

EQUITABLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED
DECEMBER 31, 2015



**EQUITABLE
GROUP INC.**

EQUITABLE GROUP INC.

TABLE OF CONTENTS

1	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
1	CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS
2	BUSINESS PROFILE AND OBJECTIVES
8	FINANCIAL OVERVIEW
9	2015 HIGHLIGHTS
10	BUSINESS OUTLOOK
15	FINANCIAL REVIEW – EARNINGS
19	FINANCIAL REVIEW – BALANCE SHEET
30	SUMMARY OF QUARTERLY RESULTS
31	FOURTH QUARTER OVERVIEW
43	ACCOUNTING POLICY CHANGES
43	CRITICAL ACCOUNTING ESTIMATES
43	DERIVATIVE FINANCIAL INSTRUMENTS
44	OFF-BALANCE SHEET ACTIVITIES
45	RELATED PARTY TRANSACTIONS
45	RISK MANAGEMENT
56	UPDATED SHARE INFORMATION
56	DISCLOSURE CONTROLS AND PROCEDURES
56	INTERNAL CONTROL OVER FINANCIAL REPORTING
56	CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING
57	NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES
60	ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES
61	DIRECTORS AND OFFICERS
61	SHAREHOLDER AND CORPORATE INFORMATION

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

For the three months and year ended December 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") and year ended December 31, 2015. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 26-28 in the section "Fourth Quarter Overview" of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 29, 2016. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, 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", "2015 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Fourth Quarter Overview", "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, and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total Assets Under Management⁽¹⁾ of approximately \$17.6 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products, offered under the Equitable Bank and EQ Bank brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

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

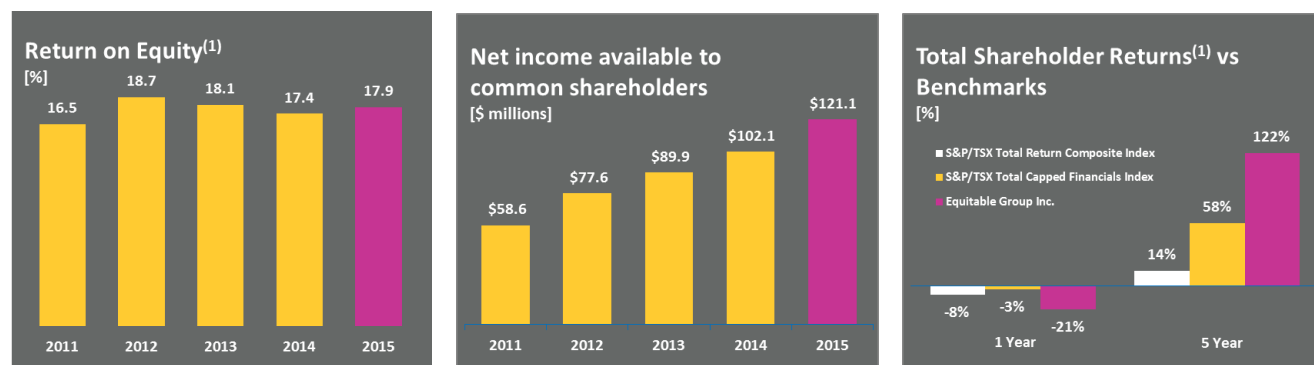
Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadian savers with various saving options that offer security and competitive interest rates, including Guaranteed Investment Certificates (“GIC”s), High Interest Savings Accounts (“HISA”s), and deposit notes. We generally serve these customers through our extensive partnerships with Canada’s mortgage brokers, mortgage bankers, deposit agents, investment dealers and financial planners who provide independent professional advice to their clients. Equitable began to provide select deposit products directly to Canadian consumers with the launch of our *EQ Bank Savings Plus Account* over our digital platform in early 2016. We intend to expand the range of savings products and services that we offer through this platform in future periods, while at the same time maintaining a strong commitment to our broker partners.

Our strategy includes four major objectives:

Strategic Objectives	Description
Grow by providing superior service, competitive products and cost-efficient operations	Our teams provide outstanding service to our customers to earn their business. We deliver this service through a branchless distribution model, which allows us to maintain an efficient cost structure and deliver more value to Canadian consumers.
Build our capabilities and brand	We are committed to investing in the continuous improvement of our people and systems, so that we can execute effectively on our priorities. We also aim to become an employer of choice in the financial services community.
Consistently create shareholder value	Management allocates capital to business opportunities using a disciplined process designed to enhance our ROE. We use retained earnings and non-dilutive forms of capital to fund growth and are committed to consistently increasing our common share dividends.
Maintain a low risk profile	We employ rigorous underwriting and collection practices that keep our risk profile and loss rates low. Equitable also holds significant liquid assets to ensure that we are able to withstand potential disruptions in the financial markets.

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

Our value creation strategies have allowed Equitable to generate a consistently high ROE, averaging 17.5% over the past five years. On the basis of that track record and the company's business opportunities, we continue to retain the vast majority of our earnings in order to build our capital base and fuel future growth. At the same time, our steady earnings growth has allowed us to increase common share dividends seven times over the past five years.



Despite the continued strength of our operating performance, our Total Shareholder Return⁽¹⁾ has lagged that of the TSX Capped Financials Index over the past year. Over a 5-year horizon, however, we have significantly outperformed that index.

CAPABILITIES

We compete successfully with other financial institutions on the basis of our niche strategy and our ability to execute well against it. Our execution reflects the breadth of our capabilities and in particular our customer service focus. Management intends to build on these capabilities to grow our existing businesses and to prudently diversify the products and services we offer over time.

Responsive service: Service excellence is how Equitable differentiates itself in the market. Through training and technology, we are able to build long-term customer and partner relationships that are mutually beneficial and serve to increase our share of lending and savings markets. Our deep knowledge of, and sensitivity to, the unique needs of our borrowers – along with their advisors – allows us to execute a loan qualification and servicing process that is efficient and effective.

Disciplined capital deployment: We build regulatory capital to fuel our growth by retaining most of our earnings and by raising new capital that is non-dilutive to shareholders. Management deploys capital for opportunities only if they meet or exceed well-defined ROE thresholds and focuses on long-term value creation for our shareholders. For example, while attractive returns can be garnered on a variety of loan types, single family residential mortgages typically generate a higher ROE than do commercial mortgages because they require less regulatory capital. For that reason, as well as the high barriers to entry and our ability to clearly define our strategic advantage, our portfolio has shifted more towards single family residential mortgages since 2009, though we intend for it to remain diversified across mortgage types.

National distribution presence: We have systematically grown from our roots in serving the Greater Toronto Area (“GTA”) to become a national financial services organization. Equitable reaches borrowers across Canada through independent mortgage brokers and other business partners. The Bank also employs a team of specialists with deep local knowledge in market hubs to support these distribution partners. Though coast-to-coast in reach, we focus on urban centres with liquid real estate markets that benefit from immigration and migration trends and have diversified economies.

Distribution of our brokered deposits has always been national in scope because of our healthy and long-term partnership with Canada's deposit broker community. To supplement our broker channel activities, we recently launched an innovative digital platform that provides us with a proprietary distribution option for our deposit products, through which we can reach consumers in all provinces except Québec at present.

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

Efficient operations: Equitable is the most efficient Schedule I Bank in Canada⁽¹⁾, and one of the very few that operates entirely without a physical retail presence. Due to our branchless operating model, we have a low level of fixed expenses and a highly flexible, efficient cost structure. Despite the significant growth in our assets and our employees over the past five years, we have managed to sustain an industry leading Efficiency Ratio.

Rigorous risk management standards: Our team identifies risks within our business and deploys a risk management framework to guide all of our activities including underwriting. For example, in our Core Lending business our underwriters evaluate the background and experience of each borrower, the cash flow of the individual or the property, the investment of the borrower in the purchase and the resources behind them, the value of the collateral, and the conditions attached to the credit. Our process is repeatable but not strictly mechanical: we place strong emphasis on detailed analysis of the risks and security in each transaction, and supplement that analysis with our experienced team's judgment. As a result, we can underwrite mortgages on favourable terms for borrowers with good equity and debt service ratios who would be turned away by other lenders that have more formulaic underwriting methodologies. Our rigorous approach, along with broadly positive Canadian economic conditions, has resulted in Impairment Provisions⁽²⁾ that have averaged just 0.03% of total average mortgage principal over the past five years.

Access to cost-effective funding: As a federally regulated deposit-taking institution, and member of the Canada Deposit Insurance Corporation ("CDIC"), we offer secure deposit products to savers in all Canadian jurisdictions. Our team manages over \$8 billion of GICs, HISAs, and deposit notes from tens of thousands of Canadian investors. These deposits fund our unsecuritized mortgage lending assets and over the long term have served as a reliable source of funding and asset-liability matching. We are a participant in the Canada Mortgage and Housing Corporation's ("CMHC") National Housing Act ("NHA") Mortgage-backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which allow us to securitize insured mortgages cost-effectively. We also have access to other funding sources including facilities sponsored by some of Canada's large banks. These funding strategies, and our low cost operations, enable Equitable Bank to be price competitive in our chosen lending markets. Although our current sources of funding are sufficient to meet our needs, we intend to further diversify them over time as a risk management strategy.

Our people: Equitable depends on skilled, productive and engaged employees at all levels to deliver on our strategies and meet our commitment to service excellence. We have a diverse and talented team of over 500 employees, led by a senior management team that averages 25 years of relevant experience. To sustain and grow our talent, and to align our team with our value-creation objectives, we provide competitive compensation, benefits, and an employee stock purchase plan; deliver ongoing employee training and support; and promote from within wherever possible. Employee engagement surveys gauge program effectiveness and are used to refine our approaches to becoming an employer of choice in the industry and have been consistently increasing since 2009. Additionally, since 2015 we were twice named one of Canada's top 100 small and medium sized employers by the Globe and Mail, and received gold level best employer status from AON Hewitt in 2015.

EQ BANK – A NEW WAY OF BANKING with Equitable

On January 14, 2016, Equitable launched EQ Bank, a new and completely digital way of banking. EQ Bank operates as part of Equitable Bank but under a separate brand. The EQ Bank platform was launched to diversify the Bank's sources of funding by providing a direct-to-consumer channel for deposit gathering. The digital platform provides additional strategic advantages because it builds the value of our brand with consumers and can be leveraged for other future growth opportunities. EQ Bank can be accessed at www.eqbank.ca or through a mobile application (available on both the App Store and Google Play) and is accessible by all Canadian consumers outside of Québec.

The EQ Bank platform was developed and launched by our experienced digital banking team and in partnership with several leading fintech providers. Equitable's innovative and efficient branchless business model enabled us to bring this platform to market quickly. EQ Bank's first product, the *EQ Bank Savings Plus Account*, pays a high everyday interest rate, charges no unfair fees and provides differentiated functionality – for example, customers are able to pay bills and transfer money to friends and family right from their savings account.

⁽¹⁾ As measured by the Efficiency Ratio and for the fiscal year 2015.

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

In order to attract consumers to the EQ Bank offering, we supported the launch with advertising on the full range of media, including terrestrial and specialty television, out of home, and digital media. We also engaged in a concerted public relations effort that yielded publicity in digital media, newsprint and business television. Over time, we expect our advertising and brand building efforts to be increasingly focused on digital media.

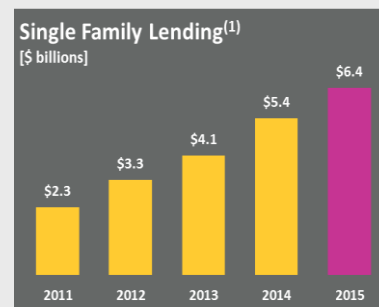
Management plans to continue investing in the platform, delivering more functionality and a broader range of products and services to Canadian consumers over time.

OUR BUSINESS LINES

We organize our operations according to products and target customers:

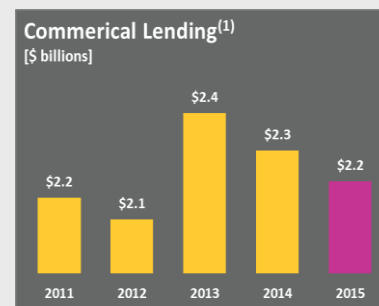
Single Family Lending Services: \$6.4 billion

- **Products:** mortgages for owner-occupied and investment properties including detached and semi-detached houses, townhouses, and condos across Canada. Competitive product set includes a Home Equity Lines of Credit (“HELOC”).
- **Target customers:** business-for-self, those who are new to Canada and establishing credit for the first time, and the credit challenged
- **Distribution:** through Canada’s mortgage brokers
- **Strengths:** include superior levels of customer service, extensive broker relationships, and a disciplined approach to credit



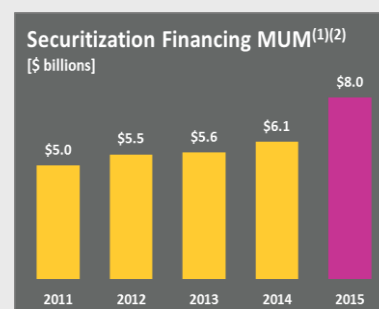
Commercial Lending Services: \$2.2 billion

- **Products:** mortgages, which generally range from \$0.5 million to \$25 million, on a variety of commercial property types including mixed-use, multi-unit residential, shopping plazas, professional offices, and industrial
- **Target customers:** commercial clients, from small business owners to large, publicly traded entities
- **Distribution:** through mortgage brokers, mortgage banks, business partners, and other financial institutions
- **Strengths:** include service excellence, breadth and strength of distribution relationships, underwriting capabilities, and intimate market knowledge



Securitization Financing: \$8.0 billion of Mortgages Under Management (“MUM”)⁽²⁾

- **Products:** insured mortgages on multi-unit and prime single family residential properties funded through securitization programs
- **Target customers:** individuals (prime borrowers) as well as commercial clients, from entrepreneurs to large, publicly traded entities
- **Distribution:** originate through mortgage brokers or acquire through mortgage banks and other third party distribution agents
- **Strengths:** include access to low-cost funding through CMHC’s NHA-MBS and CMB programs, distribution relationships, extensive experience in mortgage securitization, and experience capacity to underwrite mortgages on specialized property types

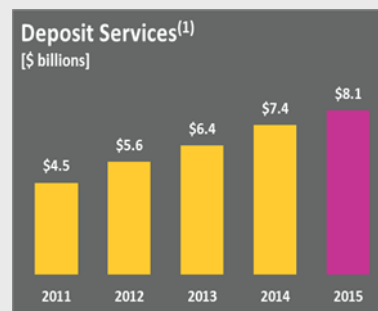


⁽¹⁾ Represents total principal outstanding.

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

Deposit Services: \$8.1 billion

- **Products:** safe and secure savings products including GICs, HISAs, and deposit notes
- **Target customers:** Canadians savers and institutional investors looking to build a secure fixed-income portfolio with a competitive rate of return and those who have short to medium-term liquidity needs
- **Distribution:** through third party deposit agents, investment dealers, and financial planners, including Canada's large banks
- **Strengths:** include relationships with the agents who recommend our products, our responsive service, and competitive product offerings and rates



Digital Banking: launched January 2016

- **Products:** a safe and secure high interest savings account with enhanced functionality such as bill payments, offered under the *EQ Bank* brand
- **Target customers:** Canadian savers who are technologically savvy and comfortable banking without access to traditional bank branches, and who are looking for an alternative to Canada's big banks
- **Distribution:** direct to consumer through the innovative *EQ Bank* digital platform
- **Strengths:** an efficient branchless operating model that allows *EQ Bank* to offer a competitive interest rate, an innovative and flexible technology platform, and low fees



⁽¹⁾ Represents total principal outstanding.

KEY PERFORMANCE INDICATORS

Management monitors a range of metrics to assess the performance of the business and effectiveness of our strategy. The primary indicators of Equitable's success are:

Performance Metric	What it Represents and Why It Matters
ROE ⁽¹⁾	- The earnings and returns that we are able to generate for our common shareholders, relative to the book value of our equity - Reflects management's ability to deploy capital in a disciplined manner by making profitable lending decisions and operating an efficient business
Total Capital and Common Equity Tier 1 ("CET1") Ratios ⁽¹⁾	- The amount of loss absorbing capital invested in our business relative to the size of our risk-adjusted asset base - Signifies our ability to protect our depositors and the Bank in the event of financial stress
Impairment Provision Rate ⁽¹⁾	- The provision for credit losses of both principal and interest recorded during the year on mortgages that we have individually identified as impaired, as a percentage of the average loan portfolio - Reflects the credit quality of our loan book, specifically the level of impaired loans and our ability to mitigate potential losses thereon
Net Interest Margin ("NIM") ⁽¹⁾	- The excess of our interest revenues over our funding costs, as a percentage of our average interest earning assets - Represents the profitability of our loan book and is the most important driver of net income for the Bank
Efficiency Ratio ⁽¹⁾	- Non-interest expenses as a percentage of our net revenue⁽¹⁾ - Gauges how much it costs us to generate each dollar of net revenue⁽¹⁾ and indicates how efficiently we operate
Employee Engagement	- Measured based on a third-party survey of our employee base that we conduct on an annual basis, which benchmarks us against other employers - Signifies the commitment and satisfaction of our employees, a key driver of our success. High engagement correlates with reduced turnover and higher productivity, and it is often considered a forward-looking indicator of performance.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2015	2014	2013	Change from 2014	
RESULTS OF OPERATIONS					
Net income	\$ 125,865	\$ 106,718	\$ 93,530	\$ 19,147	18%
Net income available to common shareholders	121,102	102,107	89,905	18,995	19%
Total revenue ⁽¹⁾	581,994	522,967	508,565	59,027	11%
EPS – basic	\$ 7.83	\$ 6.63	\$ 5.89	\$ 1.20	18%
EPS – diluted	\$ 7.73	\$ 6.53	\$ 5.82	\$ 1.20	18%
ROE ⁽²⁾	17.9%	17.4%	18.1%		0.5%
Return on average assets ⁽²⁾	0.9%	0.9%	0.8%		-%
NIM – TEB – total assets ⁽²⁾	1.74%	1.71%	1.50%		0.03%
Efficiency ratio – TEB ⁽²⁾⁽³⁾	33.6%	32.6%	30.1%		1.0%
BALANCE SHEET					
Total assets	15,527,584	12,854,903	11,816,453	2,672,681	21%
Assets Under Management ⁽²⁾	17,600,072	14,373,911	12,815,373	3,226,161	22%
Mortgages receivable	14,700,806	12,269,945	11,129,867	2,430,861	20%
Mortgages Under Management ("MUM") ⁽²⁾	16,706,935	13,759,706	12,105,968	2,947,229	21%
Shareholders' equity	796,116	703,694	588,318	92,422	13%
CREDIT QUALITY					
Impairment provision ⁽²⁾	1,258	1,213	596	45	4%
Net impaired mortgages as a % of total mortgage assets ⁽⁴⁾	0.22%	0.30%	0.24%		(0.08%)
Allowance for credit losses as a % of total mortgage assets	0.23%	0.27%	0.28%		(0.04%)
COMMON SHARE INFORMATION					
Shares outstanding	15,538,605	15,435,356	15,355,405	103,249	1%
Book value per share ⁽²⁾	\$ 46.57	\$ 40.90	\$ 35.14	\$ 5.67	14%
Share price – close	\$ 51.50	\$ 65.67	\$ 50.76	(14.17)	(22%)
Market capitalization	800,238	1,013,640	779,440	(213,402)	(21%)
EQUITABLE BANK CAPITAL RATIOS ⁽²⁾					
CET1 Ratio	13.6%	13.5%	12.4%		0.1%
Tier 1 Capital Ratio	15.0%	14.9%	13.5%		0.1%
Total Capital Ratio	16.8%	17.3%	16.3%		(0.5%)
Leverage Ratio ⁽⁵⁾	5.2%	N/A	N/A		N/A

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

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

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

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

⁽⁵⁾ The Leverage Ratio has replaced the OSFI Assets-to-capital multiple ("ACM") effective January 1, 2015, thus it is not applicable for prior periods.

2015 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record earnings and a strong ROE in 2015 due primarily to an 18% increase in our Net Interest Income ("NII"). We successfully delivered on our key strategic priorities in the year and made significant investments in our franchise that increased costs but laid the foundation for more success in future years.

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	- Increased MUM⁽¹⁾ by over 20% from 2014 - Originated a record \$6.1 billion of mortgages, a 33% increase over 2014 - Successfully funded \$1.6 billion of Prime Single Family mortgages, an almost 4 fold increase over last year, further diversifying our asset base - Continued to grow our HELOC portfolio within our Single Family business, attaining a balance of \$19 million at year end
Build our capabilities and brand	- Achieved AON Hewitt Best Employer 2016 with a GOLD standing within Top 40 - Introduced our digital banking platform internally to friends and family in December, followed by a successful public launch in early 2016 - Almost tripled our HISAs balances compared with 2014 to \$948 million, providing Canadians with a more competitive rate on their savings - Implemented \$850 million of new funding programs through facilities sponsored by several major Canadian banks - Redeemed \$20.0 million 6.09% Series 9 subordinate debentures and reduced our overall cost of funds while keeping our total capital ratio high - Executed an innovative transaction that resulted in the derecognition of \$9 million of securitized mortgages, at a lower cost than through other transaction structures
Consistently create shareholder value	- Delivered record EPS of \$7.73⁽²⁾, up 18% over the prior year - Produced an ROE of 17.9% (above our five-year average of 17.7%) - Declared common share dividends that were 12% higher than in 2014
Maintain a low risk profile	- Maintained a loan-to-value ratio of 71.0% on our residential mortgage portfolio, consistent with 2014 - Sustained low loss levels, recording an impairment provision of \$1.3 million or 1 bp of average loan balances, consistent with last year - Reported a CET1⁽¹⁾ Ratio of 13.6%, 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.

⁽²⁾ Annual EPS does not equal the sum of the quarterly EPS' as a result of rounding.

ITEMS OF NOTE

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

- a Q2 investment gain from a securities transaction that increased net income by \$1.5 million and diluted EPS by \$0.10. The transaction resulted in a lower tax provision in Q2 and for the year.

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

- \$0.5 million of incremental compensation and benefits costs due to the appreciation of our stock price and employee severance costs, which resulted in a \$0.03 decrease in our diluted EPS.

DIVIDENDS

On February 29, 2016 the Company's Board of Directors declared a quarterly dividend in the amount of \$0.20 per common share, payable on April 7, 2016, to common shareholders of record at the close of business on March 11, 2016. This dividend represents an 11% increase over dividends declared in February 2015.

In addition, on February 29, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on March 31, 2016, to preferred shareholders of record at the close of business on March 11, 2016.

BUSINESS OUTLOOK

In the fourth 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 next fiscal year.

In December, the Government of Canada announced several changes to its mortgage insurance and securitization programs. It increased downpayment requirements for obtaining mortgage insurance on homes priced between half and one million dollars, changed the fee structure for CMHC's securitization programs, and signaled its intent to modify capital requirements for certain types of mortgages. In early February of 2016, the Government also finalized regulations that restricted the use of portfolio insurance and the ability of lenders to fund insured mortgages through non-CMHC securitization vehicles. Although all of these changes will increase our costs slightly and may dampen overall market activity, we do not expect the impact to be material to our 2016 business results. Equitable could benefit from the changes if our competitors respond by increasing mortgage rates, and we have seen early evidence that the market is moving in this direction.

Equitable is not directly affected by the recent or future devaluation of the Canadian dollar as all of our revenues, assets, and liabilities, as well as substantially all of our expenses, are denominated in Canadian dollars. The Bank could be impacted indirectly if the devaluation of the dollar impacts local employment conditions in the markets we serve.

Asset Growth

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

Core Lending

At the end of Q4 2015, the alternative lending portfolio climbed to a record level of \$6.4 billion, an increase of \$1.1 billion or 20% from Q4 of last year. Management believes that Equitable is the second largest participant in the alternative lending market at the national level and that our high growth is attributable partly to market share gains. Those gains are a result of our consistently high and differentiated customer service levels. We expect that our alternative lending portfolio will grow at rates in the mid to high-teens range throughout 2016, but underscore that there is more uncertainty than usual around competitive dynamics and the overall growth of the market.

We anticipate strong activity in commercial originations during 2016. These originations will be partly offset by an elevated level of run-off, as shorter-term construction loans funded in prior years mature. Equitable's business of lending to small and medium size enterprises – our Business Enterprise Solutions offering - has been recently rebranded and we are generating a sharper focus in the market. Our business of lending on larger properties – our Commercial Finance Group - is broadening the range of partners with which it works in order to generate more lending opportunities. In 2016, the benefits of our improved approach to the market will be largely offset by the reduced opportunity in Alberta, which results from the slowdown in the energy industry. Overall, we expect the commercial mortgage portfolio to be flat through 2016.

Securitization Financing

Our Securitization Financing business is comprised of two distinct portfolios: Multi-unit residential mortgages ("Multi") and Prime Single Family residential mortgages ("Prime"). When discussing this business, we refer to Mortgages Under Management ("MUM") rather than balance sheet assets because some of our securitized mortgages have been derecognized. In the opinion of management, MUM is a better indicator of the performance of our franchise.

We believe that year-over-year growth in Multi MUM will remain in the high single-digit range throughout 2016. The growth of our Multi business is dependent on the level of CMHC's CMB allocations, however, and those allocations may change from period-to-period. To illustrate the impact of those allocations, we note that our allotment dropped from half a billion dollars in Q1 2013 to just over a quarter billion in Q4 2015, which means that we were able to securitize approximately 50% less through this program today than just two years ago.

In addition, we plan to continue originating and securitizing a significant volume of Prime mortgages. We believe that the level of origination and securitization activity will continue to increase through the end of 2016, subject to seasonality, as we successfully expand our broker relationships and geographic coverage. We expect to originate approximately half a billion dollars of Prime mortgages each quarter during 2016, through both our internal operations and our business partners, and as a result Prime mortgages will be the key driver of growth in our overall Securitization Financing MUM.

As in prior periods, a portion of our securitized mortgages will be derecognized each quarter and consequently we expect Securitization Financing balance sheet assets to decline marginally in 2016, even though MUM will grow.

Credit Quality

The Bank consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our Single Family arrears rates and impairment provisions to remain low throughout 2016 in most areas of the country, assuming that Canadian economic conditions stay within the range of broad market expectations. Likewise, our loan-by-loan and overall analysis of our Commercial portfolio indicates that potential losses within that book should stay low. Loss and arrears rates may return to more normal levels from the exceptionally low rates experienced over the past several quarters, partly due to the deteriorating economic conditions in Alberta and Saskatchewan.

Given recent oil price declines and the expected economic impact thereof, we anticipate that our overall arrears rates in Alberta and Saskatchewan will rise in the early part of 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 and Edmonton, we expect losses to be manageable in the overall context of the Bank's financial position. In order to arrive at our view on these potential losses, management conducts regular stress tests on our loan portfolio.

The results of our most recent *residential housing market* stress tests indicate that realized loan losses would be manageable under all scenarios tested. The scenarios were informed by economic forecasts published by seven major Canadian financial institutions, which indicate unemployment rates in the range of 7% and house price declines of approximately 2-3%. We have developed several more stressed scenarios internally. In the most severe scenario tested (house prices fall by 30% and unemployment escalates to 10.5% by the end of 2016), we forecast that Impairment Provisions would be up to \$1 million in 2016 and up to \$2 million in 2017, equivalent to \$0.05 and \$0.10 of EPS respectively. These Impairment Provision forecasts represent management estimates, based on our current mortgage portfolio and business conditions, and actual results may differ due to a variety of known and unknown factors. These

forecasts do not reflect any provisions to increase our Collective Allowance, which management may make if we deem that overall market conditions have deteriorated meaningfully.

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

- **Insurance:** 57% of our lending portfolio in Alberta and Saskatchewan is insured.
- **Secured Lending:** all of our lending in these provinces is secured by high-quality residential and commercial real estate. We have no unsecured exposure in either province.
- **Loan to Value Ratios:** the average loan to value ratio of our uninsured residential portfolio in Alberta and Saskatchewan is 69%, which provides us with substantial downside protection against a drop in real estate prices.
- **Market Positioning:** We maintain strict lending policies that govern our activity in the upper and lower ends of the house price spectrum, because we view those segments of the market as inherently more risky. As such, we believe that our residential mortgage portfolio, which is weighted to the relatively more stable middle market, will be less impacted by any market instability.
- **Geographic Focus:** 93% of our Alberta and Saskatchewan uninsured portfolio is in the major urban centres of Calgary, Edmonton, Regina and Saskatoon. Those cities have more diversified economies and more liquid real estate markets, which allows Equitable to more quickly realize the value of any collateral.

We assess the potential for losses on our commercial portfolio and the magnitude thereof on a loan-by-loan basis. As of our most recent review, which considered forecast economic conditions, we expect that our commercial losses will also be manageable.

Management will continue to monitor economic developments closely and will adjust our risk management approach in both provinces if warranted.

We have provided further details of our Alberta and Saskatchewan portfolios in Table 10 of our Q4 2015 Supplemental Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca. Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

Net Interest Margin

Management believes that throughout 2016 Net Interest Income ("NII") should increase at year-over-year growth rates in the low to mid-teens due to continued growth of our assets. NIM will likely decrease by between 5 and 10 bps over this period, mainly as a result of a decline in Core Lending margins. More specifically, we expect that:

- Sustained growth of our Single Family business will cause Core Lending NIM to decrease from Q4, as the portfolio mix shifts more toward these lower spread, but higher return on equity ("ROE") Single Family assets. NIM will also be impacted by the successful growth of our higher interest rate digital bank accounts.
- NIM of the Securitization Financing portfolio should increase slightly in 2016 from Q4 levels, as the spread on new and renewed mortgages will be above the average of the portfolio. Margins on Single Family Prime mortgages have widened again in recent months after having narrowed in the latter half of 2015. Our outlook assumes that Prime margins will be stable for the next several quarters, but there is the potential for upward movement if mortgage interest rates increase in response to recently announced regulatory changes.
- Growth rates of the Company's Core Lending and Securitization Financing portfolios will converge in 2016 and we will benefit to a lesser extent than in previous years from the mix shift towards our higher margin Core Lending business. This absence of a positive mix shift and the downward margin trend within Core Lending will outweigh the increase in Securitization Financing margins, and as a result total NIM should decrease quarter-to-quarter throughout the year.

NIM is a function of our portfolio mix and that mix is influenced by the level of asset derecognition that we achieve and the types of assets that we derecognize. Accordingly, any change to our current securitization and derecognition plans could cause NIM to differ from the expectations outlined above, particularly for the Securitization Financing portfolio.

Quarterly NIM may fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors such as seasonal variations in the level of our liquidity holdings.

For clarity, the expectations above incorporate significant growth in our EQ Bank platform and that we maintain a highly competitive rate on this deposit account throughout the year.

Gains from Asset Derecognition

When Securitization Financing assets are derecognized, we cease recording Net Interest Income on those mortgages and instead record an up-front gain on sale. The gain on sale is dependent on the profitability of the underlying mortgages, the cost of any transactions that enabled the derecognition, and other factors.

In general, non-prepayable multi-unit residential mortgages are derecognized on securitization and generate the highest gain on sale rates. Based on current activity, we believe that approximately one-half of Multis securitized will be non-prepayable mortgages and that gain on sale rates will be consistent with recent quarters.

In order to derecognize *prepayable* mortgages, we must execute transactions that transfer substantially all of the risks and rewards associated with these mortgages to third parties (for example sales of residual interests). Our intention is to execute such transactions regularly beginning in the first half of 2016. Normally, the gain on sale rates associated with these prepayable mortgages are considerably lower than for non-prepayable mortgages because of the cost of transferring risks to third parties.

Non-Interest Expenses

We continue to make investments that build the Bank's franchise and reinforce our current high level of customer service. These investments create negative operating leverage in the near-term but create a foundation for growth and efficiency that will benefit our shareholders over the longer-term. We also expect ROE to remain high even throughout this period of investment.

Management intends to make marketing expenditures of approximately \$5 million in Q1 2016 and \$1 million in Q3 in order to support the rollout of EQ Bank, our digital banking platform. We recently reduced our planned marketing expenditures due to our success attracting customers and their savings to EQ Bank since we launched it in January. This reduction will help to offset higher than expected interest expenses resulting from the higher than expected balances in our EQ Bank platform. A portion of the decrease will also be redeployed into our operations in order to work towards our goals of providing exceptional customer service at EQ Bank. Management may further adjust the timing and level of this spend as we assess its effectiveness and our business plans evolve. We also plan to continue expanding our team and investing in our systems to support our key initiatives. For example, we plan to invest approximately \$1 million in systems development and consulting to support our Advanced Internal Ratings Based ("AIRB") program. Over time, the cost of these strategic initiatives should be largely offset by the incremental gain on sale revenue generated from securitized mortgages, and as a result the net impact on earnings will be minimal.

Beyond the impact of the initiatives, we anticipate that over the next five quarters all other non-interest expenses will increase at rates in line with the growth of the overall business, as the Bank invests to support our expanding lending and savings portfolios.

We expect that our efficiency ratio will increase by approximately 3 to 5 percentage points in 2016 as a result of our strategic investments. Even with this increase, the Bank will continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model, and particularly taking into account the relative scale of our operations.

Strategic Initiatives

Our strategic initiatives 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.

Equitable launched a Prime 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 two to three years. We are satisfied with the progress of our in-house offering to date; we closed \$108 million of mortgages in Q4 and our pipeline continues to build well. Over the near term, as we further develop our capabilities and systems, we will supplement our internal originations with Prime mortgages sourced through business partners in order to optimize use of our available MBS capacity.

Over the past several years, we have placed an emphasis on diversifying our sources of funding. Since 2013, we have added six new and cost-effective sources of funding. As part of this funding diversification initiative, we have broadened the range of products we offer to savers. EQ Bank - the platform for our direct-to-consumer deposit account - was launched in early 2016 and the reception among Canadian consumers has exceeded even our most optimistic expectations. Our *Equitable Bank High Interest Savings Account* (available through the Fundserv platform under the codes EQB100 and EQB200) has also been well received by Canadian savers and investment advisors since its launch two years ago. These savings products represent differentiated solutions for Canadian consumers that will strengthen our brand, reinforce our diversification strategy, and provide important risk management benefits.

Lastly, we have been exploring a migration to the AIRB approach for improving the sophistication of our capital management and made progress during the quarter. We believe that this approach could benefit Equitable in many respects, 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. Given the progress to date, management intends to continue advancing the initiative.

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)	2015	2014	Change from 2014
Net income	\$ 125,865	\$ 106,718	\$ 19,147 18%
EPS – diluted	\$ 7.73	\$ 6.53	\$ 1.20 18%
Net interest income ⁽¹⁾	242,227	204,522	37,705 18%
Provision for credit losses	3,638	2,627	1,011 38%
Non-interest expenses	87,962	71,644	16,318 23%
Income taxes	41,598	36,956	4,642 13%

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

NET INTEREST INCOME

NII is the main driver of profitability for the Company. Table 3 details the Company's NII and NIM for 2015 and 2014, by product and business:

Table 3: Net interest income

	2015			2014		
(\$ THOUSANDS)	Average balance	Revenue/Expense	Average rate ⁽¹⁾	Average balance	Revenue/Expense	Average rate ⁽¹⁾
Core Lending:						
<i>Revenues derived from:</i>						
Mortgages	\$ 8,193,550	\$ 392,462	4.79%	\$ 6,938,848	\$ 339,616	4.89%
Liquidity investments	474,307	5,808	1.22%	346,524	5,177	1.49%
Equity securities – TEB ⁽²⁾	141,791	8,958	6.32%	123,398	7,388	5.99%
	8,809,648	407,228	4.62%	7,408,770	352,181	4.75%
<i>Expenses related to:</i>						
Deposits and bank facilities	7,569,807	163,565	2.16%	6,438,408	149,930	2.33%
Debentures	83,462	5,033	6.03%	91,907	5,598	6.09%
Securitization liabilities	371,194	6,318	1.70%	162,405	4,015	2.47%
	8,024,463	174,916	2.18%	6,692,720	159,543	2.38%
Net interest income – TEB ⁽²⁾⁽³⁾		232,312	2.64%		192,638	2.60%
Taxable Equivalent Basis – adjustment ⁽²⁾		(2,482)			(1,932)	
Core lending	\$	229,830		\$	190,706	
Securitization Financing:						
<i>Revenues derived from:</i>						
Mortgages	\$ 5,168,567	\$ 159,247	3.08%	\$ 4,496,698	\$ 156,719	3.49%
Liquidity investments	103,823	1,165	1.12%	148,451	2,576	1.74%
	5,272,390	160,412	3.04%	4,645,149	159,295	3.43%
<i>Expenses related to:</i>						
Securitization liabilities	4,633,858	135,249	2.92%	4,272,611	137,503	3.22%
Deposits and secured funding facility	604,895	12,766	2.11%	344,819	7,976	2.31%
	5,238,753	148,015	2.83%	4,617,430	145,479	3.15%
Securitization financing	\$	12,397	0.24%	\$	13,816	0.30%
Total assets – TEB ⁽²⁾	\$ 14,234,400	\$ 244,709	1.74%	\$ 12,157,392	\$ 206,454	1.71%

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

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

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

NII was up 18% due to an increase in our average asset balances of \$2.1 billion or 17.1% and a widening of our NIM. Total NIM increased 3 basis points (“bps”) as our asset mix shifted towards our higher margin Core Lending business and we achieved higher margins within Core Lending itself.

NIM earned on Core Lending assets increased 4 bps largely due to higher mortgage prepayment income in the current year and despite growth of our lower yielding liquidity portfolio. Our efforts to optimize renewal pricing in Single Family and new cost efficient funding sources benefitted NIM, but those effects were partially offset by a mix shift within Core Lending towards lower spread but higher ROE Single Family assets.

Securitization Financing NIM was down 6 bps from a year ago as a result of rate compression within the book and lower prepayment income, partially offset by reduced levels of low margin liquid assets. The rate compression experienced when comparing 2015 to 2014 reflects two factors: run-off in 2014 of high spread mortgages originated during the financial crisis, and the origination of Prime single family mortgages in late 2015 at unusually low spreads.

The drivers of the changes in NIM from the prior year are provided in more detail in Table 4 below:

Table 4: Factors affecting NIM

(IN BASIS POINTS)	2015 vs. 2014
Core Lending NIM:	
Mortgage prepayment income	3
Size and rate of liquidity investments	(4)
Other, including changes in spreads within the mortgage portfolio ⁽¹⁾	5
Total change in NIM	4
Securitization Financing NIM:	
Mortgage prepayment income	(1)
Size and rate of liquidity investments	1
Other ⁽¹⁾	(6)
Total change in NIM	(6)

⁽¹⁾ Other may include the effects of various factors such as the shift in mix of the mortgage portfolio and funding sources, pricing refinements, the timing of new originations and renewals, gains or losses on interest rate swaps, 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 \$3.6 million for 2015, \$1.0 million higher than 2014.

With respect to the composition of the provision, we recorded an impairment provision of \$1.2 million or 1 bp on our loan portfolio, consistent with 2014 levels. Management uses the term Impairment Provision to refer to the anticipated losses that we recorded during the year 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. The continued modest levels of impairment provision reflect the health of our mortgage portfolio and low loss estimates for newly impaired loans.

The remaining \$2.4 million or 67% of the total provision represented additions to our collective allowance. After our normal extensive review of our allowances, management determined that this amount of provision would maintain our collective allowance at an appropriate level.

OTHER INCOME

Table 5: Other income

(\$ THOUSANDS)	2015	2014	Change from 2014	
Fees and other income	\$ 11,413	\$ 8,345	\$ 3,068	37%
Net (loss) gain on investments	(463)	1,033	(1,496)	(145%)
Securitization activities:				
Gains on securitization and income from retained interests	6,150	4,628	1,522	33%
Fair value losses on derivative financial instruments	(264)	(583)	319	(55%)
Total	\$ 16,836	\$ 13,423	\$ 3,413	25%

The increase in Other income is mainly attributable to:

- \$3.1 million increase in mortgage administration fees, related to growth in the mortgage portfolio;
- \$1.5 million increase in gains recorded on securitization and income from retained interests, driven by higher volume of securitization transactions that qualify for derecognition and a higher gain on sale percentage; and
- \$0.3 million decrease in fair value losses on derivative financial instruments related to securitization activities;

offset by:

- \$1.5 million unfavourable variance in investment income as a result of a \$0.5 million investment loss incurred during 2015 compared to a \$1.0 million gain in the prior year.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and efficiency ratio

(\$ THOUSANDS EXCEPT FTE)	2015	2014	Change from 2014	
Growth of our franchise:				
Compensation and benefits	\$ 47,720	\$ 41,298	\$ 6,422	16%
Premises, equipment and systems costs	10,196	7,417	2,779	37%
Other	6,060	4,051	2,009	50%
Licenses, regulatory fees and insurance	5,029	3,891	1,138	29%
Mortgage servicing	4,056	3,835	221	6%
Marketing, travel and communications	3,517	3,454	63	2%
Amortization	3,181	2,902	279	10%
Professional services	2,591	2,424	167	7%
Non-interest expenses before strategic investments	82,350	69,272	13,078	19%
Investments in our future:				
Compensation and benefits	2,516	1,247	1,269	102%
Other	3,096	1,125	1,971	175%
Total investments in our future ⁽¹⁾	5,612	2,372	3,240	137%
Total non-interest expenses	\$ 87,962	\$ 71,644	\$ 16,318	23%
Efficiency Ratio – TEB ⁽¹⁾	33.6%	32.6%	N/A	1.0%
Full-time employee ("FTE") – period average	445	348	97	28%

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

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our efficiency ratio was 33.6% in 2015, up slightly due to a 23% increase in non-interest expenses. The increase in non-interest expenses reflects the successful expansion of our business, as well as strategic investments made to enable future growth and maintain the superior level of service that we provide to mortgage brokers, borrowers and savers. In most cases, these strategic investments were made ahead of the associated benefits, and

as such reduced our net income and elevated our efficiency ratio in the current year. The investments will improve our future growth and operational efficiency. Excluding the strategic initiative costs, other expenses increased at rates in-line with the growth of the overall business.

The key drivers of the \$16.3 million increase in our expenses were:

Growth of Our Franchise: \$13.1 million or 80% of the net increase

- Compensation and related costs such as premises and equipment increased due to a 21% increase in FTE, and despite a \$1.0 million reduction in expenses related to the Company's restricted and deferred share unit plans;
- System costs increased \$2.8 million as a result of investments in our core banking technology platform and disaster recovery facilities; and
- Licenses, regulatory fees and insurance were up \$1.1 million as a result of an increase in CDIC's standard premium rates, higher deposit balances, and business growth.

Investments in Our Future: \$3.2 million or 20% of the net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives. They exclude the related capital investments made in the period until those amounts begin to be amortized.

- \$2.3 million increase as a result of our digital bank initiative, primarily Marketing expenses to support our early 2016 consumer launch and system support costs; and
- \$0.9 million to build out our Prime Single Family initiative.

This increased level of investment in our future accounted for one-fifth of our expense growth and without this investment our adjusted Efficiency Ratio and diluted EPS for 2015 would have been 31.5% and \$7.99 respectively.

INCOME TAXES

Our effective income tax rate in 2015 was 24.8% compared to 25.8% in 2014. The 1.0% decrease was largely due to an investment gain from a securities transaction that occurred in Q2 2015 and which reduced our effective tax rate for the year.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

(\$ THOUSANDS)	2015	2014	Change from 2014
Total assets	\$ 15,527,584	\$ 12,854,903	\$ 2,672,681 21%
Mortgage principal – Core Lending	8,679,129	7,691,223	987,906 13%
Mortgage principal – Securitization Financing	5,955,318	4,549,475	1,405,843 31%
Deposit principal	8,115,483	7,385,456	730,027 10%
Total liquid assets as a % of total assets ⁽¹⁾	5.8%	5.3%	N/A 0.5%

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

TOTAL MORTGAGE PRINCIPAL

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

Table 8: Mortgage principal continuity schedule

	2015						
(\$ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
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	2,673,150	903,233	3,576,383	2,573,274	6,149,657	-	2,573,274
Securitized and derecognized	-	-	-	(617,015)	(617,015)	617,015	-
Net repayments	(1,609,335)	(979,142)	(2,588,477)	(550,416)	(3,138,893)	(63,535)	(613,951)
2015 closing balance	\$ 6,449,663	\$ 2,229,466	\$ 8,679,129	\$ 5,955,318	\$ 14,634,447	\$ 2,072,488	\$ 8,027,806
% Change from 2014	20%	(3%)	13%	31%	20%	36%	32%
Net repayments percentage ⁽³⁾	29.9%	42.5%	33.7%	12.1%	25.6%	4.2%	10.1%

	2014						
(\$ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
2013 closing balance	\$ 4,115,689	\$ 2,398,931	\$ 6,514,620	\$ 4,592,427	\$ 11,107,047	\$ 998,920	\$ 5,591,347
Originations	2,309,428	760,329	3,069,757	1,570,913	4,640,670	-	1,570,913
Securitized and derecognized	-	-	-	(564,743)	(564,743)	564,743	-
Net repayments	(1,039,269)	(853,885)	(1,893,154)	(1,049,122)	(2,942,276)	(44,655)	(1,093,777)
2014 closing balance	\$ 5,385,848	\$ 2,305,375	\$ 7,691,223	\$ 4,549,475	\$ 12,240,698	\$ 1,519,008	\$ 6,068,483
% Change from 2013	31%	(4%)	18%	(1%)	10%	52%	9%
Net repayments percentage ⁽³⁾	25.3%	35.6%	29.1%	22.8%	26.5%	4.5%	19.6%

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

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

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

Total MUM increased by \$2.9 billion or 21% compared to a year ago, driven by 13% growth in Core Lending balances and 32% growth in Securitization Financing MUM.

The increase in Core Lending was attributable to growth in Single Family Lending of 20% or \$1.1 billion, offset by a 3% decrease in Commercial Lending. The main driver of growth in Single Family Lending was the high level of originations during the year. Commercial Lending balances were down slightly from a year ago despite the strength of our distribution partnerships, as we continue to adhere to our disciplined pricing approach and prudent risk parameters in a highly competitive market.

Securitization Financing MUM, which includes \$2.1 billion of derecognized mortgage principal, is more reflective of the performance of our underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM grew 32% or \$2.0 billion from 2014 levels largely due to our successful entry into the Prime Single Family business. Our Prime Single Family assets reached almost \$2.0 billion at the end of 2015, up from \$0.6 billion a year ago.

MORTGAGE ASSET ORIGINATIONS

The table below provides mortgage originations for 2015 and 2014 by lending business:

Table 9: Mortgage originations – by lending business

(\$ THOUSANDS)	2015		2014		Change from 2014	
	Mortgage principal funded	% of total	Mortgage principal funded	% of total		
Core Lending:						
Single Family Lending	\$ 2,673,150	43%	\$ 2,309,428	50%	\$ 363,722	16%
Commercial Lending	903,233	15%	760,329	16%	142,904	19%
	3,576,383	58%	3,069,757	66%	506,626	17%
Securitization Financing :						
Multi-unit residential	989,944	16%	1,143,479	25%	(153,535)	(13%)
Prime single family residential	1,583,330	26%	427,434	9%	1,155,896	270%
	2,573,274	42%	1,570,913	34%	1,002,361	64%
Total mortgage originations	\$ 6,149,657	100%	\$ 4,640,670	100%	\$ 1,508,987	33%

The Company delivered record mortgage origination volumes in 2015. The originations increased from 2014 as a result of stronger performance in both our Core Lending and Securitization Financing portfolios and most notably due to our entry into the Prime Single Family business last year. Our Prime mortgage fundings as a percentage of total originations jumped significantly from 9% in 2014 to 26% in 2015.

The Company's Core Lending origination volumes grew as a result of increases in both Single Family and Commercial Lending activity. This performance is attributable to our service quality, market share gains in the alternative single family business, and the strength of the Canadian real estate market, and we achieved it while maintaining our pricing discipline and risk parameters.

Securitization Financing originations were up in the year reflecting the success of our Prime mortgage business. We originate Prime Single Family loans internally or through third-party agents and then securitize them through the CMHC's MBS program. 2015 represents our first full year of operating and we are encouraged by our initial success, having funded \$1.6 billion of Prime mortgages in total and \$368 million of that total through our internal operations. Originations of multi-unit residential mortgages declined slightly compared to the prior year as a result of a reduction of approximately 30% in our CMB allocations. We aim to originate Multis such that we utilize the full amount of our CMB capacity each year.

SECURITIZATION

We securitize mortgages in order to effectively manage margins and diversify our sources of funding. When we securitize mortgages, we apply the IFRS derecognition rules to determine whether we have transferred substantially all the risks and rewards or control associated with the mortgages to third parties. If the securitized mortgages and the transaction structure meet specific criteria, the mortgages may qualify for full or partial balance sheet derecognition and an upfront gain on sale. In some cases, we retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

The table below provides a summary of the mortgages securitized and derecognized in 2015 and 2014 and gains on sale amounts.

Table 10: Securitization and derecognition activity

(THOUSANDS)	2015	2014	Change from 2014
Securitized and derecognized – non-prepayable Multis	\$ 607,858	\$ 564,743	\$ 43,115 8%
Securitized and derecognized – prepayable mortgages ⁽¹⁾	9,157	-	9,157 N/A
Total principal derecognized	\$ 617,015	\$ 564,743	\$ 52,272 9%
Gains on sale	\$ 5,247	\$ 3,960	\$ 1,287 33%
Gains on sale – percentage ⁽²⁾	0.85%	0.70%	N/A 0.15%

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

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

Gains on sale increased in 2015 as a result of a higher gain on sale percentage and greater volumes of mortgages derecognized. Volumes were up because of higher demand for non-prepayable mortgage products (which generally qualify for derecognition). The gain on sale percentage increased largely due to differences in the assumptions used to calculate the gains, such as the cash flow discount rates, as the spreads on the underlying mortgages were relatively unchanged.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

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

Since late 2014, management has been proactively adjusting lending criteria in Alberta and Saskatchewan, given the economic risks associated with declining oil prices. These adjustments have reduced Equitable's activity in the more risky segments of the market, such as homes with prices above \$1 million. Management has also been extensively examining and stress testing our exposure to the Alberta and Saskatchewan markets, and is comfortable that any credit losses from our current portfolios as a result of economic conditions in these provinces will be manageable. We will continue to monitor these markets and review our risk management approach in order to maintain the risk of potential credit losses at an acceptably low level.

The highlights of our investments in Alberta and Saskatchewan at December 31, 2015 include:

- \$2.7 billion or 18% of the Company's total mortgage principal are in these two provinces.
 - \$1.5 billion or 57% of those assets are insured. \$0.7 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
 - \$1.1 billion or 43% of the assets are uninsured, with \$0.9 billion of that total being single family residential and \$0.2 billion being commercial. These uninsured assets represent only 8% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, \$1.0 billion or 84% are in the cities of greater Edmonton and Calgary. Similarly, \$98 million or 9% are in Regina and Saskatoon. Those cities have more diversified economies and real estate markets that would be more resilient in the face of economic shocks.
- The average loan to value of our uninsured single family residential portfolio in these provinces is 69%.

Details of our Alberta and Saskatchewan lending portfolios can be found in Table 10 of our 2015 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

Table 11: Mortgage credit metrics

(\$ THOUSANDS)	2015	2014	Change from 2014
Impairment provision ⁽¹⁾	\$ 1,258	\$ 1,213	\$ 45 4%
Impairment provision-rate ⁽¹⁾	0.01%	0.01%	N/A -%
Gross impaired mortgage assets ⁽²⁾	34,183	41,253	(7,070) (17%)
Net impaired mortgage assets ⁽²⁾⁽³⁾	32,857	37,316	(4,459) (12%)
Net impaired mortgage assets as a % of total mortgage assets ⁽²⁾⁽³⁾	0.22%	0.30%	N/A (0.08%)
Allowance for credit losses	33,216	33,447	(231) (1%)
Allowance for credit losses as a % of total mortgage assets	0.23%	0.27%	N/A (0.04%)
Allowances for credit losses as a % of gross impaired mortgage assets	97%	81%	N/A 16%

⁽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.

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

- Our Impairment provision rate was low and consistent with 2014, a result of our prudent risk management parameters and active monitoring processes
- Net impaired mortgages decreased in both dollar terms and relative to total mortgage assets, largely because one \$8.5 million commercial loan that was assessed as impaired last year became current in 2015. Impairment rates remained low by historical standards and they may return to more normalized levels in future quarters.
- The allowance for credit losses as a percentage of total assets remains sufficient in the opinion of management. This allowance may decline over time relative to total assets as insured Prime Single Family mortgages grow to represent a greater proportion of our balance sheet.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

Table 12: Liquid Assets⁽¹⁾

(\$ THOUSANDS)	2015	2014	Change from 2014	
Eligible deposits with regulated financial institutions ⁽²⁾	\$ 423,157	\$ 229,462	\$ 193,695	84%
Government issued and guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	19,918	9,998	9,920	99%
Debt securities guaranteed by Government of Canada	16,295	20,597	(4,302)	(21%)
Mortgages held in the form of debt securities guaranteed by Government of Canada ⁽³⁾	301,453	316,501	(15,048)	(5%)
Obligations under repurchase agreements	-	(52,413)	52,413	(100%)
Liquid assets held for regulatory purposes	760,823	524,145	236,678	45%
Other deposits with regulated financial institutions	209	601	(392)	(65%)
Equity securities ⁽⁴⁾	134,024	151,813	(17,789)	(12%)
Total liquid assets ⁽¹⁾	\$ 895,056	\$ 676,559	\$ 218,497	32%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	4.9%	4.1%	N/A	0.8%
Total liquid assets as a % of total assets	5.8%	5.3%	N/A	0.5%

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

⁽²⁾ Eligible deposits with regulated financial institutions exclude \$23.3 million (December 31, 2014 – \$13.6 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and \$84.7 million (December 31, 2014 – \$54.1 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 represents the fair market value of the associated MBS securities.

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

The size and composition of our liquidity portfolio is influenced by several metrics and factors, most notably by our expected cash needs over the subsequent eight week period. We always hold sufficient liquid assets to ensure that we can meet these obligations even through a disruption in the financial markets. Liquid assets held for regulatory purposes were up as compared with 2014 because expected cash outflows in the weeks subsequent to year end were higher in 2015 than in 2014. These expected outflows were higher mainly due to outstanding mortgage commitments, which were approximately \$232 million higher than a year ago.

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

Effective January 1, 2015, Canadian deposit-taking institutions are required to report on OSFI's new Liquidity Coverage Ratio ("LCR") which is based on Basel III guidelines. This ratio is intended to promote short-term resilience to liquidity risk and ensure that an institution has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. At December 31, 2015, our LCR was well in excess of the regulatory minimum of 100%.

OTHER ASSETS

The table below provides a breakdown of other assets at December 31, 2015 and December 31, 2014:

Table 13: Other assets

(\$ THOUSANDS)	2015	2014	Change from 2014
Intangible assets	\$ 18,836	\$ 11,669	\$ 7,167 61%
Capital assets	14,369	3,964	10,405 262%
Prepaid expenses and other	8,223	6,399	1,824 29%
Real estate owned	8,200	7,473	727 10%
Receivable relating to securitization activities	5,524	4,592	932 20%
Income taxes recoverable	3,578	-	3,578 N/A
Derivative financial instruments – interest rate swaps	990	1,916	(926) (48%)
Accrued interest and dividends on non-mortgage assets	420	412	8 2%
Mortgage commitments	2	16	(14) (88%)
Total	\$ 60,142	\$ 36,441	\$ 23,701 65%

The growth in Other assets from 2014 to 2015 was mainly due to the following items:

- \$10.4 million of Capital asset investments, related mainly to our digital banking initiative and an office expansion we have undertaken in support of our growth;
- \$7.2 million increase in Intangible assets, the majority of which will be amortized over a 10 year period;
- \$3.6 million of Income tax receivable versus \$2.3 million Income tax payable at the end of 2014, a position which results mainly from mark-to-market losses on our preferred share portfolio; and
- \$1.8 million of Prepaid expenses and other miscellaneous receivables.

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

DEPOSITS

Equitable Bank is a federally regulated deposit taking institution and offers insured deposits to savers across Canada. We source deposits primarily through a national distribution network of third party deposit agents and financial advisors. Our deposits, which are primarily in the form of GICs, HISAs, and deposit notes, provide a reliable and stable source of funding that can be matched against mortgage maturities. Total deposit principal outstanding increased \$0.7 billion or 10%, to \$8.1 billion as at December 31, 2015. Deposits have grown in line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

We continue to diversify our sources of funding by broadening our range of products for savers:

- In 2014, we launched a Deposit Note Program which has successfully added \$237 million to our funding base over the past two years. We are committed to building a long-term deposit note program and intend to participate in the market when the relative cost of funds is acceptable to us.
- We expanded the breadth and depth of distribution relationships for our brokered HISA product, growing balances to \$0.9 billion as at December 31, 2015 from \$0.4 billion a year ago.

- In late 2015, we launched the *EQ Bank Savings Plus Account* on our new digital banking platform and made it publically available on January 14, 2016. Although the balances outstanding were immaterial at the end of 2015, we are encouraged by the number of new accounts opened since it launched. Management believes EQ Bank to be an important strategic initiative which will further diversify our funding sources and provide a direct-to-consumer channel that can be leveraged for future growth.

SECURITIZATION LIABILITIES

The majority of the Company's historic securitization transactions do not qualify the mortgages for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheet and accounted for as securitization liabilities.

Securitization liability principal was \$6.1 billion at the end of December 31, 2015, up \$1.7 billion from December 31, 2014. The increase is largely due to the growth of our Prime Single Family business but also to a new funding program established in Q2 2015. This new program, which is sponsored by a major Canadian Schedule I Bank, provides Equitable with a source of matched funding for uninsured single family mortgages. Once securitized, mortgages remain in the facility until they mature. Equitable bears no risk for the funding of the facility itself.

BANK FACILITIES AND DEBENTURES

The Bank has two revolving credit facilities to fund insured residential mortgages prior to securitization, with an aggregate capacity of \$700 million, compared with one credit facility of \$300 million last year. These facilities are provided by major Schedule I Canadian Banks. At December 31, 2015, the outstanding balances on these facilities were \$236 million (December 31, 2014 - \$92.2 million). Our increased usage of these facilities is a function of our higher Prime Single Family origination levels and the timing of mortgage securitizations and sales.

We also have a \$35.0 million operating credit facility in place with a major Canadian Schedule I Bank. The facility is secured by a portion of the Company's preferred share investments. There was no outstanding balance on the facility at December 31, 2015 or 2014.

On December 15, 2015, we redeemed our \$20.0 million 6.09% Series 9 debentures at par value. At year end, only our Series 10 debentures remain outstanding. The Series 10 debentures mature in 2017.

Details related to the Company's bank facilities and debentures can be found in Notes 16 and 17 to our 2015 audited consolidated financial statements.

The following table details the Company's outstanding debentures at December 31, 2015 and 2014.

Table 14: Debentures

(\$ THOUSANDS)		2015	2014	Change from 2014
Series 9	6.09%	\$ -	\$ 20,000	\$(20,000) (100%)
Series 10	5.40%	\$ 65,000	\$ 65,000	\$ - 0%
Total debentures		\$ 65,000	\$ 85,000	\$(20,000) (24%)

OTHER LIABILITIES AND DEFERRED INCOME TAXES

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, income taxes payable, the fair value of derivative financial instruments, and future servicing liabilities for securitized mortgages that achieved derecognition.

Table 15: Other liabilities and deferred income taxes

(\$ THOUSANDS)	2015	2014	Change from 2014	
Mortgagor realty taxes	\$ 39,268	\$ 31,512	\$ 7,756	25%
Accounts payable and accrued liabilities	24,999	16,075	8,924	56%
Securitized mortgage servicing liability	14,552	11,192	3,360	30%
Derivative financial instruments – securitization activities	1,592	908	684	75%
Derivative financial instruments – interest rate swaps	879	-	879	N/A
Income taxes payable	-	2,284	(2,284)	(100%)
	81,290	61,971	19,319	31%
Deferred tax liabilities	28,698	14,843	13,855	93%
Total other liabilities and deferred tax liabilities	\$ 109,988	\$ 76,814	\$ 33,174	43%

The increase in Other liabilities and deferred tax liabilities was mainly due to:

- \$13.9 million higher Deferred tax liabilities due to timing differences related to when securitization income and mortgage costs are recorded on our consolidated statement of income for accounting purpose versus the timing of recognition for tax purposes;
- \$8.9 million increase in Accounts payable and accrued liabilities attributable to the growth of our business;
- \$7.8 million increase in Mortgagor realty taxes, an increase that is in line with the growth of our mortgage portfolio; and
- \$3.4 million increase in Securitized mortgage service liability as a result of a higher volume of securitization activities where residual interests in the derecognized mortgages are retained by the Company;

offset by:

- \$2.3 million reduction in Income taxes payable.

Contractual obligations by year of maturity are outlined in Table 32 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2015.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased \$92.4 million or 13% to \$796 million at December 31, 2015, from \$704 million a year ago. The increase reflects the high level of earnings retained by the Company, partly offset by dividends paid and other comprehensive losses due to fair market value changes on our available for sale investments (primarily our holdings of investment grade preferred shares).

At December 31, 2015, the Company had 15,538,605 common shares and 3,000,000 Series 3 preferred shares issued and outstanding (December 31, 2014 - 15,435,356 common shares and 3,000,000 Series 3 preferred shares).

During 2015, 109,195 options were granted. In addition, 103,249 stock options were exercised that contributed \$2.5 million to common share capital. At December 31, 2015, there were 540,236 unexercised stock options which are, or will be, exercisable to purchase common shares for maximum proceeds of \$21.7 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) to the 2015 audited consolidated financial statements.

CAPITAL MANAGEMENT

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").

OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian Banks. OSFI has mandated that all Canadian-regulated financial institutions meet a target CET1 Ratio of 7.0% 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 Capital and Total Capital Ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively.

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 13.6% as at December 31, 2015, while our Tier 1 Capital and Total Capital Ratios were 15.0% and 16.8% respectively, exceeding the regulatory minimums on an "all-in" basis. Our Tier 1 Capital and Total Capital Ratios were relatively consistent with the prior quarter and last year mainly reflecting our strategy of retaining the vast majority of our earnings. Capital levels at December 31, 2015 were impacted by \$24.0 million of unrealized after-tax losses on our preferred share portfolio and a \$14.6 million capital deduction for intangible assets related to our new product initiatives.

Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale investments and do not believe that the assets are impaired. The losses are a function of current market conditions, specifically reduced expectations for future yields on rate-reset preferred shares. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a risk of credit loss on our holdings.

Effective January 1, 2015, Canadian Banks are required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the Assets-to-Capital Multiple ("ACM") framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.2% at December 31, 2015 and we are fully compliant with all regulatory requirements. The Leverage Ratio is not applicable for periods prior to Q1 2015.

As part of our capital management process, we stress test our 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 Bank 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 16: Capital measures of Equitable Bank⁽¹⁾

(\$ THOUSANDS)	2015	2014
Total risk-weighted assets ("RWA")	\$ 5,259,384	\$ 4,721,132
Common Equity Tier 1 Capital:		
Common shares	145,836	143,141
Contributed surplus	6,126	5,423
Retained earnings	600,128	490,774
Accumulated other comprehensive (loss) income ("AOCI") ⁽²⁾	(22,458)	(2,453)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(14,574)	(1,723)
Common Equity Tier 1 Capital	715,058	635,162
Additional Tier 1 capital:		
Non-cumulative preferred shares	72,554	72,409
Less: Regulatory adjustments to Tier 1 Capital	-	(4,806)
Tier 1 Capital	787,612	702,765
Tier 2 Capital:		
Collective allowance	31,889	29,510
Subordinated debentures	65,000	85,000
Tier 2 Capital	96,889	114,510
Total Capital	\$ 884,501	\$ 817,275
Capital ratios: ⁽¹⁾		
CET1 Ratio	13.6%	13.5%
Tier 1 Capital Ratio	15.0%	14.9%
Total Capital Ratio	16.8%	17.3%
Leverage Ratio ⁽³⁾	5.2%	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 relates to the hedging of items that are not fair valued are excluded.

⁽³⁾ The Leverage Ratio is not applicable for prior year periods.

Table 17: Risk-weighted assets of Equitable Bank

(\$ THOUSANDS)	2015		
	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	\$ 531,145	20%	\$ 105,821
Securities purchased under reverse repurchase agreements	19,918	0%	-
Investments	135,024	100%	135,024
Mortgage receivables – Core Lending:			
Single Family Lending Services	6,530,174	31%	2,026,551
Commercial Lending Services	2,225,843	97%	2,169,619
Mortgage receivables – Securitization Financing	5,961,802	1%	33,536
Securitization retained interests	60,994	100%	60,994
Other assets	74,155	70%	52,195
Total Equitable Bank assets subject to risk rating	\$ 15,539,055		\$ 4,583,740
Less: Collective allowance	(31,890)		-
Total Equitable Bank assets	\$ 15,507,165		\$ 4,583,740
Off-balance sheet:			
Loan commitments			251,055
Derivatives			10,001
Total credit risk			\$ 4,844,796
Operational risk ⁽¹⁾			414,588
Total			\$ 5,259,384

(\$ THOUSANDS)	2014		
	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	\$ 296,409	17%	\$ 49,025
Securities purchased under reverse repurchase agreements	18,117	0%	-
Investments	187,324	79%	147,988
Mortgage receivables – Core Lending:			
Single Family Lending Services	5,401,306	31%	1,679,392
Commercial Lending Services	2,307,161	97%	2,233,738
Mortgage receivables – Securitization Financing	4,585,520	0%	5,670
Securitization retained interests	44,738	100%	44,738
Other assets	42,347	93%	39,219
Total Equitable Bank assets subject to risk rating	\$ 12,882,922		\$ 4,199,770
Less: Collective allowance	(29,510)		-
Total Equitable Bank assets	\$ 12,853,412		\$ 4,199,770
Off-balance sheet:			
Loan commitments			152,967
Derivatives			13,582
Total credit risk			\$ 4,366,319
Operational risk ⁽¹⁾			354,813
Total			\$ 4,721,132

⁽¹⁾ For operational risk, Equitable Bank uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

SUMMARY OF QUARTERLY RESULTS

Table 18 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 18: Summary of quarterly results

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
RESULTS OF OPERATIONS								
Net income	\$ 31,436	\$ 31,448	\$ 33,520	\$ 29,461	\$ 26,885	\$ 27,764	\$ 26,778	\$ 25,291
Net income available to common shareholders	30,245	30,257	32,330	28,270	24,993	26,857	25,872	24,385
EPS – basic ⁽⁴⁾	\$ 1.96	\$ 1.96	\$ 2.09	\$ 1.83	\$ 1.62	\$ 1.74	\$ 1.68	\$ 1.59
EPS – diluted ⁽⁴⁾	\$ 1.93	\$ 1.93	\$ 2.06	\$ 1.81	\$ 1.59	\$ 1.71	\$ 1.65	\$ 1.56
Net interest income ⁽¹⁾	63,458	61,437	60,995	56,337	54,220	51,716	49,902	48,684
NIM – TEB: ⁽²⁾⁽³⁾								
Total Assets	1.70%	1.73%	1.79%	1.73%	1.76%	1.76%	1.70%	1.66%
Core Lending	2.68%	2.59%	2.65%	2.60%	2.62%	2.66%	2.57%	2.53%
Securitization Financing	0.18%	0.28%	0.28%	0.23%	0.29%	0.28%	0.31%	0.37%
Total revenues ⁽¹⁾	151,495	147,625	145,595	137,279	134,928	131,900	129,752	126,387
ROE ⁽³⁾	17.0%	17.5%	19.8%	17.9%	16.0%	17.8%	18.0%	17.9%
Return on average assets ⁽³⁾	0.8%	0.9%	1.0%	0.9%	0.8%	0.9%	1.0%	0.8%
Efficiency ratio – TEB ⁽³⁾	35.7%	33.4%	32.8%	32.4%	35.4%	31.5%	31.3%	31.9%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	719,361	744,416	641,095	568,278	758,442	645,842	501,434	403,710
Commercial Lending Services	259,502	235,987	199,977	207,767	253,961	193,668	187,036	125,664
Core Lending	978,863	980,403	841,072	776,045	1,012,403	839,510	688,470	529,374
Securitization Financing	759,258	790,022	555,272	468,722	576,527	479,104	237,522	277,760
BALANCE SHEET								
Total assets	15,527,584	14,827,610	14,329,824	13,387,915	12,854,903	12,193,335	11,785,388	11,886,479
Mortgages receivable	14,700,806	13,959,432	13,216,267	12,785,852	12,269,945	11,555,700	11,128,395	11,204,349
MUM ⁽³⁾	16,706,935	15,917,079	15,682,049	14,437,643	13,759,706	12,897,242	12,287,267	12,265,257
Liquid assets ⁽³⁾	895,056	849,349	1,251,692	756,017	676,559	664,663	707,631	711,385
Shareholders' equity	796,116	764,679	750,149	723,606	703,694	682,863	636,376	611,456
SHARE CAPITAL								
Dividends declared per:								
Common share	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.16
Preferred share	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.63	\$ 0.45	\$ 0.45	\$ 0.45
Common shares outstanding								
Weighted average basic	15,466,907	15,457,932	15,450,802	15,440,328	15,416,625	15,408,311	15,398,461	15,371,973
Weighted average diluted	15,672,334	15,670,443	15,674,815	15,660,067	15,683,821	15,672,253	15,644,288	15,588,303
Book value per common share	\$ 46.57	\$ 44.72	\$ 43.80	\$ 42.13	\$ 40.90	\$ 39.61	\$ 38.16	\$ 36.58

⁽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.

⁽⁴⁾ Annual EPS does not equal the sum of the quarterly EPS' as a result of rounding.

FOURTH QUARTER OVERVIEW

Equitable produced record fourth quarter earnings and achieved strong asset growth during the last three months of the year. Quarterly earnings and ROE were slightly down from the levels produced in recent quarters due to expense growth. Expense growth was influenced by investments in several strategic initiatives that management believes will benefit Equitable in future periods.

During the three months ended December 31, 2015, Equitable:

- delivered a record Q4 diluted EPS of \$1.93, up 21% from Q4 of the prior year as a result of loan growth and stable margins, and despite an 19% increase in non-interest expenses;
- declared common share dividends of \$0.20, up 11% from Q4 2014; and
- generated an ROE of 17.0% compared to 16.0% in the fourth quarter of 2014. Q4 ROE was below the 17.5% ROE achieved in the preceding quarter, largely due to higher expenses.

ITEMS OF NOTE

There were no items of note in our financial results for Q4 or Q3 2015.

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 covered the period from August 8, 2014 to September 30, 2014, reducing our diluted EPS by \$0.04.

NET INTEREST INCOME

Table 19 details the Company's NII and NIM for the three months ended December 31, 2015, with comparisons to the prior quarter and the corresponding quarter of the prior year, by product and business.

Table 19: Net interest income

(\$ THOUSANDS)	Three months ended					
	Dec 31, 2015		Sep 30, 2015		Dec 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	\$ 101,848	4.74%	\$ 99,135	4.77%	\$ 89,883	4.84%
Liquidity investments	1,318	1.07%	1,713	1.18%	1,214	1.48%
Equity securities – TEB ⁽²⁾	2,285	6.88%	2,031	6.07%	2,459	7.28%
	105,451	4.58%	102,879	4.56%	93,556	4.74%
<i>Expenses related to:</i>						
Deposits	40,271	2.08%	41,506	2.13%	39,938	2.30%
Debentures and bank facilities	1,213	6.02%	1,274	5.94%	1,402	6.14%
Securitization liabilities	2,622	1.60%	1,830	1.73%	796	2.29%
	44,106	2.08%	44,610	2.14%	42,136	2.35%
Net interest income – TEB ⁽²⁾⁽³⁾	61,345	2.68%	58,269	2.59%	51,420	2.62%
Taxable Equivalent Basis – adjustment ⁽²⁾	(609)		(589)		(499)	
Core Lending	\$ 60,736		\$ 57,680		\$ 50,921	
Securitization Financing:						
<i>Revenues derived from:</i>						
Mortgages	\$ 41,978	2.90%	\$ 40,907	3.09%	\$ 38,051	3.38%
Liquidity investments	364	0.97%	265	1.06%	491	1.78%
	42,342	2.85%	41,172	3.06%	38,542	3.34%
<i>Expenses related to:</i>						
Securitization liabilities	36,357	2.76%	33,636	2.90%	32,618	3.15%
Deposits and secured funding facility	3,263	2.05%	3,779	2.14%	2,625	2.36%
	39,620	2.68%	37,415	2.80%	35,243	3.07%
Securitization Financing	\$ 2,722	0.18%	\$ 3,757	0.28%	\$ 3,299	0.29%
Total – TEB ⁽²⁾⁽³⁾	\$ 64,067	1.70%	\$ 62,026	1.73%	\$ 54,719	1.76%

⁽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.

Q4 2015 v Q4 2014

Net interest income was up 17% due to growth in average asset balances and despite a 6 bps reduction in NIM. The decrease in our overall NIM was the result of a decline in Securitization Financing NIM and a shift in asset mix towards that lower yielding portfolio.

NIM earned on Core Lending assets increased by 6 bps, largely due to higher mortgage prepayment income in the quarter and despite growth of our lower yielding liquidity portfolio. Our efforts to optimize renewal pricing in Single Family and new cost efficient funding sources continued to help Core Lending NIM.

Securitization Financing NIM was down by 11 bps and was affected by several factors including lower mortgage prepayment income, an increase in the size of our lower yield liquidity portfolio, and margin compression within the book. The lower NIM experienced during the quarter reflects the origination of Single Family Prime mortgages at unusually low margins between August and November 2015. Single Family Prime Margins were affected by a significant widening of spreads in

the MBS market, which caused our cost of funds to increase. As we grow our portfolio of Prime mortgages we expect that the margins experienced in any one period will have less effect on the NIM of the overall portfolio (originations in one quarter will represent a lower proportion of the total portfolio).

Q4 2015 v Q3 2015

Net interest income grew 3% sequentially due to 5% growth in our average assets and despite a 3 bps reduction in NIM. The decrease in our overall NIM was the result of a decline in Securitization Financing NIM and a shift in asset mix towards that lower yielding portfolio.

Core Lending NIM was up 9 bps largely due to a decrease in the size of our lower yielding liquidity portfolio. The continued implementation of low cost funding sources also helped NIM in the quarter.

Securitization Financing NIM dropped 10 bps due to lower prepayment income, an increase in the size of our lower yielding liquidity portfolio, and the rate compression within the portfolio discussed above.

Table 20: Factors affecting NIM

(IN BASIS POINTS)	Q4 2015 vs. Q3 2015	Q4 2015 vs. Q4 2014
Core Lending NIM:		
Mortgage prepayment income	1	7
Size and rate of liquidity investments	4	(6)
Size and rate of equity securities holdings	1	(2)
Other, including changes in spreads within the mortgage portfolio ⁽¹⁾	3	7
Total change in NIM	9	6
Securitization Financing NIM:		
Mortgage prepayment income	(3)	(2)
Size and rate of liquidity investments	(2)	(2)
Other ⁽¹⁾	(5)	(7)
Total change in NIM	(10)	(11)

⁽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, gains or losses on interest rate swaps, and the timing of securitizations.

PROVISION FOR CREDIT LOSSES

The Company's provision for credit losses was \$1.1 million in the quarter, up \$0.2 million from Q3 2015 and up \$0.3 million compared to the same period of last year.

Within the total provision, the Company recorded an impairment provision of \$0.5 million, compared to \$0.5 million in Q3 2015 and \$0.6 million in the corresponding period of the prior year. The consistently low level of impairment provision reflects the health of our mortgage portfolio and low loss estimates for newly impaired loans.

The remaining \$0.6 million of the provision represented additions to our collective allowance. After our prudent review of our mortgage portfolios and current credit allowance level, management determined that this quarterly addition would maintain our collective allowance at an appropriate level.

OTHER INCOME

Table 21: Other income

(\$ THOUSANDS)	Three months ended				
	Dec 31, 2015	Sep 30, 2015	% Change	Dec 31, 2014	% Change
Fees and other income	\$ 3,454	\$ 3,117	11%	\$ 2,480	39%
Net loss on investments	(13)	-	N/A	(1)	(1,200%)
Securitization activities:					
Gains on securitization and income from retained interests	949	1,424	(33%)	1,259	(25%)
Fair value losses on derivative financial instruments	(79)	(378)	79%	(409)	81%
Total	\$ 4,311	\$ 4,163	4%	\$ 3,329	29%

Q4 2015 v Q4 2014

Other income increased compared with Q4 2014 mainly due to:

- \$1.0 million increase in fees and other income, driven by growth in our mortgage assets; and
- \$0.3 million decrease in fair value losses on derivative financial instruments related to securitization activities;

offset by:

- \$0.3 million reduction in gains on securitization and income from retained interests due to a lower volume of derecognition activity in the current quarter.

Q4 2015 v Q3 2015

Other income increased sequentially due to the factors discussed above when comparing Q4 2015 to Q4 2014.

NON-INTEREST EXPENSES

Table 22: Non-interest expenses and efficiency ratio

(\$ THOUSANDS EXCEPT FTE)	Three months ended				
	Dec 31, 2015	Sep 30, 2015	% Change	Dec 31, 2014	% Change
Growth of our franchise:					
Compensation and benefits	\$ 12,666	\$ 11,941	6%	\$ 10,961	16%
Premises, equipment, and systems costs	2,710	2,410	12%	1,978	37%
Other	1,582	1,726	(8%)	1,106	43%
Licenses, regulatory fees and insurance	1,472	1,366	8%	1,135	30%
Marketing, travel and communications	1,107	888	25%	1,340	(17%)
Mortgage servicing	1,000	1,039	(4%)	961	4%
Amortization	930	771	21%	692	35%
Professional services	569	520	9%	821	(31%)
Non-interest expenses before strategic investments	22,036	20,661	7%	18,994	16%
Investments in our future:					
Compensation and benefits	906	533	70%	482	88%
Other	1,487	929	60%	1,076	38%
Total investments in our future ⁽¹⁾	2,393	1,462	64%	1,558	54%
Total non-interest expenses	\$ 24,429	\$ 22,123	10%	\$ 20,552	19%
Efficiency Ratio – TEB ⁽¹⁾	35.7%	33.4%	2.3%	35.4%	0.3%
Full-time employee ("FTE") – period average	484	452	7%	391	24%

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

Q4 2015 v Q4 2014

We continue to operate efficiently on both an absolute basis and relative to other financial institutions. During the quarter, our Efficiency Ratio increased to 35.7% from 35.4% a year ago due to growth in our expenses. This expense increase is commensurate with the successful growth of our business and investments that we made in key strategic priorities. These strategic investments are expected to generate long-term benefits to improve our future efficiency, enhance our competitive capabilities and differentiate us from our competitors, thereby creating long-term value for our stakeholders.

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

Growth of Our Franchise: \$3.1 million or 79% of net increase

- Compensation and related costs (such as premises and equipment) increased largely because of growth in FTE of 17% to support our existing businesses; and
- \$0.7M increase in systems costs as a result of investments in our core banking technology platform to support the growth of our business.

Investments in Our Future: \$0.8 million or 21% of net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives. They exclude the related capital investments made in the period until those amounts begin to be amortized.

- \$0.5 million increase to support our digital banking systems; and
- \$0.3 million increase to build our Prime Single Family team.

This increase in strategic investments accounted for one-fifth of the year-over-year growth and without this investment our adjusted Efficiency Ratio and diluted EPS in Q4 2015 would have been 32.2% and \$2.04, respectively.

Q4 2015 v Q3 2015

As discussed above, Q4 2015 was another period of strong growth in our existing businesses and continued investments in Equitable's future. Compared to Q3 2015, our efficiency ratio increased by 2.3 percentage points as a result of a \$2.3 million increase in non-interest expenses.

The majority of the increase in our expenses was driven by:

Growth of Our Franchise: \$1.3 million or 57% of net increase

- \$0.7 million increase in Compensation and related costs (such as premises and equipment) which is primarily the result of the 7% growth in the FTE that support our existing businesses.

Investments in Our Future: \$1.0 million or 43% of net increase

- \$0.7 million increase in Marketing expenses to support our digital banking platform launch in January 2016; and
- \$0.3 million increase to build out our Prime Single Family Team.

INCOME TAXES

Q4 2015 v Q4 2014

The Company's effective income tax rate in the quarter was 25.6% and consistent with the same quarter last year.

Q4 2015 v Q3 2015

Our effective income tax rate decreased 0.5% to 25.6% from 26.1% in the prior quarter. The decrease is largely due to a higher level of tax-exempt dividend income from our securities portfolio and other adjustments.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2015 and Q4 2014:

Table 23: Mortgage principal continuity schedule

(\$ THOUSANDS)	Three months ended December 31, 2015						
	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q3 2015 closing balance	\$ 6,225,409	\$ 2,240,474	\$ 8,465,883	\$ 5,439,543	\$ 13,905,426	\$ 2,011,653	\$ 7,451,196
Originations	719,361	259,502	978,863	759,258	1,738,121	-	759,258
Securitized and derecognized	-	-	-	(78,420)	(78,420)	78,420	-
Net repayments	(495,107)	(270,510)	(765,617)	(165,063)	(930,680)	(17,585)	(182,648)
Q4 2015 closing balance	\$ 6,449,663	\$ 2,229,466	\$ 8,679,129	\$ 5,955,318	\$ 14,634,447	\$ 2,072,488	\$ 8,027,806
% Change from Q3 2015	4%	(0%)	3%	9%	5%	3%	8%
% Change from Q4 2014	20%	(3%)	13%	31%	20%	36%	32%
Net repayments percentage ⁽³⁾	8.0%	12.1%	9.0%	3.0%	6.7%	0.9%	2.5%

(\$ THOUSANDS)	Three months ended December 31, 2014						
	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal ⁽¹⁾	Securitization Financing MUM ⁽²⁾
Q3 2014 closing balance	\$ 4,909,130	\$ 2,283,825	\$ 7,192,955	\$ 4,339,840	\$ 11,532,795	\$ 1,364,448	\$ 5,704,288
Originations	758,442	253,961	1,012,403	576,527	1,588,930	-	576,527
Securitized and derecognized	-	-	-	(166,709)	(166,709)	166,709	-
Net repayments	(281,724)	(232,411)	(514,135)	(200,183)	(714,318)	(12,149)	(212,332)
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
% Change from Q3 2014	10%	1%	7%	5%	6%	11%	6%
Net repayments percentage ⁽³⁾	5.7%	10.2%	7.1%	4.6%	6.2%	0.9%	3.7%

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

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

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

Q4 2015 v Q4 2014

Please refer to page 19-20 for a discussion of our year-over-year portfolio growth.

Q4 2015 v Q3 2015

Total mortgage balances were up 5% due to growth in both our Core Lending and Securitization Financing portfolios as a high level of originations in all businesses.

Core Lending balances continued to grow, as originations offset the effect of slightly elevated attrition levels. Securitization Financing MUM, which includes \$2.1 billion of derecognized mortgage principal, grew by 8% as we continued to build our Prime Single Family business.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending Services, and as such, we do not focus on quarter over quarter comparisons. The table below provides mortgage originations for Q4 2015 and Q4 2014.

Table 24: Mortgage originations – by lending business

(\$ THOUSANDS)	Three months ended					
	Dec 31, 2015		Dec 31, 2014		Change from 2014	
	Mortgage principal funded	% of total	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Core Lending:						
Single Family Lending	\$ 719,361	41%	\$ 758,442	48%	\$ (39,081)	(5%)
Commercial Lending	259,502	15%	253,961	16%	5,541	2%
	978,863	56%	1,012,403	64%	(33,540)	(3%)
Securitization Financing:						
Multi-unit residential	269,948	16%	306,352	19%	(36,404)	(12%)
Prime single family residential	489,310	28%	270,175	17%	219,135	81%
	759,258	44%	576,527	36%	182,731	32%
Total mortgage originations	\$ 1,738,121	100%	\$ 1,588,930	100%	\$ 149,191	9%

Within Core Lending, Single Family originations remained strong, though as expected were down from the exceptionally high level in 2014. This performance is reflective of recent competitive dynamics in Canadian housing market. Commercial Lending originations were consistent with the levels achieved last year, as we continued to maintain our pricing and risk management discipline in a highly competitive market.

Within Securitization Financing, Multi originations were down 12% compared to the same quarter of the prior year as a result of a reduction of approximately 25% in our CMB allocations. Securitization Financing also includes originations of insured prime single family mortgages, a program we launched in Q3 2014. During the fourth quarter, we funded \$489 million of Prime loans, which is almost double our Q4 2014 volume and an indicator of our success building this business.

SECURITIZATION

The table below provides a summary of the mortgages securitized and derecognized in the quarter, as well as the gain on sale amounts:

Table 25: Securitization and derecognition activity

(\$ THOUSANDS)	Three months ended				
	Dec 31, 2015	Sep 30, 2015	% Change	Dec 31, 2014	% Change
Securitized and derecognized – non-prepayable Multis	\$ 69,264	\$ 143,742	(52%)	\$ 166,710	(58%)
Securitized and derecognized – prepayable mortgages ⁽¹⁾	9,157	-	N/A	-	N/A
Total principal derecognized	\$ 78,421	\$ 143,742	(45%)	\$ 166,710	(53%)
Gains on sale	\$ 755	\$ 1,259	(40%)	\$ 1,154	(35%)
Gain on sale – percentage ⁽²⁾	0.96%	0.88%	0.08%	0.69%	0.27%

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

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

During Q4 and using an innovative structure, we executed our first transaction since 2012 that transferred the risks and rewards of securitized *prepayable* mortgages to third parties – thereby allowing us to derecognize the assets. This transaction resulted in the derecognition of \$9.2 million of prepayable Multis and a gain on sale of \$61 thousand (0.66%). Going forward, we intend to regularly engage in transactions that allow us to derecognize prepayable Multi and Single Family mortgages using this and other transaction structures.

Q4 2015 v Q4 2014

Gains on sale were down 35% from last year due to a reduction in the volume of mortgages derecognized and despite a higher gain on sale percentage. Derecognition volumes were down this year because of lower demand for non-prepayable mortgage products (the type which generally qualify for derecognition). The gains recognized in the quarter relative to the principal derecognized were higher than in Q4 2014, largely due to lower cash flow discount rates used to calculate the gains. The spreads on the underlying mortgages have been relatively stable over the year.

Q4 2015 v Q3 2015

Gains on sale were down sequentially due to the factors discussed above when comparing to Q4 2015 to Q4 2014.

Table 26: Unaudited interim consolidated statements of income

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended		
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014
Interest income:			
Mortgages – Core Lending	\$ 101,848	\$ 99,135	\$ 89,883
Mortgages – Securitization Financing	41,978	40,907	38,051
Investments	1,894	1,599	2,123
Other	1,464	1,821	1,542
	147,184	143,462	131,599
Interest expense:			
Deposits	42,085	43,560	41,630
Securitization liabilities	38,979	35,466	33,414
Bank facilities	1,292	1,274	838
Debentures	1,213	1,407	1,402
Other	157	318	95
	83,726	82,025	77,379
Net interest income	63,458	61,437	54,220
Provision for credit losses	1,064	930	842
Net interest income after provision for credit losses	62,394	60,507	53,378
Other income:			
Fees and other income	3,454	3,117	2,480
Net loss on investments	(13)	-	(1)
Gains on securitization activities and income from securitization retained interests	870	1,046	850
	4,311	4,163	3,329
Net interest and other income	66,705	64,670	56,707
Non-interest expenses:			
Compensation and benefits	13,572	12,474	11,443
Other	10,857	9,649	9,109
	24,429	22,123	20,552
Income before income taxes	42,276	42,547	36,155
Income taxes			
Current	7,855	6,133	5,567
Deferred	2,985	4,966	3,703
	10,840	11,099	9,270
Net income	\$ 31,436	\$ 31,448	\$ 26,885
Earnings per share			
Basic	\$ 1.96	\$ 1.96	\$ 1.62
Diluted	\$ 1.93	\$ 1.93	\$ 1.59

Table 27: Unaudited interim consolidated statements of comprehensive income

(\$ THOUSANDS)	Three months ended		
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014
Net income	\$ 31,436	\$ 31,448	\$ 26,885
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains (losses) from change in fair value	4,611	(17,178)	(1,272)
Reclassification of net gains to income	(122)	(130)	(33)
	4,489	(17,308)	(1,305)
Income tax (expense) recovery	(1,185)	4,569	345
	3,304	(12,739)	(960)
Cash flow hedges:			
Net unrealized losses from change in fair value	(1,909)	(1,636)	(2,238)
Reclassification of net losses to income	1,060	1,103	589
	(849)	(533)	(1,649)
Income tax recovery	224	141	435
	(625)	(392)	(1,214)
Total other comprehensive income (loss)	\$ 2,679	\$ (13,131)	\$ (2,174)
Total comprehensive income	\$ 34,115	\$ 18,317	\$ 24,711

Table 28: Unaudited interim consolidated statements of cash flows

(\$ THOUSANDS)	Three months ended		
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	\$ 31,436	\$ 31,448	\$ 26,885
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	1,561	(981)	(957)
Amortization of premiums/discounts on investments	161	183	190
Amortization of capital assets and intangible costs	1,016	859	788
Provision for credit losses	1,064	930	842
Securitization gains	(755)	(1,259)	(1,154)
Net loss on sale or redemption of investments	13	-	1
Stock-based compensation	226	202	250
Income taxes	10,840	11,099	9,270
Changes in operating assets and liabilities:			
Restricted cash	8,906	(9,556)	(19,992)
Securities purchased under reverse repurchase agreements	43,680	38,427	5,429
Mortgages receivable, net of securitization	(744,817)	(750,250)	(886,973)
Other assets	(1,711)	(404)	(3,863)
Deposits	155,974	(180,902)	434,707
Securitization liabilities	624,092	614,357	172,619
Obligations under repurchase agreements	(163,189)	(4,578)	18,844
Bank facilities	45,779	48,198	(2,751)
Other liabilities	21,617	1,158	24,617
Income taxes paid	-	(7,477)	(6,701)
Proceeds from loan securitization	-	-	167,184
Securitization retained interests	3,063	2,868	1,942
Cash flows from (used in) operating activities	38,956	(205,678)	(58,823)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common shares	1,391	143	540
Dividends paid on preferred shares	(1,190)	(1,191)	(1,892)
Dividends paid on common shares	(2,940)	(2,938)	(5,396)
Redemption of debentures	(20,000)	-	(7,483)
Cash flows used in financing activities	(22,739)	(3,986)	(14,231)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(1,767)	(9,653)	(29,979)
Proceeds on sale or redemption of investments	1,557	5,846	3,914
Net change in Canada Housing Trust re-investment accounts	48	16	14,610
Purchase of capital assets and system development costs	(6,207)	(4,944)	(2,734)
Cash flows used in investing activities	(6,369)	(8,735)	(14,189)
Net increase (decrease) in cash and cash equivalents	9,848	(218,399)	(87,243)
Cash and cash equivalents, beginning of period	413,518	631,917	317,306
Cash and cash equivalents, end of period	\$ 423,366	\$ 413,518	\$ 230,063
Cash flows from operating activities include:			
Interest received	147,543	142,938	127,316
Interest paid	(79,920)	(82,410)	(69,357)
Dividends received	1,728	1,670	1,413

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 2015 annual 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 for a summary of the Company's significant accounting policies.

FUTURE ACCOUNTING POLICIES

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

CRITICAL ACCOUNTING ESTIMATES

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. 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, 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 consolidated financial statements include probability of default and loss given default for mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the creditworthiness of the Company to its counterparties, the creditworthiness of issuers of the investments held by the Company, 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 years 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 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 years. For further information regarding critical accounting estimates, please refer to the notes to the consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges interest rate risks associated with insured residential mortgages and mortgage commitments intended for securitization, certain other mortgages and GICs designated as at fair value through income. The Company also hedges the risk of changes in future cash flows related to our Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans.

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 enters into 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.

For non-prepayable insured residential mortgages, where the transferred assets qualify for derecognition, the Company uses bond forwards to protect itself from fluctuations in interest rates between the time the Company commits to funding

these mortgages and the time they are securitized. The change in value of the commitments and the funded mortgages before securitization are substantially offset by the change in value of the bond forwards and the Company does not apply hedge accounting to these derivative instruments.

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income. The hedging instruments used to manage these exposures are interest rate swaps and short sale and repurchase agreements of Government of Canada guaranteed debt securities.

The Company uses interest rate swaps to hedge our interest rate exposure on certain GICs designated as at fair value through income and used to fund floating rate mortgages. For some hedging relationships, the Company applies hedge accounting.

During the year, the Company began hedging the risk of changes in future cash flows related to our RSU and DSU plans by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to the RSU-related derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price. Equitable does not use hedge accounting for the DSU-related swaps.

For more information on derivative financial instruments see Notes 3, 5, 6 and 10 to the audited consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our audited consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the audited consolidated financial statements for the year ended December 31, 2015) and letters of credit issued in the normal course of business.

Securitization of financial assets

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or transferred control associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled \$2.1 billion at December 31, 2015 (December 31, 2014 – \$1.5 billion). The securitization liabilities associated with these transferred assets is approximately \$2.1 billion. The securitization retained interest recorded with respect to certain securitization transactions was \$61.7 million (December 31, 2014 – \$45.0 million) and the associated servicing liability was \$14.6 million at December 31, 2015 (December 31, 2014 – \$11.2 million).

Commitments and letters of credit

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$1.0 billion of mortgages in the ordinary course of business at December 31, 2015 (December 31, 2014 – \$778 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the events that a borrower cannot meet their obligations to a third party. Letters of credit in the amount of \$8.6 million were outstanding at December 31, 2015 (December 31, 2014 – \$6.0 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

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

RISK MANAGEMENT

Through our wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those of other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect our business, financial condition and operating results. These factors may also influence an investor's decision 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 our 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.

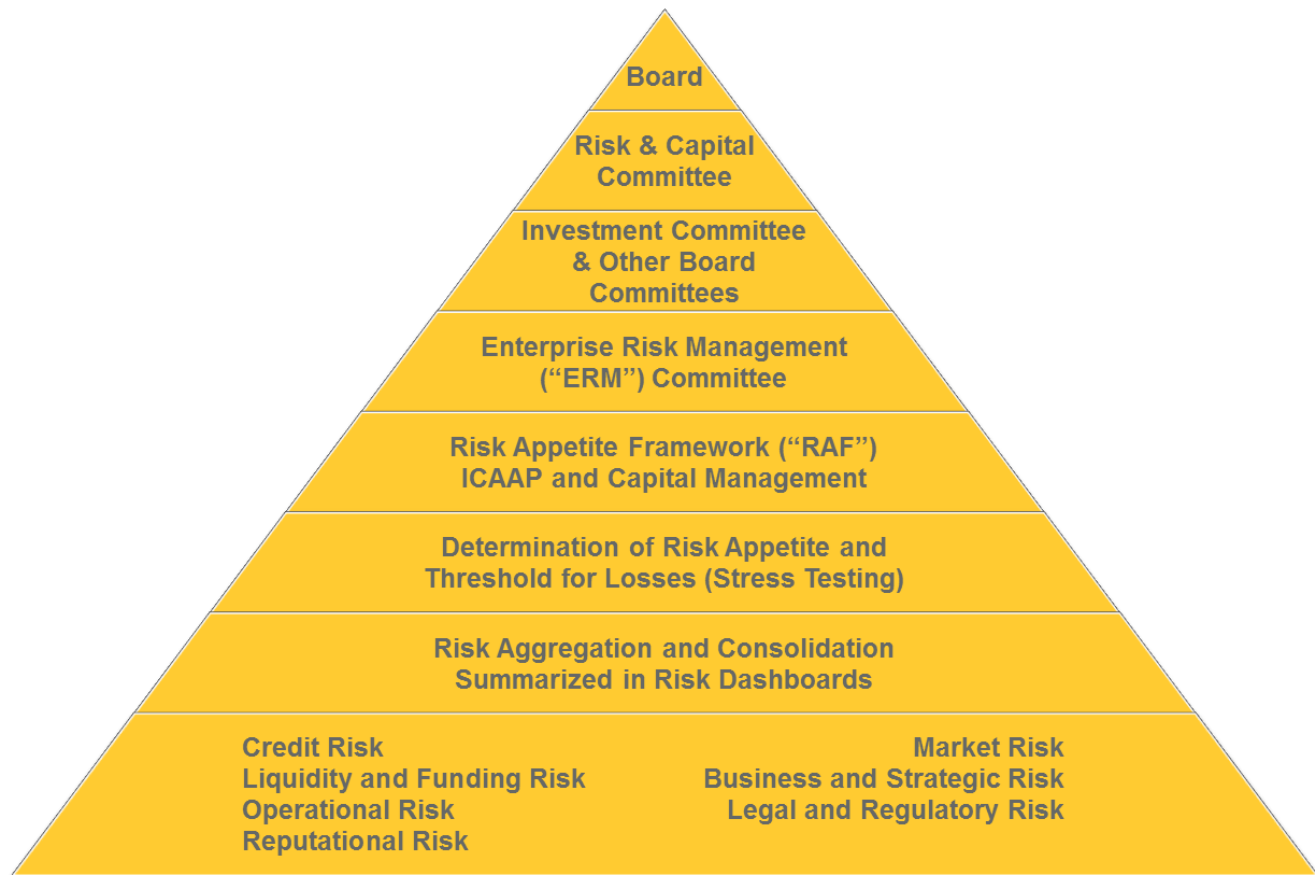
The Risk Management framework, Credit Risk Management, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2015 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework which includes our Risk Appetite Framework ("RAF"). The Company's ERM framework and RAF are designed to align with our overall corporate strategy, financial and capital plans, business unit strategies and day-to-day operations, as well as our risk management policies and practices (i.e., risk limits, risk selection/underwriting guidelines and criteria, etc.) across the organization. Our RAF, which identifies pre-defined risk appetite thresholds, is updated by Senior Management and approved by the Board on an annual basis, or more frequently, if required.

The ERM framework covers the type and amount of risk that the Company is capable and willing to take on in support of business operations and strategy. The ERM framework is designed to actively monitor all current and emerging risks on a continuous basis, and to provide the Board with timely periodic updates on our risk management practices and economic capital requirements. It also sets out our approach for identifying, assessing, managing and reporting risk, including the establishment of roles, responsibilities, processes and tools to be used. To ensure that all significant and emerging risks are considered, we review our risk profile with respect to each of our core risks on a continuous basis and report to the Board at least quarterly. The Company's ERM framework is also designed to ensure that all risks are managed within our pre-defined risk appetite thresholds as outlined in our RAF, and that the potential for loss remains within acceptable limits.

Equitable Bank's Enterprise Risk Management Framework



The Risk and Capital Committee ("RCC") of the Board assists the Board in fulfilling its oversight and governance responsibilities for the management of the Company's core and emerging risks and the adequacy of our Internal Capital Adequacy Assessment Process ("ICAAP") as well as our strategic and capital plans. It also reviews the Company's actual risk profile against the approved RAF and assesses the Company's policies, programs, procedures and controls in place to manage both core and emerging risks. The RCC also has primary oversight responsibility for operational risk, business and strategic risk and reputational risk. At present, the RCC is comprised of five independent directors, including the Chairs of the Investment Committee, Audit Committee, Human Resources and Compensation Committee, and Corporate Governance Committee. It meets quarterly with the Chief Executive Officer ("CEO") and the Chief Risk Officer ("CRO").

The Company's ERM Committee, which is chaired by the CRO and consists of members of senior management, reports to the RCC and assists the Board in fulfilling its oversight and governance responsibilities vis-à-vis the Company's risk management practices and ICAAP. To ensure that all significant risks that the Company faces are actively managed and monitored, the ERM Committee reviews and monitors the Company's key and emerging risks, risk trends, the results of our enterprise-wide stress and scenario tests, relevant policies and related risk management considerations/actions to be taken. It reports to the Board at least quarterly.

The Investment Committee of the Board of Directors assists the Board in fulfilling its oversight role for credit, liquidity and funding, and market risks. With respect to credit risk, the Investment Committee reviews the amount, nature, characteristics, concentration and quality of the Bank's asset portfolios, as well as all significant credit exposures and trends in portfolio quality. The Investment Committee oversees the Asset and Liability Committee ("ALCO"), which identifies the liquidity/funding and market risks faced by the Company, sets appropriate risk limits and controls, and monitors those risks and adherence to Board approved limits. The ALCO is chaired by the CEO and is comprised of members of senior management.

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the quality and integrity of the Company's financial reporting processes and the performance of the internal audit function. The Audit Committee is assisted in fulfilling its mandate by the Company's Finance and Internal Audit departments. Internal Audit undertakes regular and independent reviews of the Company's risk management controls and procedures, the results of which are reported to the Audit and other applicable Board Committees.

The Corporate Governance Committee of the Board maintains primary oversight over the Company's Regulatory Compliance Management Program and ensures the Company's compliance with legal and regulatory requirements.

The Human Resources and Compensation Committee of the Board of Directors assists the Board in ensuring that the Company's compensation policies and practices are aligned with our risk appetite and risk management framework. This ensures that the incentive for management to assume risks in the pursuit of business objectives is aligned with the risk appetite.

Under the Company's risk management framework, senior management reports on risk issues to the five above mentioned committees of the Board on a quarterly basis.

The Bank follows the three lines of defense approach to managing risk. Business Unit Leaders are the first line, and are primarily accountable for identifying, assessing, managing and reporting risk. The Risk Oversight functions, including the Finance, Risk Policy and Compliance departments, are accountable for independent oversight of the Business Unit operations from a second line perspective. Given the size and relatively low complexity of the Banks operations and risk profile, business line management leverages the skills of the second line as subject matter experts to assist in the design of our risk monitoring practices. Due to the inherent expertise embedded in our second line, the performance of some first line functions may be undertaken by the second line. Internal Audit is accountable for independent assurance as the third line of defense.

To ensure capital management and risk management are aligned, the Company's ICAAP, which is updated regularly, determines the ongoing capital needs of the business and reviews those needs in the context of our strategic plan and the operating environment. Material risks are regularly stress tested to determine the impact on capital and to set internal capital adequacy targets.

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 honour their obligations to the Company. Credit risk arises principally from the Company's lending activities, and our 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 located in Canada. All mortgages are individually evaluated by the Company's or our agent's underwriters using internal and external credit risk assessment tools and are assigned risk ratings, in accordance with the level of credit risk attributed to each loan. Each transaction is approved independently in accordance with the authorization structure set out in the Company's policies. Our underwriting approach, particularly in our Core Lending business, places a strong emphasis on security evaluation and judgmental analysis of the risks in the transaction. As a result, the Company can underwrite mortgages on terms favourable to the Company to borrowers who have good equity and debt service ratios in situations where other lenders may not be able to reach a satisfactory business transaction. In 2014, the Company began originating Single Family prime mortgages through third party agents, in addition to originating them internally. The third party sourced prime mortgages are underwritten to the standards of both the Company and mortgage insurers.

We have clearly defined underwriting policies and procedures that we adhere to in our mortgage underwriting process – these include a maximum Loan-to-Value ("LTV") on all uninsured commercial and residential mortgage loans; certain standards with regard to the asset quality and debt service coverage of commercial properties; standards for the marketability of the properties taken as security, including geographic market restrictions; and requirements surrounding

the overall credit quality and integrity of all borrowers. We also actively analyze the profile of our lending businesses and new mortgage originations in tandem with external market conditions, including market values and employment conditions that prevail in those markets where we lend. When we judge that the risk associated with a particular region or product is increasing, we adjust our underwriting criteria to ensure that our underwriting policies continue to be prudent and reflective of current and expected economic conditions, and thereby safeguard the future health of our portfolio. When appropriate, we also respond to the changing marketplace with initiatives designed to increase or decrease our mortgage originations, as required, while continuing to ensure a prudent credit risk profile across our entire portfolio.

The Company categorizes individual credit exposures in our mortgage portfolio using an internal risk rating system that rates each mortgage in the portfolio on the basis of perceived risk, or probability of, a potential financial loss – in order to focus management on monitoring higher risk mortgages. Each mortgage’s risk rating is determined during the underwriting process and confirmed or revised thereafter as a result of certain trigger events, using customized risk grids applicable to the property type supporting the loan. In the case of mortgage impairment, probable recovery is determined using a combination of updated property-specific information, historical loss experience and management judgment to determine the impairment provision that may be required.

The Company invests in equity securities to generate returns that meet certain internally acceptable ROE thresholds. These securities also represent a potential source of liquidity for the Company. However, such investments expose the Company to credit risk if the issuer of the preferred shares cannot make dividend payments, or in the worst case scenario, if the issuer becomes insolvent. To limit exposure to credit risk, the Company establishes policies with exposure limits by credit rating and investment type. Securities rated P-2 and higher comprised 48.7% of the preferred share equity securities portfolio at December 31, 2015, compared to 51.0% a year earlier. Securities rated P-3 (mid) or higher represent 99% of the preferred share portfolio at the end of December 2015.

The Company’s rating scale for the credit quality of our counterparties is based on both internal and external credit grading systems. Table 29 below maps those grading systems against the categories on the Company’s credit risk exposure ratings scale. It presents the long-term Standard & Poor’s equivalent grades for the Company’s cash and cash equivalents, debt and equity securities, and derivative counterparties. Low risk denotes that there is a very low risk of either default or loss, standard risk that there is a low risk of default or loss, and high risk that there is some concern that default or loss could occur.

Cash and cash equivalents and derivatives ratings are based on the issuer grade of the respective financial institution, their subsidiaries or other financial intermediaries. Debt securities are categorized based on short-term or long-term issue grades, depending on the maturity dates of the securities. Preferred share securities are categorized based on the DBRS preferred share rating scale used in the Canadian securities market. Mortgages are categorized according to the Company’s internal risk rating framework, which is based on the expected degree of financial loss caused by default.

Equitable assigns economic and regulatory capital for our counterparty credit exposures in accordance with OSFI’s CAR Guideline, which is based on standards issued by the BCBS. All deemed credit exposures, such as counterparty credit risk that may arise through deposits placed with banks, derivatives contracts and other activities, are regularly assessed to ensure that such activities are consistent with the Bank’s Board-approved risk appetite framework and do not expose the Bank to undue risk of loss. All related counterparty credit limits are approved by Senior Management and monitored on an ongoing basis to ensure that all such exposures are maintained within approved limits.

Table 29: Credit risk exposure ratings scale

	Low risk	Standard risk	High risk
Cash and cash equivalents, investments, and derivatives:			
S&P equivalent grade	AAA – BBB-	BB+ – B	B- – CC
Mortgages receivable:			
Mortgage risk rating	0 – 3	4 – 5	6 – 8

Management has assessed the credit quality of the Company's assets as at December 31, 2015 and 2014, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories. The table below shows the credit quality by class for all financial assets exposed to credit risk, based on the Company's credit risk exposure rating scale.

Table 30: Asset credit quality

(\$ THOUSAND)	Neither past due nor impaired						2015	
	Low risk	Standard risk	High risk	Past due but not impaired	Impaired	Allowances	Total	
Cash and cash equivalents	\$ 423,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,366	
Restricted cash	107,988	-	-	-	-	-	107,988	
Securities purchased under reverse repurchase agreements	19,918	-	-	-	-	-	19,918	
Investments:								
Debt securities ⁽¹⁾	16,295	-	1,000	-	-	-	17,295	
Equity securities – preferred shares	64,735	68,318	-	-	-	-	133,053	
Canada Housing Trust re-investment accounts	2,395	-	-	-	-	-	2,395	
Mortgage receivable – Core Lending	1,409,706	6,974,360	247,335	42,231	34,183	33,216	8,674,599	
Mortgage receivable – Securitization Financing	5,975,624	45,814	297	4,472	-	-	6,026,207	
Securitization retained interests	61,650	-	-	-	-	-	61,650	
Other assets:								
Receivables related to securitization activities	5,524	-	-	-	-	-	5,524	
Accrued interest and dividends on non-mortgage assets	148	272	-	-	-	-	420	
Other	1,090	-	-	-	-	-	1,090	
	\$ 8,088,439	\$ 7,088,764	\$ 248,632	\$ 46,703	\$ 34,183	\$ 33,216	\$ 15,473,505	

⁽¹⁾ Includes debt securities guaranteed by Government of Canada.

(\$ THOUSANDS)	Neither past due nor impaired						2014	
	Low risk	Standard risk	High risk	Past due but not impaired	Impaired	Allowances	Total	
Cash and cash equivalents	\$ 230,063	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 230,063	
Restricted cash	67,690	-	-	-	-	-	67,690	
Securities purchased under reverse repurchase agreements	18,117	-	-	-	-	-	18,117	
Investments:								
Debt securities ⁽¹⁾	20,597	-	1,000	-	-	-	21,597	
Equity securities – preferred shares	71,573	71,481	-	-	-	-	143,054	
Canada Housing Trust re-investment accounts	14,254	-	-	-	-	-	14,254	
Mortgage receivable – Core Lending	1,007,752	6,009,917	185,383	47,422	40,448	33,447	7,257,475	
Mortgage receivable – Securitization Financing	5,006,064	418	-	5,183	805	-	5,012,470	
Securitization retained interests	44,983	-	-	-	-	-	44,983	
Other assets:								
Receivables related to securitization activities	4,592	-	-	-	-	-	4,592	
Accrued interest and dividends on non-mortgage assets	72	340	-	-	-	-	412	
Other	878	-	-	-	-	-	878	
	\$ 6,486,635	\$ 6,082,156	\$ 186,383	\$ 52,605	\$ 41,253	\$ 33,447	\$ 12,815,585	

⁽¹⁾ Includes debt securities guaranteed by Government of Canada and securities issued by regulated financial institutions.

Collateral held as security

All mortgages are secured by real estate property in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated except when a mortgage is individually assessed as impaired. For impaired mortgages, the most recent appraised value of collateral at December 31, 2015 was \$42.5 million (2014 – \$77.7 million). At December 31, 2015, the appraised values of collateral held for mortgages past due but not impaired, as determined when the mortgages were originated, was \$63.0 million (2014 – \$76.6 million). It is the Company's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2015 amounted to \$8.2 million (2014 – \$7.5 million) and are included in Other assets (Note 12) in the consolidated balance sheets. The Company does not use the real estate obtained through foreclosure for our own operations.

The Company does not hold collateral against investments in debt and equity securities, however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by owner. The Company has a commitment to return collateral to the counterparty in accordance with the terms and conditions stipulated by the master repurchase agreement. Equitable has no agreements that require increased collateral linked to a credit rating downgrade of Equitable Bank.

Credit Concentration Risk

A key component of credit risk that is closely monitored and measured within the unsecuritized mortgage portfolio is credit concentration risk. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. On a regular basis, with the approval of the Investment Committee of the Board and the full Board, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage and investment portfolios.

Management believes that the Company is adequately diversified by borrower, property type, and geography. At December 31, 2015, no individual borrower represented more than \$56.4 million (2014 – \$70.8 million) or 0.71% (2014 – 1.01%) of uninsured mortgage principal outstanding. A breakdown of mortgage principal outstanding by property type and geography can be found in Tables 2 and 5 of our 2015 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

LIQUIDITY AND FUNDING RISK

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

In accordance with our RAF, the Board defines the Company's liquidity and funding risk tolerance as 'low', and also reviews and approves the limits to measure and control this risk. These are articulated via the Company's Board-approved Liquidity and Funding Risk Management Policy – which is updated annually, at a minimum. This policy requires the Company to maintain a pool of high quality liquid assets and stipulates various liquidity ratios and limits, concentration limits and, among other considerations, ongoing periodic liquidity stress testing requirements. Our liquidity position and adherence to the requirements of this Policy are monitored on a daily basis by Senior Management. These metrics are also reported monthly to the Asset Liability Management Committee ("ALCO") and, quarterly, both to the ERM Committee and the Investment Committee of the Board. Any exceptions to established Policy limits are reported immediately to the ALCO or to the Board, as applicable. Both as at December 31, 2015 and the date of this MD&A, the Company was in full compliance with our Liquidity and Funding Risk Management Policy, as well as all related regulatory requirements.

We also adhere to the Office of the Superintendent of Financial Institution's ("OSFI") Liquidity Adequacy Requirement ("LAR") Guideline, with both the Liquidity Coverage Ratio ("LCR") and the Net Cumulative Cash Flow ("NCCF") reported to OSFI on a monthly basis. In addition to our funding and liquidity management policies and procedures, we have also developed a Liquidity and Funding Risk Contingency Plan, which outlines actions to be undertaken to address the outflow of funds in the event of a funding or liquidity crisis.

Our practice is to hold a sufficient amount of liquidity on our balance sheet to ensure that we remain well positioned to manage unexpected events that may reduce/limit our access to funding. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations. Actual liquidity may vary from period-to-period, mainly due to the timing of anticipated cash flows and funding seasonality.

Table 31: Assets held for liquidity protection

(\$ THOUSANDS)	Policy minimum	2015	2014
Liquidity assets held for regulatory purposes		\$ 760,823	\$ 524,145
Liquidity assets as a % of minimum required policy liquidity ⁽¹⁾	100%	136%	139%

⁽¹⁾ For purposes of this calculation, Equitable's Liquidity and Funding Risk Management Policy requires the value of assets held for liquidity protection to be reduced to reflect their estimated liquidity value.

Stress and scenario testing is an integral part of Equitable's Liquidity and Funding Risk Management framework and supports the development of action plans to address funding needs in stressed environments. We manage our funding needs to ensure that we can meet our financial commitments in a timely manner and at reasonable prices, even in times of stress. The Company's stress testing models consider scenarios that incorporate institution-specific, market-specific and combination events. These scenarios model cash flows over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an immediate redemption of notice deposits. In each scenario, the Company targets to hold sufficient liquid assets and have fundraising capacity sufficient to meet all obligations for at least three months while maintaining normal business activities. In order to establish these scenarios, the Company assesses our fund raising capacity and establishes assumptions related to the cash flow behavior of each type of asset and liability. As at December 31, 2015, the Company held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all considered scenarios.

We have actively diversified our funding sources since 2013 in order to proactively manage our funding risk profile. This diversification has been accomplished through the addition of our brokered HISA offering, large bank sponsored funding facilities, a deposit note program, new securitization vehicles, and most recently the launch of our digital banking platform, EQ Bank.

The following table summarizes contractual maturities of the Company's financial liabilities.

Table 32: Contractual obligations

(\$ THOUSANDS)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Deposits principal and interest ⁽¹⁾	\$ 7,450,251	\$ 4,507,866	\$ 2,590,717	\$ 351,668	\$ -
Securitization liabilities principal and interest ⁽¹⁾	6,167,367	964,629	1,507,284	2,288,795	1,406,659
Debentures principal and interest ⁽¹⁾	72,019	3,510	68,509	-	-
Bank facilities principal and interest ⁽¹⁾	235,779	235,779	-	-	-
Other liabilities ⁽¹⁾	68,188	53,636	4,810	3,125	6,617
Total 2015 contractual obligations	\$ 13,993,604	\$ 5,765,420	\$ 4,171,320	\$ 2,643,588	\$ 1,413,276
Total 2014 contractual obligations	\$ 12,466,244	\$ 5,092,777	\$ 4,231,849	\$ 1,437,077	\$ 1,704,541

⁽¹⁾ The balance for financial liabilities will not agree with those in our consolidated balance sheet as this table incorporates all cash flows, on an undiscounted basis, including both principal and interest.

See Note 22 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2015 and 2014.

MARKET RISK

Market Risk consists of Interest Rate risk and Equity Price risk, and is broadly defined as the possibility that changes in either market interest rates or equity prices may have an adverse effect on 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, such as optionality features embedded into cashable deposits or mortgage commitments. For the interest sensitivity position of the Company as at December 31, 2015, see Note 24 to the consolidated financial statements. With respect to Equity Price risk, the value of the Company's securities portfolio may be impacted by market determined variables which are beyond the Company's control such as credit spreads, implied volatilities, the possibility of credit migration and default, among others. Overall, the Company has a low tolerance for Market risk.

With respect to structural Interest Rate risk, our objective is to manage and control the Company's interest rate risk exposures within acceptable parameters and our primary method of mitigating this risk involves funding our assets with liabilities of a similar duration. The responsibility for managing the Company's Interest Rate risk resides with the ALCO, which meets monthly to review and approve all Treasury-related policies, to review key Interest Rate Risk metrics, and to provide direction on our operating and funding strategy. Also, Senior Management continuously reviews matching gaps and monitors the Company's ongoing funding strategy through the daily interest rate-setting process.

We monitor Interest Rate Risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on net interest income and on the economic value of shareholders' equity ("EVE"). EVE is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. Management considers this measure to be more comprehensive than measuring changes in net interest income, as it captures all interest rate mismatches across all terms. Certain assumptions that are based on actual experience are also built into the simulations, including assumptions related to the pre-maturity redemption of deposits and early payouts of mortgages.

The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and NII during the 12-month period following December 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 33: Net interest income shock

(\$ THOUSANDS)	Increase in		Decrease in	
	interest rates		interest rates ⁽¹⁾	
100 basis point shift				
Impact on net interest income	\$	10,526	\$	(5,188)
Impact on EVE		(1,401)		5,958
EVE impact as a % of common shareholders' equity		(0.19%)		0.83%
200 basis point shift				
Impact on net interest income	\$	22,688	\$	(5,188)
Impact on EVE		(1,660)		11,151
EVE impact as a % of common shareholders' equity		(0.23%)		1.55%

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

The management of Equity Price risk is also assigned to the ALCO by the Investment Committee of the Board. The ALCO manages the Company's securities portfolio, taking into consideration the following factors:

- General economic conditions and the possible effect of inflation or deflation;
- The expected tax consequences of investment decisions or business strategies;
- The credit quality of each investment and its role within the overall portfolio;
- The expected total return from income and the appreciation of capital;
- The Bank's need for liquidity, available capacity, and regularity/stability of earnings; and
- Each investment's special relationship or special value, if any, to the overall objectives of the portfolio.

On a monthly basis, the ALCO reviews the investment performance, composition, quality and other pertinent characteristics of the securities portfolio. This information is also presented to and reviewed by the Investment Committee of the Board at least quarterly, or more frequently, if required.

OPERATIONAL RISK

We define Operational risk as the possibility that a loss could result from people, inadequate or failed internal processes or systems, or from external events. Our definition specifically excludes legal risk – which we include under the 'Legal and Regulatory Risk' category below.

Operational risk is present in virtually all business activities of the Company and includes such considerations as fraud, damage to equipment, system failures, data entry errors, cyber security and business continuity. To the extent that they may impact collateral values or other pertinent loan loss drivers, we also consider natural disaster in our assessment of operational risk. As outlined in the Company's RAF, Equitable has a 'low-to-medium' tolerance for Operational Risk. We recognize that while the nature of operational risk is such that there is little or no expected reward in taking on this risk, the costs to attempt to eliminate operational risk may be excessive.

The Company's Operational Risk Management program includes the following key components:

- **Governance:** While Operational risk may not be completely eliminated, proactive management of this risk is very important in order to mitigate exposure to financial losses, reputational damage and/or regulatory fines. We have implemented a Board-approved Operational Risk Management Policy and an Operational Risk Management Framework, which are jointly designed to monitor, review and report on operational risk management across the Company. Both the Policy and the related Framework articulate our governance practices for the proper management of Operational risk and include clear accountabilities for the three-lines-of-defense (i.e., Business Units, Risk

Management and related oversight functions such as Compliance and Finance, and Internal Audit) – in alignment with both the Basel Committee on Banking Supervision’s (“BCBS”) ‘Principles for the Sound Management of Operational Risk’, and with OSFI’s related operational risk management guidance. Given the size of the Company, the relatively low complexity of our business operations and our operational risk profile, business line management leverages the skills of the second line as subject matter experts to assist in the development of our operational risk monitoring practices. Additionally, given the expertise embedded in our second line of defense, the performance of some first line operational risk management activities are undertaken by the second line.

- **Training:** Ultimately, every employee within our organization is required to play a key role in managing Operational risk. In this regard, we have, since 2014, rolled out operational risk management training and testing for all employees across the Company – to provide them with an overview of the various types of operational risks, and their respective roles and responsibilities in helping to protect the interests and assets of the Company.
- **Risk and Control Self-Assessments (“RCSA’s”):** We use these tools on an annual basis to help us identify and evaluate operational risk factors within our individual business and functional units, as well as on Company-wide basis. They assist us in the proactive identification and assessment of key operational risks inherent in our material activities and systems, and in evaluating the effectiveness of controls that are in place to manage these risks.
- **Key Risk Indicators (“KRI’s”):** As part of our RCSA monitoring exercise, we utilize several KRI’s to measure, monitor and report on the level of operational risk on an business/functional unit basis, as well as across the organization. These KRI’s also serve as early warning triggers to highlight potential issues before the Company experiences an incident or loss event.
- **Risk Measurement and Reporting:** On a regular monthly basis, our centralized Operational Risk Management Team consolidates key operational risk management trends, significant events, if any, and KRI’s across the Company; these are reported to the ERM committee and to the RCC of the Board on a quarterly basis, as a minimum.
- **Business Continuity Management:** The Company maintains a robust Business Continuity Management program – to ensure that we have the capability to sustain, manage and recover critical operations and processes in the event of a business disruption, thereby minimizing any adverse effects on our customers, partners and other stakeholders. All key business units within the organization are required to maintain, and regularly test and review, their business continuity plans.
- **Technology and Cyber Security:** To manage these risks, our defense systems are designed as an integral part of both our existing EQB infrastructure, and our new architecture and development for our Digital Banking platform. With our enhanced use of the internet and mobile technologies, we maintain an increased focus on the confidentiality, integrity and availability of our information and cyber security controls that protect our network, data and infrastructure.

The cyber security risk landscape includes numerous cyber threats such as: hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated and complex and potentially damaging. EQB proactively maintains a “defense in depth” strategy with developed standards and procedures to prevent, detect, respond, manage and address cyber security threats from all types of malicious attackers that attempt to steal sensitive information, cause a system failure or denial of service on websites or other types of service disruption.

We work closely with our critical cyber security and software suppliers to ensure that our technology capabilities remain cyber resilient and effective in the event of any unforeseen cyber-attack. Our internal teams receive daily cyber security updates, rehearse incident table top exercises, and take specialized training in an effort to thwart current and evolving cyber threats.

Risks are actively managed through information security management programs which include regular vulnerability assessments, completion of the OSFI Cyber Security Self-Assessment and continuous improvements to the Bank’s security and change management practices based on best practices from recognized industry associations.

EQB has not experienced any material cyber security breaches and has not incurred any material expenses with respect to the remediation of such cyber events.

Security risks continue to be actively monitored and reviewed, leveraging the expertise of the Bank's service providers and vendors, reviewing industry best practices and regularly re-assessing controls in place to mitigate the risks identified.

LEGAL AND REGULATORY RISK

Legal and Regulatory Risk is defined as the possibility that a loss could result from exposure to fines, penalties, or punitive damages from civil litigations, contractual obligations, criminal or supervisory actions, as well as private settlements; and from not complying with regulatory requirements, regulatory changes or regulators' expectations.

In accordance with our Board-approved RAF, we have a 'very low' tolerance for Legal and Regulatory risk. We undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations; this includes Equitable's Regulatory Compliance Management ("RCM") Program – which is designed to identify and manage our continuously evolving legal and regulatory requirements. We also undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations, and promote a strong culture of risk and compliance management across the organization. The Company's business units are engaged in the identification and proactive management of our legal and regulatory risks, while the Compliance, Legal, Anti-Money Laundering and Risk Management teams assist them by providing ongoing guidance and oversight. Management of these risks also includes the timely escalation of issues to Senior Management and to the Board.

The Company's RCM Program provides us with a control framework to manage and mitigate our exposure to regulatory risk – consistent with all applicable Canadian regulatory expectations, such as those mandated by OSFI, the CDIC, FINTRAC, Financial Consumer Agency of Canada ("FCAC"), etc.

BUSINESS AND STRATEGIC RISK

Business and Strategic risk is defined as the possibility that the Company could experience material losses or reputational damage as a result of our business plans and/or strategies, the implementation of those strategies, or the failure to properly respond to changes in the external business environment.

The banking business is highly competitive and Equitable Bank's products compete with those offered by other banks, trust companies, insurance companies, and other financial services companies in the jurisdictions in which it operates, especially in Ontario and Alberta. Many of these companies are strongly capitalized and hold a larger share of the Canadian banking market. There is always a risk that there will be new entrants in the market with more efficient systems and operations that could impact the Company's mortgage lending or deposit-taking market share.

The Company does not use proprietary retail branches to originate deposits or mortgages. Equitable Bank relies on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada (IIROC), the Registered Deposit Brokers Association ("RDBA") and the Mutual Fund Dealer Association ("MFDA") to distribute our deposit products. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerage firms and other mortgage banking organizations. Under adverse circumstances, it may be difficult to attract enough new deposits from agents or mortgage business from brokers to sustain current operating requirements. In order to manage the risk of not being able to attract enough deposits, we maintain access to a diversity of funding sources and have recently launched our direct-to-consumer EQ Bank platform. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company.

The Company's Board has approved a 'low-to-medium' tolerance for Business and Strategic risk. Senior Management believes that this risk is best managed via a robust and dynamic annual strategic planning process that includes establishing Board-approved business growth strategies and quantifiable performance targets for each business segment over the forthcoming three-to-five year period. Management of this risk also includes regular monitoring of actual versus forecasted performance and an effective internal monitoring and reporting process – to the ERM Committee and the Board.

REPUTATIONAL RISK

Reputational risk is the possibility that current and potential customers, counterparties, analysts, shareholders, investors, regulators or others will have an adverse opinion of the Company – irrespective of whether these opinions are based on facts or merely public perception. Such an event could result in potential losses to the Company arising from a decline in business volumes, challenges accessing funding markets, or increased funding costs.

In accordance with our Board-approved RAF, our tolerance for Reputational risk remains ‘low’ and the Company believes that the pursuit of our long-term goals requires the proper conduct of our business activities in accordance with our established Code of Conduct and business principles, as well as with all applicable laws and regulations. Equitable also maintains a Board-approved Reputational Risk Management Policy which, along with related compliance policies and procedures and our ERM practices, are sufficiently designed to identify, assess and manage the reputational and other non-financial considerations present within the Company’s business.

UPDATED SHARE INFORMATION

At February 29, 2016, the Company had 15,542,920 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 535,921 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$21.6 million.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2015. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management has evaluated the design and operational effectiveness of the Company’s Internal Control over Financial Reporting as of December 31, 2015 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the Integrated (2013) Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), a recognized control model, and the requirements of National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the Company’s Internal Control over Financial Reporting was effective as of December 31, 2015.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company’s internal control over financial reporting that occurred during the fourth 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 often do not have any standardized meaning, and therefore, are unlikely to be comparable to similar measures presented by other companies. The primary non-GAAP measures used in this MD&A are:

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

(\$ THOUSANDS)	2015	2014	Change from 2014
Total assets on the consolidated balance sheet	\$ 15,527,584	\$ 12,854,903	\$ 2,672,681 21%
Mortgage principal derecognized	2,072,488	1,519,008	553,480 36%
Assets Under Management	\$ 17,600,072	\$ 14,373,911	\$ 3,226,161 22%

- **Book value per common share:** is calculated by dividing common shareholders’ equity by the number of common shares outstanding.

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2015	2014	Change from 2014
Shareholders’ equity	\$ 796,116	\$ 703,694	\$ 92,422 13%
Preferred shares	72,557	72,412	145 0%
Common shareholders’ equity	723,559	631,282	92,277 15%
Common shares outstanding	15,538,605	15,435,356	103,249 1%
Book value per common share	\$ 46.57	\$ 40.90	\$ 5.67 14%

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

The capital ratios are calculated on the “all-in” basis in accordance with OSFI’s CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 16 of this MD&A.

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

(\$ THOUSANDS)	2015	2014	Change from 2014
Non-interest expenses	\$ 87,962	\$ 71,644	\$ 16,318 23%
Net revenue	261,545	219,877	41,668 19%
Efficiency ratio	33.6%	32.6%	1.0%

- **Impairment provision (recovery):** is the portion of the total provision for credit losses recorded during the period that relates to loans that have been individually assessed as impaired by management. The Impairment Provision includes expected losses of both principal and interest, net of recoveries.

(\$ THOUSANDS)	2015	2014	Change from 2014
Provision for credit losses	\$ 3,638	\$ 2,627	\$ 1,011 38%
Less: additions to the collective allowance	2,380	1,414	966 68%
Impairment provision	\$ 1,258	\$ 1,213	\$ 45 4%

- **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.

(\$ THOUSANDS)	2015	2014	Change from 2014
Impairment provision	\$ 1,258	\$ 1,213	\$ 45 4%
Divided by: average mortgage principal	13,437,573	11,673,873	1,763,700 15%
Impairment provision rate	0.01%	0.01%	-%

- **Investments in our future:** is the portion of non-interest expenses spent on various strategic initiatives to enable future growth and maintain our superior level of service. In most cases, these investments are made ahead of associated benefits, and as such reduce our net income and elevate our Efficiency Ratio in the current year. A detailed calculation can be found in Tables 6 and 22 of this MD&A.
- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.
- **Mortgages Under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

(\$ THOUSANDS)	2015	2014	Change from 2014
Mortgage principal reported on the consolidated balance sheet	\$ 14,634,447	\$ 12,240,698	\$ 2,393,749 20%
Mortgage principal derecognized	2,072,488	1,519,008	553,480 36%
Mortgages Under Management	\$ 16,706,935	\$ 13,759,706	\$ 2,947,229 21%

- **Net interest margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total interest earning assets for the period. A detailed calculation can be found in Table 3 and Table 19 of this MD&A.

- **Net revenue:** is calculated as the sum of net interest income, other income, and the TEB adjustment.

(\$ THOUSANDS)	2015	2014	Change from 2014
Net interest income	\$ 242,227	\$ 204,522	\$ 37,705 18%
Other income	16,836	13,423	3,413 25%
TEB adjustment	2,482	1,932	550 28%
Net revenue	\$ 261,545	\$ 219,877	\$ 41,668 19%

- **Return on average assets:** this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average month-end total assets balances outstanding during the period.

(\$ THOUSANDS)	2015	2014	Change from 2014
Net income	\$ 125,865	\$ 106,718	\$ 19,147 18%
Average total assets	14,234,441	12,151,622	2,082,819 17%
Return on average assets	0.9%	0.9%	-%

- **Return on shareholders' equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2015	2014	Change from 2014
Net income available to common shareholders	\$ 121,102	\$ 102,107	\$ 18,995 19%
Weighted average common equity outstanding	676,999	585,766	91,233 16%
Return on shareholders' equity	17.9%	17.4%	0.5%

- **Risk-weighted assets ("RWA"):** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline. A detailed calculation can be found in Table 17 of this MD&A.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company. A detailed calculation can be found in Table 8 and Table 23 of this MD&A.
- **Taxable equivalent basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and efficiency ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the year ended December 31, 2015, the TEB adjustment was \$2.5 million as compared to \$1.9 million for 2014.
- **Total shareholder return:** is defined as total return of stock to an investor including stock appreciation and dividends.

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 measures is defined as total revenues derived from interest or dividend generating assets less total expenses related to interest bearing liabilities.

(\$ THOUSANDS)	2015	2014	Change from 2014
Interest income	\$ 565,158	\$ 509,544	\$ 55,614 11%
Interest expense	322,931	305,022	17,909 6%
Net interest income	\$ 242,227	\$ 204,522	\$ 37,705 18%

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

(\$ THOUSANDS)	2015	2014	Change from 2014
Interest income	\$ 565,158	\$ 509,544	\$ 55,614 11%
Other income	16,836	13,423	3,413 25%
Total revenue	\$ 581,994	\$ 522,967	\$ 59,027 11%

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

Rowan Saunders

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

Vincenza Sera

Corporate Director

Michael Stramaglia

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

OFFICERS

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President and Chief Executive Officer of the Company and Equitable Bank

Ron Tratch

Vice-President of the Company and Vice-President 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

Darren Lorimer

Vice-President, Commercial Lending 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

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Annual Meeting of Shareholders

Tuesday, May 17, 2016, 10:00 a.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada