \$459). The liability associated with RSUs outstanding as at March 31, 2015 was \$1,361 (March 31, 2014 – \$1,434).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 17 – Earnings Per Share

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

	March 31, 2015	March 31, 2014
Earnings per common share – basic:		
Net income	\$ 29,461	\$ 25,291
Dividends on preferred shares	1,191	906
Net income available to common shareholders	\$ 28,270	\$ 24,385
Weighted average basic number of common shares outstanding	15,440,328	15,371,973
Earnings per common share – basic	\$ 1.83	\$ 1.59
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 28,270	\$ 24,385
Weighted average basic number of common shares outstanding	15,440,328	15,371,973
Adjustment to weighted average number of common shares outstanding:		
Stock options	219,739	216,330
Weighted average diluted number of common shares outstanding	15,660,067	15,588,303
Earnings per common share – diluted	\$ 1.81	\$ 1.56

For the period ended March 31, 2015, the calculation of the diluted earnings per share excluded 34,179 (March 31, 2014 – 30,550) average options outstanding with a weighted average exercise price of \$60.60 (March 31, 2014 – \$51.67) as the exercise price of these options was greater than the average price of the Company's common shares.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 18 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the page 20 of the MD&A.

Equitable Bank maintains capital management policies to govern the quality and quantity of capital utilized in its operations. During the period, Equitable Bank complied with all internal and external capital requirements.

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

(\$ THOUSANDS)	March 31, 2015	December 31, 2014	March 31, 2014
Common Equity Tier 1 capital ("CET1"):			
Common shares	\$ 143,728	\$ 143,141	\$ 141,868
Contributed surplus	5,596	5,423	4,970
Retained earnings	516,230	490,774	420,557
Accumulated other comprehensive loss ⁽¹⁾	(8,263)	(2,453)	(3,422)
Less: Regulatory adjustments	(11,396)	(1,723)	(1,167)
Common Equity Tier 1 capital:	645,895	635,162	562,806
Additional Tier 1 capital:			
Non-cumulative preferred shares ⁽²⁾	67,819	67,603	40,000
Net Tier 1 capital:	713,714	702,765	602,806
Tier 2 capital:			
Collective allowance	29,082	29,510	28,645
Subordinated debentures	85,000	85,000	92,483
Tier 2 capital:	114,082	114,510	121,128
Total capital	\$ 827,796	\$ 817,275	\$ 723,934

⁽¹⁾ As prescribed by OSFI (under Basel III rules), AOCI is part of CET1 in its entirety, however, the amount of cash flow hedge reserves in AOCI corresponding to the hedged items that are not recognized in the balance sheet are excluded.

⁽²⁾ At March 31, 2015, 100% of Equitable Bank's non-cumulative preferred shares, adjusted for regulatory adjustments, qualified as additional Tier 1 Capital under Basel III guidelines.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

THREE MONTH PERIOD ENDED March 31, 2015

Note 19 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at March 31, 2015:

	March 31, 2015							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Total assets	\$ 2,098,855	\$ 940,693	\$ 2,914,561	\$ 5,954,109	\$ 5,808,244	\$ 1,463,208	\$ 162,354	\$ 13,387,915
Total liabilities and equity ⁽²⁾⁽³⁾	(503,647)	(1,790,241)	(3,203,232)	(5,497,120)	(5,724,488)	(1,316,665)	(849,642)	(13,387,915)
Off-balance sheet items ⁽⁴⁾	-	(518,972)	77,625	(441,347)	557,373	(116,026)	-	-
Interest rate sensitive gap	\$ 1,595,208	\$ (1,368,520)	\$ (211,046)	\$ 15,642	\$ 641,129	\$ 30,517	\$ (687,288)	\$ -
Cumulative gap ⁽²⁾	\$ 1,595,208	\$ 226,688	\$ 15,642	\$ 15,642	\$ 656,771	\$ 687,288	\$ -	\$ -
Cumulative gap as a percentage of total assets	11.92%	1.69%	0.12%	0.12%	4.91%	5.13%	-	-

	December 31, 2014							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 1,563,626	\$ 603,890	\$ 114,147	\$ 114,147	\$ 714,130	\$ 645,369	\$ -	\$ -
Cumulative gap as a percentage of total assets	12.16%	4.70%	0.89%	0.89%	5.56%	5.02%	-	-

	March 31, 2014							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap ⁽²⁾⁽³⁾⁽⁴⁾	\$ 1,669,149	\$ 125,488	\$ 302,309	\$ 302,309	\$ 649,209	\$ 600,876	\$ -	\$ -
Cumulative gap as a percentage of total assets	14.04%	1.06%	2.54%	2.54%	5.46%	5.06%	-	-

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

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

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

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

DIRECTORS

Eric Beutel

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

Johanne Brossard

Corporate Director

Michael Emory

President and Chief Executive Officer, Allied Properties REIT

Eric Kirzner

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

David LeGresley

Chair of the Board of the Company and Equitable Bank, and a Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Bank

Katherine Rethy

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

Rowan Saunders

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

Vincenza Sera

Corporate Director

Michael Stramaglia

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

OFFICERS

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Bank

Ron Tratch

Vice-President of the Company and Chief Risk Officer of Equitable Bank

Tim Wilson

Vice-President and Chief Financial Officer of the Company and Equitable Bank

Aviva Braude

Vice-President, Mortgage Services of Equitable Bank

Dan Dickinson

Vice-President, Digital Banking of Equitable Bank

David Downie

Vice-President, Commercial Mortgage Origination of Equitable Bank

Isabelle Farella

Vice-President, Internal Audit of Equitable Bank

Vince Faustini

Vice-President, Commercial Mortgage Origination of Equitable Bank

Scott Fryer

Vice-President, Deposit Services of Equitable Bank

Kimberly Kukulowicz

Vice-President, Residential Sales and Partner Relations of Equitable Bank

Brian Leland

Vice-President, Residential Credit of Equitable Bank

Tamara Malozewski

Vice-President, Finance of Equitable Bank

Rajesh Raut

Vice-President and Controller of Equitable Bank

Dan Ruch

Vice-President and Chief Compliance Officer of Equitable Bank

John Simoes

Vice-President, Financial Planning and Reporting of Equitable Bank

David Soni

Vice-President, Risk Policy of Equitable Bank

Jody Sperling

Vice-President, Human Resources of Equitable Bank

Nicholas Strube

Vice-President and Treasurer of Equitable Bank

David Yu

Vice-President, Information Technology of Equitable Bank

SHAREHOLDER AND CORPORATE INFORMATION

Corporate Office

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

Quebec Office

3333 Graham Boulevard, Suite 604
Town of Mount-Royal, Quebec, Canada, H3R 3L5

Calgary Region Office

600 - 1333 8th Street S.W., Suite 600
Calgary, Alberta, Canada, T2R 1M6

Website

www.equitablebank.ca

Transfer Agent And Registrar

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

Stock Listings

TSX: EQB and EQB.PR.C

Annual Meeting of Shareholders

Wednesday, May 13, 2015, 4:15 p.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada

Investor Relations

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

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.equitablebank.ca under Investor Relations.