EQUITABLE

ANNUAL REPORT 2015

TSX EQB / EQB.PR.C

2015 in Review

Another Year of Growth and Performance

Creating Value

The Equitable Way

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Corporate Profile

Equitable Group Inc. serves consumers and their advisors through Equitable Bank, a diversified financial institution that operates coast to coast across Canada. Equitable Bank provides residential (prime and alternative) single family lending services, commercial lending services and a variety of savings solutions including high-interest savings products and GICs for individual Canadians. *EQ Bank*™ leverages our branchless business model to offer Canadians a completely digital way to bank. Since its founding in 1970, Equitable has grown to become Canada's ninth largest independent Schedule I Bank and a recognized service leader through its proven branchless banking approach. For more information, visit the Company's website at www.equitablebank.ca and click on Investor Relations.

A Year of Growth and Performance

($ million except per share and ratios)	2015	2014	% Change
Net income	**$ 125.9**	$ 106.7	18%
Earnings per share – diluted	**7.73**	6.53	18%
Return on Equity	**17.9%**	17.4%	0.5%
Common share dividends declared	**0.76**	0.68	12%
Book value per share[1]	**46.57**	40.90	14%
Share price – close[1]	**51.50**	65.57	(22%)
Market capitalization[1]	**800**	1,014	(21%)
Assets under management[1]	**17,600**	14,374	22%
Common Equity Tier 1 Ratio[1]	**13.6**	13.5	0.1%
Employees – year end	**495**	405	22%

[1] As at December 31, 2015.

Fellow Shareholders

David LeGresley
Chair of the Board

We are pleased to present the 2015 annual report for Equitable Group, the parent company of Equitable Bank, Canada's ninth largest Schedule I bank by assets and a consistent industry leader in Return on Equity.

This year's report provides important insights into our lending and deposit-taking operations and more specifically, into how our Bank manages to produce great outcomes for our shareholders and customers year after year. To meet those responsible for Equitable's performance, I invite you to attend our annual meeting of shareholders on May 17, 2016 at the TMX Broadcast Centre in Toronto at 10 am Eastern.

Our Bank once again set new performance standards with 2015 earnings per share growth of 18% and growth in book value per common share of 14%. Record results were achieved in spite of a retraction in the oil industry, which led to higher unemployment and lower demand for real estate in Alberta and Saskatchewan. Equitable's disciplined approach to lending in those markets before the downturn and our growing share in other provinces, leave our Bank in good shape for the future.

Leading the Bank through these uncertain times is Andrew Moor, our dedicated President and Chief Executive Officer. Since 2007, Andrew has proven to be an extremely effective CEO and on his watch we continue to grow stronger. Equitable was able to expand assets under management in 2015 by 22%; outperform the Big Six in credit performance; and, prepare the launch of a new digital banking platform under the brand *EQ Bank* (successfully introduced in January 2016). Our leadership team has the depth and experience necessary to take the Bank to the next level of performance.

Corporate Governance Excellence

Corporate governance excellence remains a top priority for your Board. Your Directors bring a broad set of skills and great depth of knowledge in real estate and financial services to your Board's deliberations. As the Bank's activities have grown, your Directors have continued to advance their expertise. We have an active Director Education program and encourage Directors to engage in additional continuing educational opportunities that are relevant to best practices in governance, audit, risk management and lending. With our move into digital banking, we have committed considerable resources to ensure that your Board is current with the latest developments in cyber security.

Above all, the Board and management team are committed to maintaining a culture of integrity. We strive to conduct all business according to the highest ethical standards and in strict adherence to our Code of Conduct. To us, integrity also means leading by example in gender diversity. Today, women continue to account for one third of our independent directors.

Collectively, our goal is to provide long-term, sustainable value creation to shareholders. One of the most important ways we achieve our goal is by growing our common share dividends, as we did once again in 2015. Sustainability also demands a keen awareness of the risks inherent in our business, including in alternative single family lending. Accordingly, we manage the Bank in a relatively conservative manner and, while growing our dividends, we retain high levels of capital that we deploy to generate shareholder returns and keep as a cushion to provide for market volatility.

Thanks To All

Performing at a high level requires the contributions of many individuals. I wish to acknowledge those who made 2015 a record year for our Bank, starting with our customers who deserve our utmost thanks for their trust, patronage and loyalty.

We are also very fortunate to have a great team at Equitable, now numbering over 500 people. Our employees are hard-working, committed to delivering great customer service and focused on making our Bank better every year.

Thanks also to our shareholders. It is your support that keeps everyone here striving to make Equitable the best provider of banking solutions in the country.

To my fellow Directors, I thank you for setting the tone by maintaining the highest standards of conduct and providing meaningful support for our management team. I am delighted that every Director is standing for re-election this year.

Finally, I extend special appreciation to Austin Beutel. Austin was instrumental in the development of our financial institution. Since stepping down as Chairman in 2014 and then agreeing to serve as Honourary Chair for the past two years, Austin has been a wonderful source of knowledge, perspective and wisdom for me and the Board. Austin is now retiring from this role. On behalf of the Board, management and our shareholders, I say Thank You. We all wish you well in the future.

Yours sincerely,

David LeGresley
Chair of the Board

2015 BOARD OF DIRECTOR NOMINEES

Standing from left to right

Vincenza Sera, Eric Beutel, Andrew Moor, Lynn McDonald, David LeGresley, Michael Emory, Rowan Saunders, Johanne Brossard, Eric Kirzner, Michael Stramaglia

Eric Beutel

Vice-President of Oakwest Corporation Limited, a private investment holding company. He holds a Bachelor of Arts degree from York University and a Master of Business Administration degree from the University of Ottawa.

Johanne Brossard

An accomplished senior executive with more than 30 years in the financial services industry in Canada, Europe and Japan. Earlier in her career, she served as President and CEO of Bank West, a subsidiary of Desjardins, and as Desjardins' Vice-President of National Online Banking Development, President and Chief Executive Officer of ResMor Trust Company, and ING Direct. Ms. Brossard received her Master of Business Administration degree from the Richard Ivey School of Business.

Michael Emory

President and Chief Executive Officer and a trustee of Allied Properties REIT. He has also served as President and Chief Executive Officer and a director of Allied Canadian Development Corporation since 1988. Mr. Emory received his Bachelor of Arts (Honours) degree from Queen's University and his J.D. from the University of Toronto.

Eric Kirzner

A Professor of Finance and the John H. Watson Chair in Value Investing at the Rotman School of Management at the University of Toronto. Professor Kirzner holds a Bachelor of Arts degree and a Master of Business Administration degree from the University of Toronto.

David LeGresley

Chair of the Board of both the Company and the Bank. He has over 30 years of experience in the financial services industry and is a former executive of National Bank Financial where he served as Vice Chairman from 2006 to 2008. Mr. LeGresley received a Bachelor of Applied Science degree in Engineering from the University of Toronto and a Master of Business Administration degree from Harvard Business School.

Lynn McDonald

A former Managing Director at CIBC World Markets and a former deputy minister in the Ontario Government. Ms. McDonald earned a Bachelor of Arts (Honours) degree in Economics from the University of Waterloo.

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Bank. Earlier in his career, he served as President and Chief Executive Officer of Invis Inc. Mr. Moor received a Bachelor of Science in Engineering from the University College, London and a Master of Business Administration degree from the University of British Columbia.

Rowan Saunders

President and Chief Executive Officer of Royal & Sun Alliance Insurance Company of Canada (RSA Canada). He is also a member of the global Executive Committee of RSA Insurance Group plc. Mr. Saunders received a Bachelor of Arts degree from York University and holds the Canadian Risk Management designation.

Vincenza Sera

Chair of the Ontario Pension Board and Chair of the Board of DREAM Industrial REIT. She has more than 25 years of experience in capital markets, corporate finance and corporate governance including eight years lending to real estate projects and companies. Ms. Sera received her Master of Business Administration degree from the University of Toronto.

Michael Stramaglia

President and Founder of Matrisc Advisory Group. He is also Executive in Residence at the Global Risk Institute. Mr. Stramaglia has over 30 years of financial services experience, including serving as Executive Vice-President and Chief Risk Officer for Sun Life Financial, Executive Vice-President and Chief Investment Officer for Clarica and as President and CEO of the Zurich Life Insurance Company of Canada. Mr. Stramaglia is a qualified actuary and Chartered Enterprise Risk Analyst. He received his Honours Bachelor of Mathematics degree from the University of Waterloo.

Dear Fellow Shareholders

Andrew Moor
President and
Chief Executive Officer

Equitable Bank is one of nine Schedule I banks listed on the TSX, comprised of the six large banks, BMO, CIBC, National Bank, RBC, Scotiabank and TD and our two regional peers, Canadian Western Bank and Laurentian Bank[1].

Compared to many other countries, Canada has a relatively concentrated banking industry, one in which Equitable enjoys a differentiated position that has driven considerable value for our shareholders for the past decade.

In my letter this year, I describe the approach our Bank uses to build value and why we expect to continue to create value in the years ahead.

A Basic Value Creation Formula

Bank share prices can be volatile, so investors tend to think about multiples of book value per share ("BVPS") and multiples of earnings per share ("EPS") as primary indicators of corporate value over time. The rate at which a bank increases BVPS and EPS for any period is described by the following two identities (ROE being return on equity and Payout Ratio being the percentage of dividends paid relative to earnings available to common shareholders):

- Change in BVPS = Opening BVPS (ROE x (1- Payout Ratio))
- Change in EPS = ROE x Change in BVPS from prior period

In recent years, Equitable has consistently generated ROE of 17-18% while paying out approximately 10% of earnings.

If we make the assumption that our Bank's management has the tools and discipline to maintain ROE and the Payout Ratio at the same levels, the implication is that BVPS and EPS grow at a compound rate of over 15% annually.

This basic value creation formula can be tested against our Bank's historical results. Over the past 10 years, our rate of diluted EPS growth was 13.1% while BVPS grew 14.0%. These rates are slightly lower than what is implied by our current view of shareholder value creation potential – in large part because the Payout Ratio was 17.4% at the beginning of this historical period.

Equitable's demonstrated success in generating consistently strong ROE over the years, combined with the ability to retain most of the earnings it generates, distinguishes us within the Canadian banking sector, as you can see in Exhibits 1-3 accompanying my letter.

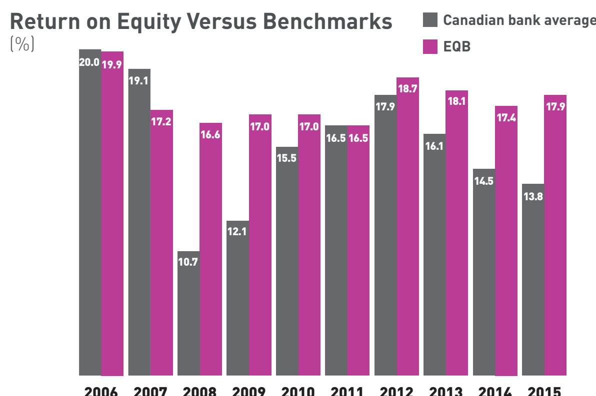


Exhibit 1: Equitable's ROE was both higher and less volatile than other Canadian banks over the past ten years, an indication of the fundamental strength of our business model and value creation strategies.

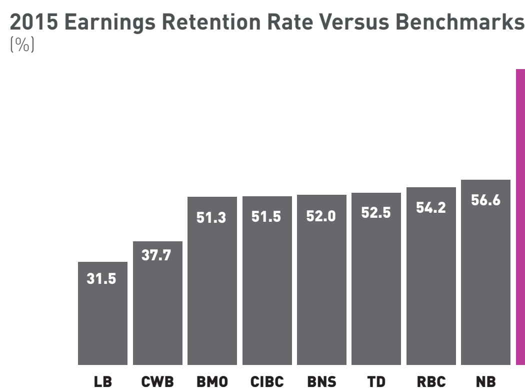


Exhibit 2: Retention rate is Earnings Per Share minus dividends per share divided by EPS. In 2015, Equitable had a much higher retention rate than other Schedule I banks, an important characteristic of our value creation approach.

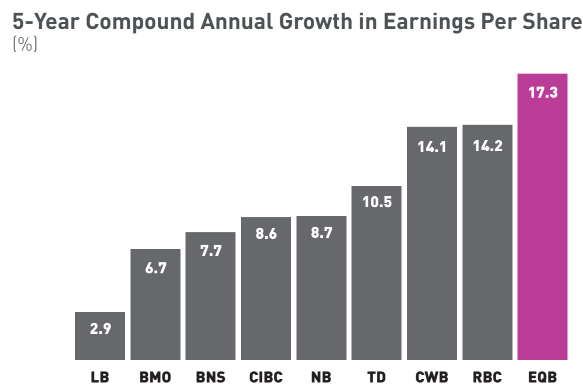


Exhibit 3: We have led other Canadian banks in growing earnings per share since 2011, which is to be expected given our high ROE and earnings retention rate.

[1] Manulife Bank is also a regional Canadian bank but is not listed separately on the TSX.

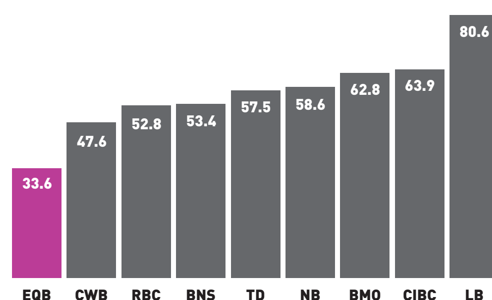


Exhibit 4: Our branchless business model allows us to operate much more cost effectively than other Schedule I banks in Canada. In 2015, it took us just under 33 cents to deliver each dollar of revenue versus well over 50 cents for Canada's largest banks.

Well Positioned Business Model

Our ability to differentiate ourselves on financial performance is a function of the distinctiveness of our approach to banking and our business model. Unlike all other publicly-traded Canadian banks, Equitable does not operate a branch network, operate a fleet of ATMs, issue cheque books or handle physical cash – all activities that require complex processes and are costly to maintain. Furthermore, over 90% of our employees work from a single office building in mid-town Toronto. This clustering of our talent promotes cohesiveness, improves communications and, compared to downtown locations occupied by our peers, is relatively low cost. The combination of these factors dramatically simplifies our processes and allows us to operate with great efficiency. Maintaining efficiency is essential in creating the value that we seek and has been a fixture of our performance for many years as shown in Exhibit 4.

Our position in the industry as a smaller bank within the overall landscape does raise the question of whether our Bank is big enough and do we enjoy sufficient economies of scale to compete? I answer this primarily in the context of the ability to achieve cost efficiency as a smaller bank. When we think about the fixed costs of running a bank, there are three major areas: (i) the cost of operating branches, ATMs and other infrastructure; (ii) the costs and investment required in information systems that form the critical foundation of any bank; and (iii) the costs of maintaining our governance structures and three lines of defence model (management control, compliance oversight functions and independent assurance) that banks use to manage risk, compliance and financial reporting.

To take each in turn, our branchless bank model gives us an enduring advantage around the infrastructure issue, so, even though Equitable's scale is smaller than the large banks, it has not proven to be a handicap in growing assets and providing the service necessary to attract and retain customers. The evolution of banking is, in our view, eroding the value of a physical branch network as we move closer to a cashless society.

With respect to systems, our smaller scale does present a challenge and one we strive to offset by being disciplined in systems management and what we choose to be good at within the Bank. The vast majority of our operations run on a single integrated system that manages both assets and deposits and we maintain a single central data repository. Since our distribution strategies do not need to accommodate multi-channels used by most big banks, we operate information systems that are scaled for our more focused approach. This enables us to be relatively efficient compared to large institutions and to avoid the struggles those institutions have with integrating a myriad of legacy systems to meet customer expectations of more and more banking done on a smartphone. Strategic decisions on information technology are critical to both the cost structure and the customer experience for all banks and, while we do not feel that scale is particularly disadvantageous to Equitable, we need to be disciplined and careful as to how we invest in technologies as we develop.

On the third cost item, one of Equitable's past concerns was that the regulator would require us to operate a three lines of defence model that was geared to the largest systemically important banks rather than our smaller institution. In this regard, we are encouraged by the approach taken by the Office of the Superintendent of Financial Institutions ("OSFI") with their Small and Mid-Sized Advisor role and how this translates into regulatory guidance with the expectations that make sense for institutions of our size. OSFI's draft guideline on managing operational risk is a concrete example of regulatory expectations appropriately scaling while ensuring that the prudential standards that society expects of banks are met. While regulators can help in creating the right environment to manage governance costs, the Board and management of the Bank are, and have to be, very connected to the details of the regulatory and risk issues to ensure we are meeting our responsibilities in an effective and efficient manner.

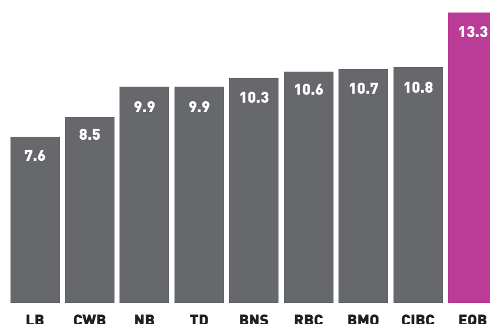


Exhibit 5: Relative to other Schedule I banks, we maintain much more of the highest quality form of loss-absorbing capital – common equity – and are still able to deploy it at the best ROE.

Deep Moat or Risk of Digital Disruption?

We feel that Equitable has enough scale to compete with our banking peers, but what about competition from new banks and so-called disruptors? My view is that without extremely patient capital backers, it is difficult for new bank entrants to gain enough scale to reach the sweet spot where their fixed overhead can be comfortably borne through net interest income and recurring revenue. Even if patient capital was available, there is always a temptation to grow faster to achieve scale. Fast growth exposes a new institution to risks that are either not acceptable to regulators or result in control issues that force retrenchment and disrupts the business model.

On the topic of disruption, there may be innovative models that emerge to compete with established banks, including Equitable, in parts of the business that we might traditionally regard as banking. I find it hard to imagine that new models can surface in core lending and deposit-taking functions in a manner that is consistent with the thinking of Bagehot, and many others since, on necessary prudence in banking. The principles of the prudent banker continue to stand the test of time. On the other hand, we see opportunity to partner with companies in what is broadly called the fintech space to bring innovative value to our, or their, customers related to our core banking capabilities. Concrete examples of this opportunity is the Bank's relationship with Borrowell, Canada's leading online lending marketplace, and our engagement with financial bloggers and a financial comparison website.

Overall, our view is that building the confidence of customers, achieving the necessary regulatory approvals and gaining the knowledge that Equitable has amassed since its founding in 1970 are hard to replicate features. Simply put, there are not many easy ways to shortcut a route to success in Canadian banking.

Strong Capital Foundation

At Equitable, our earnings growth does not come at the expense of our capital ratio – we choose to be well capitalized and it is a key tenant of our value creation philosophy. Our Board and management team treat high capitalization ratios as a fundamental element of our business model so that we are able to offer the solidity that all stakeholders expect of us and other Canadian banks. If we decided to run lower capital ratios, our ROE would increase – but so would our risk profile.

While achieving a consistently high ROE is clearly a key driver of shareholder value, we balance this with a desire to build the Bank on solid foundations by maintaining high levels of common equity, the highest quality form of loss-absorbing capital. Risk is managed tightly with the goal of protecting our shareholders' and depositors' capital. The Bank targets specific levels of capital to hold through our internal capital adequacy assessment process to ensure that we can meet our obligations under severe economic stress scenarios. Our balanced approach to capital management leads us to hold more capital than the other Canadian banks as shown in Exhibit 5.

We are an asset-led Bank in that we think first about the quality of our loans and assets and only grow to the extent that we can source loans within our risk appetite and maintain a strong capital position. Our growth is not accelerated or constrained by our ability to raise deposits. We go out of our way to avoid pressure to make loans driven by the incentive to deploy surplus cash sourced from our savings businesses. This philosophy is an important part of our approach to running a safe bank.

A Shared View on Risk and Compliance

While the manner in which we build shareholder value seems simple, and in truth it is not that complicated, it is difficult to develop a team of people with both the skills and the attitude necessary to execute on the plan. Even as the CEO, or perhaps especially so, it is difficult to be objective about how the culture of the organization manages and responds to risk and compliance

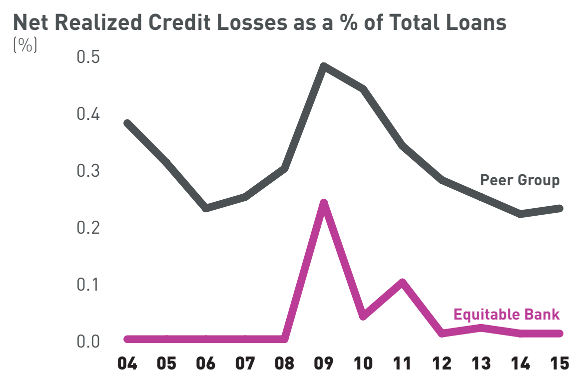


Exhibit 6: Our specialized lending, disciplined underwriting, risk management and work-out practices have manifested themselves in a much lower rate of credit losses as a percentage of total loans than all other Schedule I banks for many years.

issues. I believe, however, that our teams work well within the formal frameworks that are critical to managing risk and compliance, including the fundamental credit, structural interest rate risk and liquidity risk policies that we adopt, our risk dashboards, Code of Conduct, stress testing, the Internal Capital Adequacy Assessment Process, Risk Appetite Framework and the reporting of all of this to the Board which is essential to maintaining an institution that is run safely. Of equal importance, our culture supports open exchange of perspectives on risks and encourages our people to develop an awareness to risk and compliance issues, identify emerging risks, and grapple and deal with the risk and compliance issues we see in front of us. Our team certainly tries to do the right thing in a complex and uncertain world where trade-offs sometimes need to be made.

It is difficult to demonstrate the effectiveness of our approach to an outside audience, but a comparison of our credit losses over the years to other banks, shown in Exhibit 6, suggests we are on the right track. We talk elsewhere in this report about our journey to adopt the AIRB approach to measuring risk. We are choosing to adopt the AIRB approach in the belief that more accurate measurement of risk and the linkage to capital will enhance our thinking about risk and how we manage it.

Building for Tomorrow – Our Opportunity

Equitable's business model is well established and our approach to creating shareholder value is proven. Our model defines how our team must work together to continue to drive success. The earnings generated and dividends paid in 2015 would imply a need to grow assets by $2.7 billion[2]. In order to generate this growth, our teams have a clear mandate to provide fantastic service so that our customers and business partners make Equitable their first choice. This relentless focus on customer service excellence underpins our ability to grow the franchise.

Our lending businesses operate in attractive segments that are growing and where there are relatively few competitors. The Bank's alternative single family lending business has been something of a standout star over the last few years as we have methodically built out our lending footprint across Canada and added to our product suite – a process which is continuing to yield strong asset growth. There is much opportunity to grow both our conventional commercial businesses and I am excited about the prospects for these businesses as a result of a recent rebranding exercise and a stronger go-to-market approach. In the securitization business, Equitable Bank is one of the leading participants in securitizing multi-family insured mortgages, a position that we expect to maintain, and we are really only just at the beginning of the journey in building out a prime single family business funded through securitization.

For the next two to three years, I believe that our existing businesses will provide ample opportunities for asset expansion. In the longer term, we may need to add new asset types in Canada that provide additional growth. Accordingly, our corporate development team is constantly working to identify and assess the most attractive opportunities for asset growth. We see the results of this effort in the expansion of our prime single family lending book and HELOC product lines. We are evaluating opportunities in a range of lending businesses and I am optimistic that these efforts will allow us to safely expand the breadth of our activities.

One of our longer-term goals is to improve our credit rating to make it easier for some customers to do business with us. We believe that as a result of newspaper headlines and speculation around risk in the housing market, it is difficult to get a rating that truly reflects the relatively low risk inherent in the Bank. Our view is that our demonstrated ability to manage credit risk, our relatively strong capital position and the fact that we pay out a smaller proportion of our earnings than most banks, amongst other factors, should logically lead to a stronger credit rating than is currently available to us. Management regularly engages with credit rating agencies to share our perspective on this item.

[2] Assumes we reinvest these earnings in similar risk-weighted assets as of December 2015 and maintain our CET1 ratio.

We are well positioned for the way the banking landscape is likely to evolve going forward. Our offering of a relatively narrow, but valuable set of products to our customers using low-cost delivery is surely a great position from which to build our business. The recent launch of our *EQ Bank* digital platform (see page 9) is only one more recent example of the opportunities inherent in the design of our Bank.

Great People

It takes a skilled and dedicated team to deliver fantastic customer service while at the same time working through the complexities of managing risk and compliance that are features of modern banks. As a senior executive team looking to build this Bank, we recognize that we are asking for tremendous passion, skills and energy from our people.

Each year, we identify the areas where investments in people will yield the best returns through our employee engagement survey. Virtually all of our employees respond to this survey, itself an indication of engagement. In turn, we focus on a few areas of our people practices for improvement. As a result of this consistent approach over many years, we have steadily increased the engagement of our teams, reduced employee turnover and found it easier to recruit new talent.

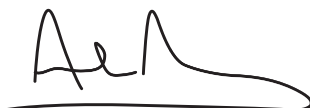
I believe that our shareholders are well served by this strategic approach we take to investing in our people.

Conclusion

I believe our shareholders should be confident that Equitable has exciting prospects. While there are most certainly risks to owning a Bank, we try to manage each one closely. More broadly, though our fundamental business model, reputation for great service and the strength of our people, Equitable Bank is, in my view, a great business.

I would like to thank our Board, shareholders, business partners, customers and employees for their support through the last year. Most especially, I thank Austin Beutel for the tremendous contribution he has made to the Bank. Austin has been involved with Equitable as an investor since 1994, served as Chairman of the Board from 1999 until 2014 and is stepping down as Honourary Chair at the upcoming Annual General Meeting. Austin has been a source of considerable support and wise counsel to me since becoming Chief Executive of the Bank.

Yours sincerely,



Andrew Moor
President and CEO

Management Team

Back row (left to right):

Brian Leland, Vice-President, Residential Credit

Kimberly Kukulowicz, Vice-President, Residential Sales and Partner Relations

Darren Lorimer, Vice-President, Commercial Lending Services

Aviva Braude, Vice-President, Mortgage Services

Ron Tratch, Vice-President and Chief Risk Officer

Dan Dickinson, Vice-President, Digital Banking

Front row (left to right):

Tim Wilson, Vice-President and Chief Financial Officer

Andrew Moor, President and Chief Executive Officer

Jody Sperling, Vice-President Human Resources

Dan Ruch, Vice-President and Chief Compliance Officer

Introducing *EQ Bank*: The Safe & Smart Way to Save

As a Schedule I bank and member of the Canada Deposit Insurance Corporation (CDIC), Equitable Bank is a trusted financial institution with a 40 year plus track record of giving Canadians competitive savings products.

Beginning in early 2016, Equitable is now also a participant in the world of digital banking through our *EQ Bank* platform. Purposely built to cater to a future where financial transactions occur solely on any smartphone, tablet or laptop, *EQ Bank* positions us to achieve three objectives.

One, *EQ Bank* allows us to fully capture and leverage our low-cost branchless bank model to better serve the needs of Canadian savers. More specifically, *EQ Bank* allows us to offer 24/7 online support and a level of convenience that today's savers want from their bank. But because we don't have tellers, counters to line up at, and no expensive storefronts to maintain, we pass on cost savings in the form of benefits such as higher interest rates, no monthly fees or minimum balances to maintain.

Two, *EQ Bank* provides a platform to grow and diversify our savings business, an important goal for our Bank as deposits fuel the expansion of our asset base. To date, our Bank has grown its $17 billion plus deposit business through deposit brokers. While that channel is important to us, the ability to now access consumer deposits directly through the *EQ Bank* platform enhances and diversifies our funding capacity.

Three, because the platform was built from the ground floor up using a mobile-first strategy with associated technologies – rather than legacy systems often associated with traditional online banks – *EQ Bank* give us the flexibility to accommodate the launch of new Equitable banking services over the long run.

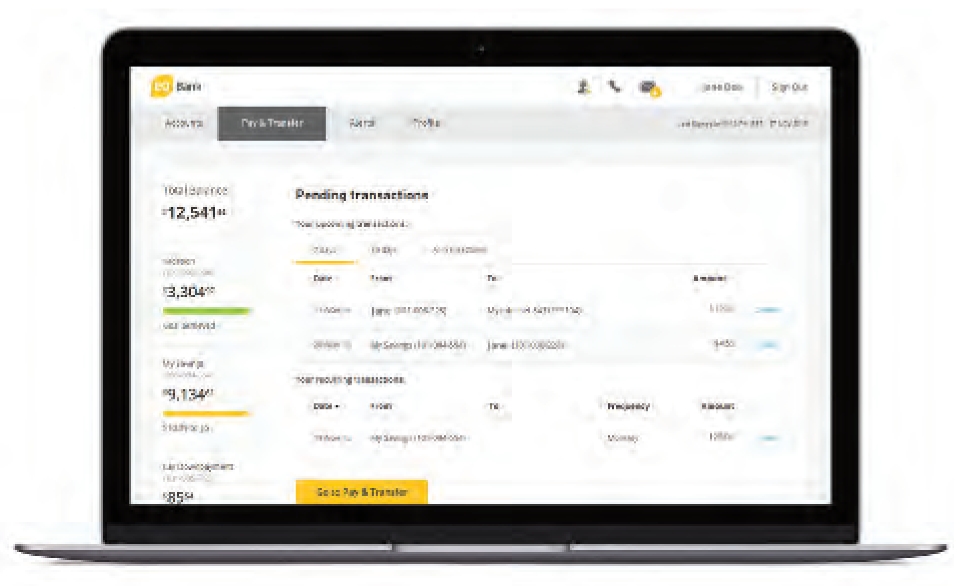
EQ Bank Savings Plus Account

The first offering on the Bank's digital platform is the *EQ Bank Savings Plus Account*. Launched in mid-January with the support of a multi-media advertising awareness campaign, this digital savings product quickly captured pent-up consumer demand. Some 17,000 accounts were opened by the end of March, surpassing even our most optimistic projections.

Applying for an account takes just five minutes and can be done online from a tablet or desktop, or through the *EQ Bank* mobile app. After completing the short sign-up form, the customer then deposits a photograph of a signed cheque from any Canadian financial institution. Once the cheque clears, the account is open and a new world of digital banking unfolds.

Smart Tools

Unlike some other traditional savings accounts, *EQ Bank* Savings Plus features an intuitive savings goal feature that helps customers track their personal savings. From the *EQ Bank Savings Plus Account*, a user may establish several personal savings goals and then electronically track



progress made toward reaching each one. This functionality brings unprecedented transparency and focus to the act of saving and budgeting, and is designed to help customers reach their savings goals faster.

The leading technology platform built for *EQ Bank* also aims to protect every customer. From the moment a Savings Plus Account is open, multiple security features kick in, including data encryption, fraud monitoring and detection, and password and security question protocols – all of which are designed to provide a safe mobile and online banking experience.

Savings Accumulate Faster with Enhanced Features

Beyond higher savings rates, the *EQ Bank* Savings Plus offers customers more than most other savings accounts. Not only are there no monthly fees to pay, and no minimum balances to maintain, the Savings Plus Account allows users to deposit funds, pay bills and transfer money to and from another bank account at other financial institutions, free of charge. As well, savers receive five free Interac e-Transfers® per month so they can easily send money to family and friends.

Without the cost burdens of traditional bank service fees, plus a great rate of interest earned on every dollar deposited, the *EQ Bank Savings Plus Account* helps customers reach their financial goals that much faster.

Plan to Grow

To attract clients and build a strong brand, the plan is to balance an attractive interest rate with a suite of impressive features that surpass those of our competitors. While the interest rate will always be competitive, we expect over time to appeal more strongly to other elements of what *EQ Bank* offers and to extend this with a broader range of products and features. It is our commitment to becoming a key long-term partner in providing savings and banking services for our customers.

Advantages All Around

By some estimates, $400 billion is sitting in Canadian bank accounts that pay little or no interest. At *EQ Bank*, we believe those funds and the Canadians who own them deserve better, which motivated us in designing the *EQ Bank Savings Plus Account*.

On balance, we believe this digital account and the broader *EQ Bank* platform are mutually advantageous for consumers and our Bank as we all strive to create wealth now and for the future.

With useful tools, greater convenience and competitive interest rates, *EQ Bank* lives up to its motto: **Money Well Banked.™**

eqbank.ca

Corporate Sustainability Report

Our Bank depends on talented employees, satisfied customers, trusting shareholders and healthy communities.

We take our relationships with all stakeholders seriously by living our values.

Our Values

Our values are the foundation of our business and reflect our underlying commitment to our colleagues, business partners, customers, shareholders and the public. We seek to operate according to five core values:

- **Service:** Deliver outstanding service in everything we do
- **Empowerment:** Support our people to make great decisions to achieve our service mission
- **Culture:** Celebrate our differences, respect each other and unite as a team
- **Agility:** Embrace change and optimize technology to reach our goals
- **Integrity:** Through mindful personal behavior, consistently produce good ethical outcomes

Our Employees

Our success as a Bank results from the engagement of our 500+ team members who bring our culture to life. Our responsibility as an employer is to create a workplace that supports continuous learning and career development.

To build an ever-improving Bank, we invest continuously in our workforce. Each employee is encouraged to have a personal development program that identifies subjects of interest to them and related courses they can take to develop the skills to move ahead. The Bank supports the implementation of these plans by offering assistance in choosing external course providers and $2,000 annually per employee to pay for training.

Our Bank is also dedicated to listening attentively to the needs of employees through our annual engagement survey. This survey highlights areas for improvement in our people programs and many of the features and benefits of working at Equitable today are the result of the feedback and actions taken at the request of employees. For example, we host regular “lunch and learns” and offer flexible work hours, employee share purchase plans and company matching RSPs. To advance our management capabilities, we have our *Leadership Development and Coaching Program*. All 65 people managers at Equitable received one-on-one coaching from an external expert in 2015 through this program.

As part of our wellness program, we help our employees stay healthy and fit by funding gym visits, spinning and yoga classes, access to mental health programs, an on-site flu vaccination clinic and we removed carbonated soft drink vending machines from our office as they dispense products linked to issues such as obesity, high blood pressure and tooth decay. We also encourage our employees to team up in fun and physically challenging ways to raise funds for designated charities (see Our Communities).

BESTEMPLOYERS

GOLD | CANADA | 2015

By being creative and attentive in our employee programs, Equitable has been recognized in each of last two years as one of Canada's Top Small and Medium (SME) Employers as published in the Globe & Mail and for the first time, we were recognized with a 2015 Aon Best Employer Gold Award. Independent validation of our efforts helps us to recruit great people and benchmark the Bank against the best practices of others – but we don't employ people programs for third-party recognition: we do it to build a better Bank.

As a growing Bank, we create employment, including annual opportunities for four motivated university graduates to join our paid internship program to develop a broad range of skills by serving on a rotational basis in different Bank departments over 24 months. We also actively hire summer students – 25 in 2015 – from selected universities and engage them with challenging assignments.

Like the country we serve, Equitable is proud to be a multicultural company where employees from all backgrounds have long been welcome to participate and given opportunities to advance. We nurture and celebrate our differences through our *Diversity and Inclusion Program*. Using special events and sometimes guest speakers, it showcases the traditions of different cultures present within the Bank. We wholeheartedly believe that our diversity makes us better able to understand our markets and our customers.

Gender diversity is important across all levels of the Bank. Today, 30% of our management team is comprised of women. In 2015, our Board of Directors implemented a policy to formalize established practice with respect to gender diversity. Under the policy, we aspire to have women making up 30% of our Board. We are already there: 33% of our independent Directors are women (30% of all Directors) and women Chair two of the Board's five committees. Whether male or female, we believe each Director and member of the management committee is uniquely qualified with the skills and experience to serve effectively.

Our Communities

Our employees work together with targeted community groups in neighbourhoods where we do business to take an active hand in helping those in need. By leveraging the talent, skills and drive of our employees and the resources of the Bank, we maximize the value of our social investments. Our primary focus is to help the homeless, a natural cause for a Bank like ours, and those with mental health issues. 40 Oaks and Madison Community Services are key partners as they provide affordable housing solutions and community resources in Toronto's Regent Park Neighbourhood. In 2015, our employees dedicated dozens of volunteer hours to serve meals at 40 Oaks while the Bank continued to provide a bursary for skills training and funding for an arts expression program at Madison Community Services. Our team, with the Bank's assistance, also made contributions to Brown Bagging for Calgary's Kids Society, the Calgary Drop-In Centre, Montreal's Mission Hall, and Mount Sinai Hospital.

Reflecting the Bank's focus on health and wellness and desire to encourage our predominantly young workforce to be positive community leaders, we displayed our collective strength by entering the *Heart & Stroke Ride for Heart* with 230 Equitable cyclists, the 37,000 pound *ALS Canada Plane Pull* in support of Lou Gehrig's Disease with a team of 31, and the *JDRF Ride for Diabetes Research* with 35 riders. In dollar terms, we gave $196,263 in 2015 but our community partners say that the countless volunteer hours we provided were even more valuable in helping them reach their goals. For Equitable, the payoff from our activities is the opportunity to build stronger connections with our communities – and with each other.

Our Environment

We have a small environmental footprint: just shy of 72,000 square feet of office space. Nevertheless, we strive to do our part to conserve resources. Accordingly, when we recently renovated our head office using LEED™ Green Building System for Environmental Design standards, we employed DIRTT, a technology-driven manufacturer of customized interiors that has qualified their prefabricated walls as using 40% fewer resources than typical products. We also installed LED lighting (which consumes ~90% less power than incandescent bulbs) and wall- and ceiling-mounted sensors that turn lights off to save energy when rooms are not in use. We are now in the process of seeking LEED® Canada for Commercial Interiors certification, the benchmark for high-performance green interiors that are healthy and productive places to work, less costly to operate and have a reduced environmental footprint. Our new office is also designed to foster teamwork and even the chairs and workstations are ergonomically correct to promote good posture and productivity.

To improve customer data security while reducing our environmental footprint, we employ paper-free mortgage documentation technology within our operations and we also recycle.

For more information on our social responsibilities, please visit equitablebank.ca.

This annual report is printed on recycled paper.

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.

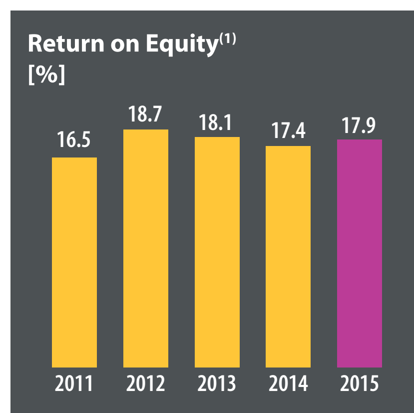
Currently, Equitable Bank provides mortgage loans to a wide range of customers that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadian savers with various saving options that offer security and competitive interest rates, including 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.

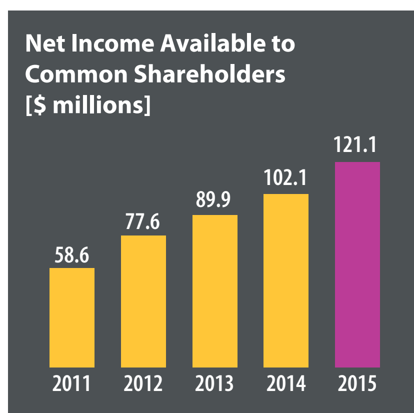
Our strategy includes four major objectives:

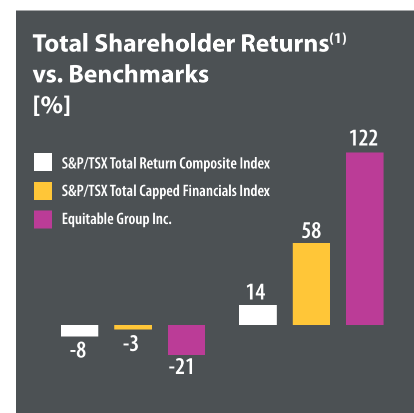
Strategic Objectives	Description
Grow by providing superior service, competitive products and cost-efficient operations	Our teams provide outstanding service to our customers to earn their business. We deliver this service through a branchless distribution model, which allows us to maintain an efficient 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 17.7% 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[2].

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.

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.

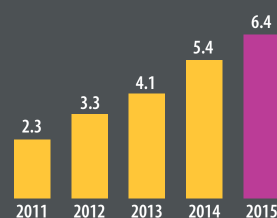
(1) *As measured by the Efficiency Ratio and for the fiscal year 2015.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

OUR BUSINESS LINES

We organize our operations according to products and target customers:

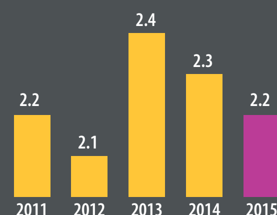
Single Family Lending Services: $6.4 billion

- **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



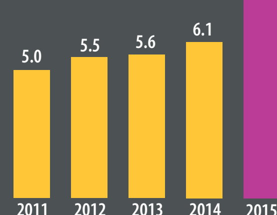
Commercial Lending Services: $2.2 billion

- **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



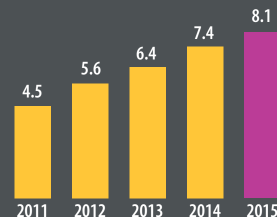
Securitization Financing: $8.0 billion of Mortgages Under Management ("MUM")[2]

- **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



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



[1] *Represents total principal outstanding.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

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

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
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 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 Ratio[1] 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 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 13 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/ Expenses	Average rate[1]	Average balance	Revenue/ Expenses	Average rate[1]
Core Lending:						
Revenues derived from:						
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%
Expenses related to:						
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:						
Revenues derived from:						
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%
Expenses related to:						
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 v 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.

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

	2015		2014		Change from 2014	
($ THOUSANDS)	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 publically 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 (December 31, 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

			2015
		Risk	Risk-weighted
($ THOUSANDS)	Amounts	Weighting	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

			2014
		Risk	Risk-weighted
($ THOUSANDS)	Amounts	Weighting	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 SHARE AND PER SHARE AMOUNTS)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 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

									Three months ended
		Dec 31, 2015			Sep 30, 2015			Dec 31, 2014	
($ THOUSANDS)		**Revenue/ Expense**	**Average rate[1]**		Revenue/ Expense	Average rate[1]		Revenue/ Expense	Average rate[1]
Core Lending:									
Revenues derived from:									
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%
Expenses related to:									
Deposits and bank facilities		**40,271**	**2.08%**		41,506	2.13%		39,938	2.30%
Debentures		**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:									
Revenues derived from:									
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%
Expenses related to:									
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 v Q3 2015	Q4 2015 v 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)	Dec 31, 2015	Sep 30, 2015	% Change	Dec 31, 2014	% Change
				Three months ended	
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)	Dec 31, 2015	Sep 30, 2015	% Change	Dec 31, 2014	% Change
				Three months ended	
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
- $0.7 million 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

							Three months ended December 31, 2015
($ THOUSANDS)	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortage 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%

							Three months ended December 31, 2014
($ THOUSANDS)	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortage 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 29-30 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

						Three months ended
	Dec 31, 2015		Dec 31, 2014		Change from 2014	
($ THOUSANDS)	**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

					Three months ended
($ THOUSANDS)	**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

		Three months ended	
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**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	1,40
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)	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014
			Three months ended
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.

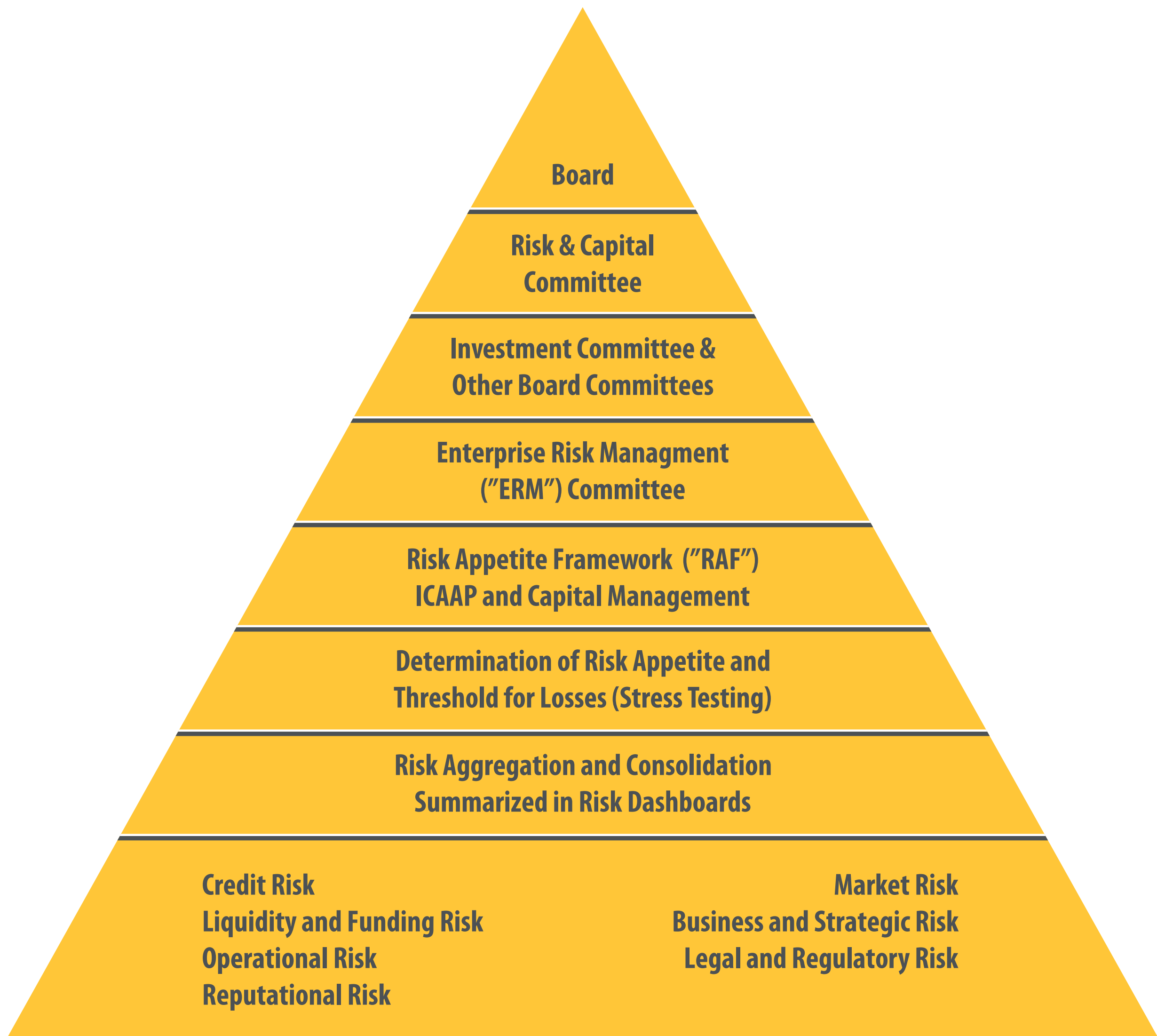
The Risk Management framework, Credit Risk Management, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2015 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, 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

	Neither past due nor impaired						2015
($ THOUSANDS)	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.*

	Neither past due nor impaired						2014
($ THOUSANDS)	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 (December 31, 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 (December 31, 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 (December 31, 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 (December 31, 2014 – $70.8 million) or 0.71% (December 31, 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

		Payments due by period			
($ THOUSANDS)	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 interest rates	Decrease in 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 a 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)	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%

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

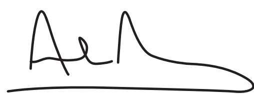
The consolidated financial statements of Equitable Group Inc. (the "Company") are prepared by management, which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared, within reasonable limits of materiality, using appropriate accounting policies that are in accordance with International Financial Reporting Standard ("IFRS") as well as the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") as these apply to its subsidiary, Equitable Bank. The consolidated financial statements reflect amounts which must, of necessity, be based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains and monitors a system of internal control to meet its responsibility for the integrity of the consolidated financial statements. These controls are designed to provide reasonable assurance that the Company's consolidated assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written corporate code of conduct. Management responsibility also includes maintaining adequate accounting records and an effective system of risk management.

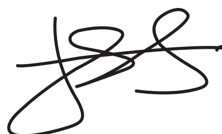
The Board of Directors of the Company (the "Board") oversees management's responsibility for the consolidated financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the consolidated financial statements with management and internal and external auditors before recommending their approval to the Board.

The Company's subsidiary, Equitable Bank, is a Schedule I Bank under the Bank Act (Canada) and is regulated by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of Equitable Bank and its compliance with statutory requirements and sound business practices.

KPMG LLP has been appointed as external auditors by the shareholders to examine the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards. The external auditors are responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS. The auditors have unrestricted access to and periodically meet with the Audit Committee, with and without management present, to discuss their audits and related matters.



Andrew Moor
President and Chief Executive Officer



Tim Wilson
Chief Financial Officer

February 29, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

We have audited the accompanying consolidated financial statements of Equitable Group Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equitable Group Inc. as at December 31, 2015 and December 31, 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada

February 29, 2016

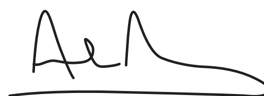
CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31		2015		2014
Assets				
Cash and cash equivalents *(Note 6)*	$	**423,366**	$	230,063
Restricted cash *(Note 6)*		**107,988**		67,690
Securities purchased under reverse repurchase agreements		**19,918**		18,117
Investments *(Note 7)*		**153,714**		187,664
Mortgages receivable – Core Lending *(Note 8)*		**8,674,599**		7,684,425
Mortgages receivable – Securitization Financing *(Notes 8 & 9)*		**6,026,207**		4,585,520
Securitization retained interests *(Note 9)*		**61,650**		44,983
Other assets *(Note 12)*		**60,142**		36,441
	$	**15,527,584**	$	12,854,903
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits *(Note 13)*	$	**8,211,265**	$	7,489,418
Securitization liabilities *(Note 9)*		**6,109,436**		4,355,328
Obligations under repurchase agreements *(Note 9)*		**-**		52,413
Deferred tax liabilities *(Note 14)*		**28,698**		14,843
Other liabilities *(Note 15)*		**81,290**		61,971
Bank facilities *(Note 16)*		**235,779**		92,236
Debentures *(Note 17)*		**65,000**		85,000
		14,731,468		12,151,209
Shareholders' equity:				
Preferred shares *(Note 18)*		**72,557**		72,412
Common shares *(Note 18)*		**143,690**		140,657
Contributed surplus *(Note 19)*		**4,706**		4,331
Retained earnings		**605,436**		496,097
Accumulated other comprehensive loss		**(30,273)**		(9,803)
		796,116		703,694
	$	**15,527,584**	$	12,854,903

See accompanying notes to the consolidated financial statements.

David LeGresley
Chair of the Board



Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	2015	2014
Interest income:		
Mortgages – Core Lending	**$ 392,462**	$ 339,616
Mortgages – Securitization Financing	**159,247**	156,719
Investments	**7,173**	6,432
Other	**6,276**	6,777
	565,158	509,544
Interest expense:		
Deposits	**170,699**	154,980
Securitization liabilities *(Note 9)*	**141,567**	141,518
Bank facilities	**4,198**	2,810
Debentures	**5,033**	5,598
Other	**1,434**	116
	322,931	305,022
Net interest income	**242,227**	204,522
Provision for credit losses *(Note 8)*	**3,638**	2,627
Net interest income after provision for credit losses	**238,589**	201,895
Other income:		
Fees and other income	**11,413**	8,345
Net (loss) gain on investments	**(463)**	1,033
Gains on securitization activities and income from securitization retained interests *(Note 9)*	**5,886**	4,045
	16,836	13,423
Net interest and other income	**255,425**	215,318
Non-interest expenses:		
Compensation and benefits	**50,236**	42,545
Other	**37,726**	29,099
	87,962	71,644
Income before income taxes	**167,463**	143,674
Income taxes *(Note 14)*		
Current	**27,847**	31,076
Deferred	**13,751**	5,880
	41,598	36,956
Net income	**$ 125,865**	$ 106,718
Earnings per share *(Note 20)*		
Basic	**$ 7.83**	$ 6.63
Diluted	**$ 7.73**	$ 6.53

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	**2015**	2014
Net income	**$ 125,865**	$ 106,718
Other comprehensive income – items that may be reclassified subsequently to income:		
Available for sale investments:		
Net unrealized (losses) gains from change in fair value	**(25,320)**	1,779
Reclassification of net losses (gains) to income	**107**	(865)
	(25,213)	914
Income tax recovery (expense)	**6,656**	(241)
	(18,557)	673
Cash flow hedges: *(Note 10)*		
Net unrealized losses from change in fair value	**(6,219)**	(5,676)
Reclassification of net losses to income	**3,620**	2,228
	(2,599)	(3,448)
Income tax recovery	**686**	910
	(1,913)	(2,538)
Total other comprehensive loss	**(20,470)**	(1,865)
Total comprehensive income	**$ 105,395**	$ 104,853

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

					Accumulated other comprehensive Income (loss)			
2015	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of year	**$ 72,412**	**$ 140,657**	**$ 4,331**	**$ 496,097**	**$ (5,902)**	**$ (3,901)**	**$ (9,803)**	**$ 703,694**
Net income	**-**	**-**	**-**	**125,865**	**-**	**-**	**-**	**125,865**
Other comprehensive income (loss), net of tax	**-**	**-**	**-**	**-**	**(1,913)**	**(18,557)**	**(20,470)**	**(20,470)**
Issuance cost	**145**	**-**	**-**	**-**	**-**	**-**	**-**	**145**
Exercise of stock options	**-**	**2,473**	**-**	**-**	**-**	**-**	**-**	**2,473**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(4,762)**	**-**	**-**	**-**	**(4,762)**
Common shares	**-**	**-**	**-**	**(11,764)**	**-**	**-**	**-**	**(11,764)**
Stock-based compensation	**-**	**-**	**935**	**-**	**-**	**-**	**-**	**935**
Transfer relating to the exercise of stock options	**-**	**560**	**(560)**	**-**	**-**	**-**	**-**	**-**
Balance, end of year	**$ 72,557**	**$ 143,690**	**$ 4,706**	**$ 605,436**	**$ (7,815)**	**$ (22,458)**	**$ (30,273)**	**$ 796,116**

					Accumulated other comprehensive Income (loss)			
2014	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
Balance, beginning of year	$ 48,494	$ 137,969	$ 5,326	$ 404,467	$ (3,364)	$ (4,574)	$ (7,938)	$ 588,318
Net income	-	-	-	106,718	-	-	-	106,718
Other comprehensive income (loss), net of tax	-	-	-	-	(2,538)	673	(1,865)	(1,865)
Preferred shares issued, net of redemption	23,918	-	(1,506)	-	-	-	-	22,412
Reinvestment of dividends	-	542	-	-	-	-	-	542
Exercise of stock options	-	1,746	-	-	-	-	-	1,746
Dividends:								
Preferred shares	-	-	-	(4,611)	-	-	-	(4,611)
Common shares	-	-	-	(10,477)	-	-	-	(10,477)
Stock-based compensation	-	-	911	-	-	-	-	911
Transfer relating to the exercise of stock options	-	400	(400)	-	-	-	-	-
Balance, end of year	$ 72,412	$ 140,657	$ 4,331	$ 496,097	$ (5,902)	$ (3,901)	$ (9,803)	$ 703,694

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 125,865**	$ 106,718
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**5,222**	(2,769)
Amortization of premiums/discount on investments	**743**	1,470
Amortization of capital assets and intangible costs	**3,532**	3,287
Provision for credit losses	**3,638**	2,627
Securitization gains	**(5,247)**	(3,960)
Net loss (gain) on sale or redemption of investments	**463**	(1,033)
Stock-based compensation	**935**	911
Income taxes	**41,598**	36,956
Changes in operating assets and liabilities:		
Restricted cash	**(40,298)**	19,629
Securities purchased under reverse repurchase agreements	**(1,801)**	36,743
Mortgages receivable, net of securitizations	**(2,456,730)**	(1,158,431)
Other assets	**(167)**	(1,789)
Deposits	**719,090**	1,018,811
Securitization liabilities	**1,754,108**	(236,076)
Obligations under repurchase agreements	**(52,413)**	44,270
Bank facilities	**143,543**	92,236
Other liabilities	**17,440**	15,028
Income taxes paid	**(26,419)**	(38,164)
Securitization retained interests	**10,798**	6,479
Cash flows from (used in) operating activities	**243,900**	(57,057)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of preferred shares, net of issuance costs	**145**	71,479
Redemption of preferred shares	**-**	(50,000)
Proceeds from issuance of common shares	**2,473**	1,746
Redemption of debentures	**(20,000)**	(7,483)
Dividends paid on preferred shares	**(4,762)**	(4,611)
Dividends paid on common shares	**(8,658)**	(12,390)
Cash flows used in financing activities	**(30,802)**	(1,259)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(26,856)**	(134,791)
Proceeds on sale or redemption of investments	**16,208**	164,051
Net change in Canada Housing Trust re-investment accounts	**11,859**	24,142
Purchase of capital assets and system development costs	**(21,006)**	(8,668)
Cash flows (used in) from investing activities	**(19,795)**	44,734
Net increase (decrease) in cash and cash equivalents	**193,303**	(13,582)
Cash and cash equivalents, beginning of year	**230,063**	243,645
Cash and cash equivalents, end of year	**$ 423,366**	$ 230,063
Cash flows from operating activities include:		
Interest received	**$ 563,992**	$ 506,610
Interest paid	**(310,298)**	(274,144)
Dividends received	**12,763**	5,478

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of Compliance:

The consolidated financial statements of Equitable Group Inc. have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations issued by the IFRS Interpretations Committee, as published by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Company's Board of Directors on February 29, 2016.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

(e) Consolidation:

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

Note 3 – Significant Accounting Policies

The following note describes the Company's significant accounting policies. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial instruments:

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

Financial instrument assets include cash and cash equivalents, restricted cash, securities purchased under reverse repurchase agreements, investments, mortgages receivable – core lending, mortgages receivable – securitization financing, securitization retained interests and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, obligations under repurchase agreements, bank facilities, debentures and derivative financial instruments.

(i) Classification of financial assets and liabilities

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

Financial instruments at fair value through income

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

Classified as held for trading

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

Designated as at fair value through income

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

Held to maturity

Held to maturity financial assets are non-derivative financial assets and are classified in this category if management has the intent and ability to hold the instrument to maturity. Held to maturity financial assets are recognized initially at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortized cost using the effective interest rate method.

Loans and receivables

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

Available for sale

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

Financial liabilities

Financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost, except for liabilities designated as at fair value through income.

(ii) Determination of fair value

When a financial instrument is initially recognized, its fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which maximize use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques. See Note 5 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Company has transferred its rights to receive future cash flows of the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients and either:
  (i) the Company has transferred substantially all the risks and rewards of ownership of the financial asset; or
  (ii) the Company has neither retained nor transferred substantially all the risks and rewards of ownership in the financial asset, but has transferred control of the asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability in the consolidated balance sheets. On derecognition of a financial asset the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in the consolidated statements of income.

If the transfer of assets does not meet the criteria for derecognition, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received upon the transfer in the consolidated balance sheets.

The derecognition criteria is also applied to the transfer of part of an asset, rather than a whole, or to a group of similar financial assets in their entirety, when applicable. When it is applied to part of an asset, the part comprises of specifically identified cash flows, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow from the asset.

Financial liabilities

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Offsetting

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

(v) Risks associated with financial instruments

The use of financial instruments exposes the Company to credit risk, interest rate risk, and liquidity risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of Company's December 31, 2015 Management's Discussion and Analysis and Note 4 to these consolidated financial statements.

(b) Interest:

Interest income and interest expense for all financial instruments not designated as at fair value through income are recognized in income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flow payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, management estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at the date of purchase is less than three months and are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Interest earned on cash and cash equivalents is included in Interest income – other in the consolidated statements of income.

(d) Investments:

Investments are accounted for at settlement date and initially measured at fair value plus, in the case of investments not at fair value through income, incremental direct transaction costs, and subsequently accounted for depending upon their classification as either available for sale, held for trading, held to maturity or fair value through income.

Investments that are designated as available for sale, are reported on the consolidated balance sheets at fair value. Unrealized gains and losses, net of income taxes, are reported in OCI, until the investment is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to Other income in the consolidated statements of income. Available for sale investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive.

Investments designated as held for trading or as at fair value through income are reported at fair value on the consolidated balance sheets, with unrealized gains and losses, reported in the consolidated statements of income.

Held to maturity investments are recorded at amortized cost, net of impairment losses on the consolidated balance sheets.

Investments are assessed for impairment at the end of each reporting period, or more frequently, if events or changes in circumstances indicate the existence of objective evidence of impairment. Investments that are designated as available for sale are assessed for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. Loss events include default or delinquency of the debtor, indications that the issuer of a security will enter bankruptcy, significant deterioration of credit quality, the disappearance of an active market for security or observable data indicating that there is a measurable decrease in the estimated cash flows from the assets.

For available for sale securities that are considered to be impaired, the cumulative loss in OCI is transferred to Other income. Fair value increases in available for sale debt securities that are objectively related to an event occurring after impairment loss was recognized are recorded as reversals of impairment loss in Other income. Impairment losses on available for sale equity instruments are not subsequently reversed through net income.

For held to maturity investments that are determined to be impaired, the write-down to net realizable value (i.e. present value of estimated future cash flows discounted using the original effective interest rate) is reported in Other income in the consolidated statements of income. For held to maturity securities, where an impairment loss subsequently reverses, the carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Interest income and dividends earned, net of amortization of premiums and discounts, are included in Interest income – investments in the consolidated statements of income. Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for the equity securities. The fair values of investments are generally based on quoted market prices.

(e) Securities purchased under reverse repurchase agreements:

Securities purchased under reverse repurchase agreements represent purchases of Government of Canada guaranteed debt securities and are treated as collateralized lending transactions as they represent the purchase of securities with a simultaneous agreement to sell them back at a specified price on a specified future date, which is generally short term. These receivables in respect of the amount advanced are classified as loans and receivables and are held at amortized cost plus accrued interest on the consolidated balance sheets. The interest income related to these investments is recorded on an accrual basis using the effective interest method and is included in Interest income – investments in the consolidated statements of income.

(f) Mortgages receivable:

Classification

(i) Mortgages receivable classified as loans and receivables

Mortgages are initially recognized at fair value and subsequently measured at amortized cost, plus accrued interest, using the effective interest rate method, and are reported net of unamortized origination fees, commitment income, premiums or discounts and an allowance for credit losses. Net fees relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income – mortgages in the consolidated statements of income.

(ii) Mortgages designated as at fair value through income

Certain mortgages designated as at fair value through income are carried at fair value with changes in fair value included in Interest Income – mortgages in the consolidated statements of income. Net fees relating to mortgage origination are recognized in income as incurred, and are included in Interest income – mortgages in the consolidated statements of income.

(iii) Mortgages classified as held for trading

Certain mortgages held for securitization and classified as held for trading are carried at fair value with changes in fair value included in Other income – Gains on securitization and income from securitization retained interests in the consolidated statements of income. Net fees relating to mortgage origination are expensed as incurred and are included in Other income – Gains on securitization activities and income from securitization retained interests in the consolidated statements of income.

Impairments

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

When an impaired mortgage is identified, an individual allowance is recorded to reduce the carrying value of the mortgage to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the mortgage's effective interest rate. The impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. When a mortgage is classified as impaired, interest income continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the allowance for credit losses.

A mortgage is no longer considered impaired when all past due amounts including interest have been recovered and it is determined that the principal and interest are fully collectible, at which time the individual allowance is reversed.

Mortgage losses are recorded when the proceeds from realization of the security are less than the carrying amount of the mortgage. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses.

Foreclosed assets retained in settlement of an impaired loan and held for sale are accounted for at fair value less estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the mortgage before foreclosure and the estimated realizable value of the asset is recorded as a loss in the consolidated statements of income.

For any subsequent change in fair value, gains and losses are recognized in fees and other income in the consolidated statements of income.

(g) Allowance for credit losses:

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

Individual allowance

At each reporting date, the Company assesses whether objective evidence of impairment exists for individual mortgage assets. For mortgages assessed as impaired, an individual allowance is recorded, measured as the difference between the mortgage's carrying amount and the present value of estimated future cash flows discounted at the mortgage's original effective interest rate. The calculation of the estimated future cash flows of the mortgage reflects management's judgement relating to the timing of future cash flow amounts that can be reasonably expected from the borrowers and/or guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated costs of realization.

Collective allowance

The Company maintains a collective allowance in order to cover any impairment in the existing portfolio for mortgages that have not yet been individually identified as impaired. If there is no objective evidence of impairment for an individual loan, whether significant or not, the loan is included in a group of assets with similar credit risk characteristics and collectively assessed for losses incurred but not identified. The level of the allowance for each group of assets depends upon security and mortgage type, internal risk ratings, geographic location, loan-to-value ratio, and other relevant factors. Loss assumptions may be adjusted over time based on current observable data and economic conditions. The collective allowance may also be adjusted for management's judgement as to whether current economic conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that calculated by the model.

(h) Securitizations:

In the normal course of business, the Company securitizes insured residential mortgages through the Government of Canada's National Housing Act ("NHA"), Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which are facilitated by Canada Mortgage and Housing Corporation ("CMHC"). The Company securitizes the mortgages through the creation of MBS and the ultimate sale of MBS to third party investors or through the CMB program.

The Company also securitizes uninsured residential mortgages by entering into an agreement to sell these mortgages into a program sponsored by another major Schedule I Canadian bank.

Securitized mortgages and securitization liabilities

Sales of MBS that do not qualify for derecognition result in the related mortgages being reclassified as Mortgages receivable – securitization financing on the consolidated balance sheet, which are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts and insurance costs. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – securitization financing in the consolidated statements of income.

Sale of uninsured residential mortgages do not qualify for derecognition and are classified as Mortgages receivable – core lending on the consolidated balance sheets, and are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – core lending in the consolidated statements of income.

In addition, these transactions are considered secured financing and result in the recognition of securitization liabilities. Securitization liabilities are recorded at amortized cost, plus accrued interest, and are reported net of any unamortized premiums or discounts and transaction costs incurred in obtaining the secured financing. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability.

Securitization retained interest and servicing liability

In certain securitization transactions that qualify for derecognition, the Company has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. The securitization retained interests are classified as available for sale securities in the consolidated balance sheets and are carried at fair value with changes in fair value reported in OCI, net of income taxes. The servicing liability is reported as part of Other liabilities. During the life of the securitization, as cash is received, the retained interests and the servicing liability are amortized and recognized in the consolidated statements of income under Gains on securitization activities and income from securitization retained interests.

Gains on securitization

When an asset is derecognized, the related mortgages are removed from the consolidated balance sheets and a gain or loss is recognized in the consolidated statements of income under gains on securitization activities and income from retained interests.

(i) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are interest rate swaps and bond forwards. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposures resulting from changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the NHA MBS and CMB program, and the date of securitization.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when the following conditions are met:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined contract is not held for trading or designated at fair value through income.

Separated embedded derivative are presented with other derivative assets and liabilities in the consolidated balance sheets.

Cash flow hedges

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

The Company's cash flow hedges include hedges of anticipated cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, Financial Instruments: Recognition and Measurement. The Company enters into bond forwards (including certain embedded derivatives) to hedge this cash flow risk and applies hedge accounting to these derivative financial instruments. To the extent that changes in the fair value of the derivative do not exceed the changes in the fair value of the hedged item (anticipated issuance of a securitization liability), they are recorded in OCI, net of tax. The cumulative amounts deferred in Accumulated Other Comprehensive Income ("AOCI") are reclassified to Interest expense – securitization liabilities in the consolidated statements of income.

The Company's cash flow hedges also include Total return equity swap contracts ("TRS") used to hedge the risk of changes in future cash flows related to its Restricted share unit ("RSU") plan. The value of RSUs or PSUs issued is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheet and the effective portion of the changes in fair values of these TRS is recorded in OCI, net of tax. The cumulative amounts deferred in AOCI are reclassified to Non-interest expense – Compensation and benefits in the consolidated statements of income, over the vesting period of the RSUs or PSUs.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. The change in the fair value of the hedging item will be recorded on the consolidated balance sheet under AOCI as either deferred gains or losses during the hedge term only to the extent of the effective portion of the hedge. Any ineffectiveness in the hedging relationship is included in Other income – gains on securitization activities and income from securitization retained interests in the consolidated statements of income as it occurs.

For cash flow hedges that are discontinued before the end of the original hedge term and for which the designated hedge cash flows are probable of occurring, the unrealized gain or loss recorded in OCI is amortized to Gains on securitization activities and income from securitization retained interests, in the consolidated statements of income.

The Company also uses TRSs to hedge the risk of changes in future cash flows related to its Deferred share unit ("DSU") plan and the Company has not applied hedge accounting to these derivative instruments. The value of the DSU is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheet and changes in fair value of these TRSs being recorded in Non-interest expense – Compensation and benefits in the consolidated statements of income for the period in which the changes occur.

Fair value hedges

The Company enters into interest rate swap agreements to manage interest rate exposures on deposits used to fund floating rate mortgages. The fair values of these interest rate swap agreements is included in Other assets and/or Other liabilities with changes in fair value recorded in Interest expense – deposits. Changes in the fair value of deposits designated as at fair value through income are also included in Interest expense – deposits. For most hedging relationships, the Company has applied hedge accounting.

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation.

The Company enters into bond forwards to manage interest rate exposures for certain mortgage commitments and funded mortgages until the date they are securitized. The fair values of these bond forwards are included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from securitization retained interests. Changes in fair

value of mortgages and mortgage commitments are also included in Other income – gains on securitization activities and income from securitization retained interests. The Company does not apply hedge accounting to these derivative instruments.

The Company's hedging activities are transacted with approved counterparties, which are limited to Canadian chartered banks, their subsidiaries and other financial intermediaries.

(j) Compensation plans:

The Company offers several benefit programs to eligible employees. These benefits include a deferred profit sharing plan, employee stock purchase plan, annual bonuses, and compensation in the form of share-based payments.

(i) Short-term employee benefits

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

(ii) Deferred profit sharing ("DPS") plan

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

(iii) Stock-based compensation

Stock option plan:

The Company has a stock option plan for eligible employees of Equitable Bank. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares or the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the date the options were granted. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in Contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Compensation expense related to the stock-based compensation plan is included in Non-interest expense – Compensation and benefits in the consolidated statements of income.

RSU plan:

The Company has an RSU plan and may grant RSUs and/or Performance Share Units ("PSUs") to eligible employees on an annual basis. The expense related to the award of these units is included in Non-interest expense – Compensation and benefits in the consolidated statements of income over the vesting period and any corresponding liability is included in Other liabilities in the consolidated balance sheets. Since each RSU or PSU represents a notional common share, any changes in unit value and re-invested notional dividend amounts are recognized in the consolidated statements of income. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting. The value of PSUs may be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada, and the incremental expense or recovery on those shares is recorded when the Company can reliably estimate the actual payout.

DSU plan:

The Company has a DSU plan for Directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in Other liabilities in the consolidated balance sheets. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The change in the obligation attributable to the change in stock price of Equitable Group Inc. and dividends paid on common shares is recognized in Non-interest expense – Compensation and benefits in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of Equitable Group Inc. on the TSX for the five trading days immediately prior to the redemption date.

Employee stock purchase ("ESP") plan:

The Company has an ESP plan for its employees. Under this plan, employees have the option of directing a portion of their gross salary towards the purchase of the Company's common shares. The Company matches a fixed portion of employee share purchases up to specified maximum. Employer contributions are recognized in Non-interest expense – Compensation and benefits in the period incurred.

(k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in OCI or equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, usually in respect of income taxes levied by the same tax authority on the same taxable entity, and the Company intends to settle current tax liabilities and assets on a net basis or settle the tax assets and liabilities simultaneously.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off the deferred tax assets and liabilities related to income taxes levied by the same tax authority on either the same taxable entity; or different taxable entities, but the entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously for each future period in which these differences reverse.

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

(l) Capital assets:

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

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

Leasehold improvements are depreciated on a straight-line basis over the lesser of the lease term and the estimated useful life of the asset.

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

(m) Intangible assets:

Intangible assets comprise of internally generated system and software development costs. An intangible asset is recognized only when its cost can be reliably measured and includes all directly attributable costs necessary to create the asset to be capable of operating in the manner intended by management. Research costs are expensed and eligible development costs are capitalized. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any, in the consolidated balance sheets. The company's intangible assets have a definite life and are amortized on a straight-line basis over their useful lives, ranging from 3 to 10 years. Amortization expenses are included in Non-interest expenses – Other in the consolidated statements of income.

Intangible assets, including those under development, are assessed for indicators of impairment at each reporting period. If there's an indication that impairment exists, the Company performs an impairment test by comparing the carrying amount of the intangible asset to its recoverable amount. If the recoverable amount is less than its carrying amount, the carrying amount is written down to its recoverable amount and an impairment loss is recognized in the consolidated statements of income.

(n) Leases:

Operating leases

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

(o) Deposits:

Deposits are comprised of GICs, High Interest Savings Accounts ("HISA") and institutional deposit notes. Deposits, with the exception of those designated as at fair value through income, are recorded on the consolidated balance sheets at amortized cost plus accrued interest, using the effective interest rate method. Deferred deposit agent commissions are accounted for as a component of deposits with the amortization of these commissions – with the exception of commissions relating to deposits designated as at fair value through income, which are expensed as incurred – being calculated on an effective yield basis as a component of interest expense.

(p) Obligations under repurchase agreements:

Investments sold under repurchase agreements represent sales of Government of Canada guaranteed debt securities by the Company effected with a simultaneous agreement to purchase the assets back at a specified price on a specified future date, which is generally short term. Repurchase agreements are treated as borrowings and are carried at amortized cost, plus accrued interest, using the effective interest rate method, recorded in the consolidated balance sheets at the respective prices at which the investments were originally sold plus accrued interest. Interest expense relating to repurchase agreements is recorded in Interest expense – other in the consolidated statements of income.

(q) Bank facilities and debentures:

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

(r) Share capital:

Issuance costs

Incremental costs directly attributable to the issuance of an equity instrument are deducted from the initial measurement of the equity instruments and is presented net of tax.

(s) Fees:

Other income includes ancillary fees related to the administration of the mortgage portfolio. These fees are accrued and recognized as the related services are rendered.

(t) Earnings per share:

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

(u) Provisions:

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

(v) Future accounting changes:

(i) Financial Instruments (IFRS 9)

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

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

(ii) Revenue from Contracts with Customers (IFRS 15)

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

IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2018 and the Company is in the process of evaluating the impact of IFRS 15 on its financial statements.

(iii) Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16 Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and is available for early adoption. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 51 to 61.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

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

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Debentures

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

(vii) Derivatives

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

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

2015	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 423,366	$ -	$ -	$ -	$ -	$ 423,366	$ 423,366
Restricted cash	107,988	-	-	-	-	107,988	107,988
Securities purchased under reverse repurchase agreements	-	-	-	-	19,918	19,918	19,918
Investments	891	-	2,395	149,428	1,000	153,714	153,714
Mortgages receivable – Core Lending	-	47,707	-	-	8,626,892	8,674,599	8,706,580
Mortgages receivable – Securitization Financing	45,019	-	-	-	5,981,188	6,026,207	6,214,016
Securitization retained interests	-	-	-	61,650	-	61,650	61,650
Other assets:							
Derivative financial instruments – interest rate swaps	990	-	-	-	-	990	990
Mortgage commitments	2	-	-	-	-	2	2
Other	-	-	-	-	8,216	8,216	8,216
Total financial assets	$ 578,256	$ 47,707	$ 2,395	$ 211,078	$ 14,637,214	$ 15,476,650	$ 15,696,440
Financial liabilities:							
Deposits	$ -	$ 45,431	$ -	$ -	$ 8,165,834	$ 8,211,265	$ 8,240,920
Securitization liabilities	-	-	-	-	6,109,436	6,109,436	6,237,077
Other liabilities:							
Derivative financial instruments – bond forwards	1,592	-	-	-	-	1,592	1,592
Derivative financial instruments – total return swaps	879	-	-	-	-	879	879
Other	-	-	-	-	78,510	78,510	78,510
Bank Facilities	-	-	-	-	235,779	235,779	235,779
Debentures	-	-	-	-	65,000	65,000	65,987
Total financial liabilities	$ 2,471	$ 45,431	$ -	$ -	$ 14,654,559	$ 14,702,461	$ 14,860,744

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

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

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

2015	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/ financial liabilities at fair value**
Financial assets:				
Investments	**$ 150,319**	**$ 2,395**	**$ 1,000**	**$ 153,714**
Mortgages receivable – Core Lending	**-**	**47,707**	**8,658,873**	**8,706,580**
Mortgages receivable – Securitization Financing	**-**	**45,019**	**6,168,997**	**6,214,016**
Securitization retained interests	**-**	**61,650**	**-**	**61,650**
Other assets:				
Derivative financial instruments — interest rate swaps	**-**	**990**	**-**	**990**
Mortgage commitments	**-**	**-**	**2**	**2**
Total financial assets	**$ 150,319**	**$ 157,761**	**$ 14,828,872**	**$ 15,136,952**
Financial liabilities:				
Deposits	**$ -**	**$ -**	**$ 8,240,920**	**$ 8,240,920**
Securitization liabilities	**-**	**1,531,629**	**4,705,448**	**6,237,077**
Other liabilities:				
Derivative financial instruments — bond forwards	**-**	**1,592**	**-**	**1,592**
Derivative financial instruments — total return swaps	**-**	**879**	**-**	**879**
Debentures	**-**	**65,987**	**-**	**65,987**
Total financial liabilities	**$ -**	**$ 1,600,087**	**$ 12,946,368**	**$ 14,546,455**

2014	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 172,410	$ 14,254	$ 1,000	$ 187,664
Mortgages receivable – Core Lending	-	49,122	7,649,672	7,698,794
Mortgages receivable – Securitization Financing	-	41,310	4,671,759	4,713,069
Securitization retained interests	-	44,983	-	44,983
Other assets:				
Derivative financial instruments — interest rate swaps	-	1,916	-	1,916
Mortgage commitments	-	-	16	16
Total financial assets	$ 172,410	$ 151,585	$ 12,322,447	$ 12,646,442
Financial liabilities:				
Deposits	$ -	$ -	$ 7,500,809	$ 7,500,809
Securitization liabilities	-	1,908,915	2,587,905	4,496,820
Other liabilities:				
Derivative financial instruments — bond forwards	-	908	-	908
Debentures	-	85,474	-	85,474
Total financial liabilities	$ -	$ 1,995,297	$ 10,088,714	$ 12,084,011

Note 6 – Cash and Cash Equivalents and Restricted Cash

	2015	2014
Deposits with regulated financial institutions	$ 423,366	$ 230,063
Cash and cash equivalents	$ 423,366	$ 230,063
Restricted cash – securitization	$ 84,658	$ 54,176
Restricted cash – interest rate swaps	22,904	13,514
Restricted cash – other programs	426	-
Restricted cash	$ 107,988	$ 67,690

Restricted cash – securitization represents deposits held in trust in connection with the Company's securitization activities. These deposits include cash accounts held at a major Schedule I Canadian Bank that hold principal and interest payments collected from securitized mortgages awaiting payment to their respective investors, deposits held as collateral by third parties for the Company's securitization hedging activities and deposits held in interest reinvestment accounts in connection with the Company's participation in the CMB program.

Restricted cash – interest rate swaps represent deposits held as collateral by third parties for the Company's interest rate swap transactions. The terms and conditions of these arrangements with counterparties are governed by the International Swaps and Derivatives Association, Inc. (ISDA) agreements.

Restricted cash – other programs represent deposits held as collateral in connection with our Home Equity Line of Credit and deposit programs. These balances may be drawn upon only in the event of insufficient cash flows from the underlying programs.

Note 7 – Investments

Carrying value of investments, categorized by type and maturity are as follows:

	2015						2014
	Maturities						
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	With no specific maturity	Total	Total
Debt securities guaranteed by Government of Canada	$ -	$ -	$ 12,350	$ 3,945	$ -	$ 16,295	$ 20,597
Debt securities – corporate debt	-	-	-	-	1,000	1,000	1,000
Equity securities – preferred shares	-	376	5,602	-	127,075	133,053	143,054
Equity securities – common shares	-	-	-	-	971	971	8,759
Canada Housing Trust re-investment accounts[(1)(2)]	-	-	2,395	-	-	2,395	14,254
	$ -	$ 376	$ 20,347	$ 3,945	$ 129,046	$ 153,714	$ 187,664

(1) *Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB program.*
(2) *Excludes reverse repurchase agreements of nil (2014 - $8,119) which are included under Securities purchased under reverse repurchase agreements.*

Net unrealized gains (losses) on available for sale investments recorded in Accumulated other comprehensive loss are as follows:

	2015	2014
Debt securities guaranteed by Government of Canada	$ 1,127	$ 1,147
Equity securities – preferred shares	(33,111)	(7,149)
Equity securities – common shares	25	(396)
	$ (31,959)	$ (6,398)

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2015	Gross amount	Allowance for credit losses – Individual	Allowance for credit losses – Collective	Allowance for credit losses – Total	Net amount
Mortgages – Core Lending	**$ 8,678,968**	**$ 494**	**$ 31,890**	**$ 32,384**	**$ 8,646,584**
Mortgages – Securitization Financing	**6,014,263**	**-**	**-**	**-**	**6,014,263**
Accrued interest	**40,791**	**832**	**-**	**832**	**39,959**
	$ 14,734,022	**$ 1,326**	**$ 31,890**	**$ 33,216**	**$ 14,700,806**

2014	Gross amount	Allowance for credit losses – Individual	Allowance for credit losses – Collective	Allowance for credit losses – Total	Net amount
Mortgages – Core Lending [(1)]	$ 7,690,252	$ 2,433	$ 29,510	$ 31,943	$ 7,658,309
Mortgages – Securitization Financing [(1)]	4,574,251	-	-	-	4,574,251
Accrued interest [(1)]	38,889	1,504	-	1,504	37,385
	$ 12,303,392	$ 3,937	$ 29,510	$ 33,447	$ 12,269,945

[(1)] *In prior years, alternative single family mortgages were reported under Mortgages – Core Lending before being securitized and under Mortgages – Securitization Financing after securitization. Beginning 2015, the Company is reporting all its alternative single family mortgages under Mortgages – Core Lending as it reflects a clearer picture of both our Alternative Single Family business and our Prime Single Family business. Accordingly at December 31, 2014, the Company reclassified $425,831 of securitized alternative single family mortgages from Securitization Financing to Core Lending. The Company also reclassified $14,924 of Interest income from Mortgages – Securitized Financing to Mortgages – Core Lending for the year ended December 31, 2014.*

Included in Mortgages – Securitization Financing are insured mortgages held for securitization or for sale but not yet sold of $484,233 (December 31, 2014 – $356,479) of which $45,019 (December 31, 2014 – $41,310) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment as at December 31, 2015 is ($206) (December 31, 2014 – $218).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at December 31, 2015, mortgage principal outstanding for these mortgages was $46,120 (December 31, 2014 – $47,180) and the fair value adjustment was $1,587 (December 31, 2014 – $1,942).

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

	2015	2014
Net (loss) gain in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	**$ (12)**	$ 325
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	**(355)**	(377)

Mortgages receivable that are scheduled to be settled within one year are as follows:

	2015	2014
Mortgages – Core Lending	**$ 4,028,533**	$ 3,159,558
Mortgages – Securitization Financing	**695,295**	776,925
	$ 4,723,828	$ 3,936,48

(b) Impaired and past due mortgages:

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

As at December 31, 2015, accrued interest on impaired mortgages amounted to $902 (December 31, 2014 – $2,153).

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

			2015	2014
	Gross	**Individual allowance**	**Net**	Net
Mortgages – Core Lending	**$ 34,086**	**$ 1,326**	**$ 32,760**	$ 36,511
Mortgages – Core Lending – Insured	**97**	**-**	**97**	148
Mortgages – Securitization Financing – Insured	**-**	**-**	**-**	657
	$ 34,183	**$ 1,326**	**$ 32,857**	$ 37,316

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

				2015
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Mortgages – Core Lending	**$ 28,656**	**$ 8,012**	**$ -**	**$ 36,668**
Mortgages – Core Lending – Insured	**1,200**	**820**	**2,255**	**4,275**
Mortgages – Securitization Financing – Insured	**3,503**	**628**	**313**	**4,444**
	$ 33,359	**$ 9,460**	**$ 2,568**	**$ 45,387**

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

(c) Allowance for credit losses:

	Individual allowance	Collective allowance	2015 Total
Balance, beginning of year	**$ 3,937**	**$ 29,510**	**$ 33,447**
Provision for credit losses	**1,258**	**2,380**	**3,638**
Realized losses	**(3,901)**	**-**	**(3,901)**
Recoveries	**32**	**-**	**32**
Balance, end of year	**$ 1,326**	**$ 31,890**	**$ 33,216**

	Individual allowance	Collective allowance	2014 Total
Balance, beginning of year	$ 3,381	$ 28,096	$ 31,477
Provision for credit losses	1,213	1,414	2,627
Realized losses	(673)	-	(673)
Recoveries	16	-	16
Balance, end of year	$ 3,937	$ 29,510	$ 33,447

Note 9 – Derecognition of financial assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. In accordance with Note 3(a)(iii) and 3(h), transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities.

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

Obligations under repurchase agreements

Obligations under repurchase agreements are transactions in which the Company sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Company continues to recognize the securities in their entirety in the consolidated balance sheets because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and the obligation to pay the repurchase price is recognized as a financial liability.

Securitizations

The Company securitizes insured residential mortgages by selling its issued MBS to third party investors, including a CMHC sponsored trust (Canada Housing Trust – "CHT") under the CMB program. The Company may also retain certain issued MBS as part of its liquidity management strategy, as well as to manage interest rate risk associated with the Company's participation in the CMB program. The CHT periodically issues CMB, which are guaranteed by the government, and sells them to third party investors. Proceeds from the CMB issuances are used by the CHT to purchase MBS from eligible MBS issuers who participate in the issuance of a particular CMB series.

Most of these securitization transactions do not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets or it neither transfers nor retains substantially all the risks and rewards and retains control in the asset. A key risk associated with transferred mortgages to which the Company remains exposed after the transfer in such securitization transactions is the prepayment risk. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and are accounted for as secured financing transactions, with the mortgages transferred pledged as collateral for these securitization liabilities.

During the year, the Company extended its securitization activities by entering into an agreement with another Schedule I Canadian bank to sell uninsured residential mortgages into a program sponsored by that bank. Under this agreement, the Company sells the mortgages to

the program and they remain in the program until maturity. The bank that sponsors the program retains all of the refinancing risks related to the program. The sale of these mortgages does not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and the proceeds received are recognized under securitization liabilities. The mortgages transferred are pledged as collateral for these securitization liabilities.

(i) MBS securitizations

For MBS securitization liabilities, principal payments collected from the underlying mortgages are passed on to the MBS investors, reducing the amount of the liability outstanding on a monthly basis. Interest on the MBS securitization liability is calculated at the MBS coupon rate and is paid monthly to the MBS investors.

(ii) CMB securitizations

As part of a CMB transaction, the Company may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by the Bank. These swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. As at December 31, 2015, the notional amount of these swaps was $1,424,072 (December 31, 2014 – $1,800,048).

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to CHT are transferred to CHT on a monthly basis where they are held and invested in eligible investments until the maturity of the bond. To the extent that these eligible investments are not the Company's own issued MBS, the investments are recorded on the Company's consolidated balance sheets under Investments – Canada Housing Trust re-investment accounts. Interest on the CMB securitization liabilities is calculated at the CMB coupon rate and is paid to the CMB holders on a semi-annual basis.

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

	2015		2014	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**$ 6,469,248**	**$ -**	$ 4,656,651	$ 52,413
Carrying amount of associated liability	**6,109,436**	**-**	4,355,328	52,413
Carrying value, net position	**359,812**	**-**	301,323	-
Fair value of assets	**6,659,389**	**-**	4,783,429	52,413
Fair value of associated liability	**6,237,077**	**-**	4,496,820	52,413
Fair value, net position	**$ 422,312**	**$ -**	$ 286,609	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $290,434 (December 31, 2014 – $309,797). The fair value of these assets are $291,826 (December 31, 2014 – $310,754).

The carrying amount of assets excludes mortgages held for securitization of $484,778 (December 31, 2014 – $356,650).

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

	MBS liabilities	CMB liabilities	Other securitization liabilities	Total
2016	$ 158,930	$ 411,305	$ 64,472	$ 634,707
2017	447,098	76,346	89,985	613,429
2018	364,303	42,302	121,615	528,220
2019	618,512	-	78,340	696,852
2020	1,518,702	509,366	133,012	2,161,080
Thereafter	1,118,693	384,753	-	1,503,446
	$ 4,226,238	$ 1,424,072	$ 487,424	$ 6,137,734

(b) Transfers that are derecognized in their entirety:

Certain securitization transactions undertaken by the Company result in the Company derecognizing the transferred assets in their entirety. This is the case where the Company has securitized and sold pools of residential mortgages with no prepayment option to third parties. The Company does not retain substantially all the risks and rewards of ownership and transfers control over the assets. The Company retains some continuing involvement in the transaction which is represented by the retained interests and the associated servicing liabilities.

The Company also achieves derecognition on the securitization and sale of certain pools of residential mortgages with a prepayment option. In these transactions, the Company securitizes and sells pools of residential mortgages and then engages in a transaction to transfer its rights in the excess interest spread and/or any prepayment risk, thereby transferring substantially all the risks and rewards of ownership in the asset and derecognizing the asset in its entirety.

The following table provides quantitative information of the Company's securitization activities and transfers that are derecognized in their entirety during the year:

	2015	2014
Mortgages securitized and sold	$ 617,015	$ 564,743
Carrying value of Securitization retained interests	27,122	20,092
Carrying value of Securitized mortgage servicing liability	6,099	4,977
Gains on mortgages securitized and sold	5,247	3,960
Income from securitization activities and retained interests	639	85

The expected undiscounted cash flows payable to the MBS holders on the Company's securitization activities and transfers that are derecognized in their entirety are as follows:

	MBS Liabilities
2016	$ 105,759
2017	285,749
2018	446,429
2019	428,241
2020	352,014
Thereafter	679,504
	$ 2,297,696

Note 10 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

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

The Company also uses bond forwards to hedge changes in future cash flows arising from changes in interest rates attributable to highly probable forecasted issuance of fixed rate liabilities. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

During the year, the Company began hedging the risk of changes in future cash flows related to its Restricted share unit plan 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 these derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price.

During the year, the Company also began hedging the risk of changes in future cash flows related to its Deferred share unit plan by entering into a total return equity swap contract with a third party. The value of this derivative financial instrument is linked to the price of the Company's common shares. Changes in fair value of the derivative offsets the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company does not apply hedge accounting to this derivative financial instrument.

Fair value hedges

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

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

(b) Financial impact of derivatives:

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

							2015
						Fair value	
Derivative instrument and term (years)	**Notional amount**	**Positive current replacement cost[1]**	**Credit equivalent amount[2]**	**Risk-weighted balance[3]**	**Assets**	**Liabilities**	**Net[4]**
Cash flow hedges:							
Bond forwards – hedge accounting							
1 or less	**$ 210,125**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (1,287)**	**$ (1,287)**
Total return swaps – hedge accounting							
1 or less	**1,379**	**-**	**-**	**-**	**-**	**(33)**	**(33)**
1 to 5	**2,725**	**-**	**13**	**3**	**-**	**(469)**	**(469)**
Total return swaps – non hedge accounting							
1 or less	**1,941**	**-**	**-**	**-**	**-**	**(377)**	**(377)**
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 to 5	**100,000**	**990**	**1,490**	**298**	**990**	**-**	**990**
Bond forwards – non hedge accounting							
1 or less	**52,040**	**-**	**-**	**-**	**-**	**(305)**	**(305)**
	$ 368,210	**$ 990**	**$ 1,503**	**$ 301**	**$ 990**	**$ (2,471)**	**$ (1,481)**

							2014
						Fair value	
Derivative instrument and term (years)	Notional amount	Positive current replacement cost[1]	Credit equivalent amount[2]	Risk-weighted balance[3]	Assets	Liabilities	Net[4]
Cash flow hedges:							
Bond fowards – hedge accounting							
1 or less	$ 100,684	$ -	$ -	$ -	$ -	$ (660)	$ (660)
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	185,000	83	83	17	83	-	83
1 to 5	322,000	1,827	3,437	687	1,827	-	1,827
Interest rate swaps – non-hedge accounting							
1 or less	90,000	6	6	1	6	-	6
Bond fowards – non-hedge accounting							
1 or less	42,300	-	-	-	-	(248)	(248)
	$ 739,984	$ 1,916	$ 3,526	$ 705	$ 1,916	$ (908)	$ 1,008

(1) *Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments.*
(2) *Credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline.*
(3) *Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.*
(4) *Derivative financial assets are included in Other assets (Note 12) and derivative financial liabilities are included in Other liabilities (Note 15).*

Cash flow hedges:

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

	2015	2014
Fair value loss recorded in Other comprehensive income	**$ (2,599)**	$ (3,448)
Fair value loss recorded in income	**(636)**	(583)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	**(3,090)**	(2,228)
Amounts reclassified from Other comprehensive income to Non-Interest expenses – compensation and benefits	**(530)**	-

The time periods in which the undiscounted hedged cash outflows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

Time period	**2015**	2014
Less than 1 year	**$ 68,562**	$ 63,449
1 – 3 years	**120,367**	109,906
4 – 5 years	**75,817**	78,196
Greater than 5 years	**73,240**	90,302
	$ 337,986	$ 341,853

Fair value hedges:

Gain/(loss) due to changes in fair value hedges on the Company's consolidated financial results is as follows:

	2015	2014
Interest rate swaps – hedge accounting	**$ 2,432**	$ 520
Interest rate swaps – non-hedge accounting	**(6)**	(255)
Bond forwards	**(57)**	(381)
Changes in fair value recognized in income	**$ 2,369**	$ (116)

Note 11 – Offsetting Financial Assets and Financial Liabilities

The disclosures in the table below include financial assets and financial liabilities that may or may not be offset in the consolidated financial statements but are subject to agreements with netting arrangements which covers similar financial instruments irrespective of whether they are offset in the consolidated financial statements. Such agreements include derivative agreements, collateral support agreements and repurchase agreements. Financial instruments include derivatives, securities purchased under reverse repurchase agreements and obligations under repurchase agreements.

The Company's derivative transactions are entered into under ISDA master agreements. In general, amounts owed by each counterparty under an agreement are aggregated into a single net amount being payable by one party to the other. In certain cases all outstanding transactions under an agreement may be terminated and a single net amount including pledges is due or payable in settlement of these transactions.

The Company's securities purchased under reverse repurchase agreements and obligations under repurchase agreements are covered by master agreements with netting terms similar to those of ISDA agreements. Both types of agreements generally contain set-off clauses.

The Company pledges and in certain cases receives collateral in the form of cash or securities in respect of the following transactions:

- derivatives;
- securities purchased under reverse repurchase agreements; and
- obligations under repurchase agreements.

Such collateral is subject to the credit support agreement associated with ISDA agreements, or subject to standard industry terms of repurchase agreements. This means that cash or securities pledged/received as collateral can be sold during the term of the transaction but must be returned when the collateral is no longer required and/or on maturity. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

						2015
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset on the consolidated balance sheets**	**Net amounts of financial assets presented on the consolidated balance sheets**	**Financial instruments**	**Financial collateral (including cash collateral received)**	**Net amount**
Derivatives held for risk management:						
Interest rate swaps	**$ 990**	**$ -**	**$ 990**	**$ -**	**$ (885)**	**$ 105**
Securities purchased under reverse repurchase agreements	**19,918**	**-**	**19,918**	**-**	**(19,918)**	**-**
	$ 20,908	**$ -**	**$ 20,908**	**$ -**	**$ (20,803)**	**$ 105**

There are no financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

						2014
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 1,926	$ (10)	$ 1,916	$ -	$ (1,916)	$ -
Securities purchased under reverse repurchase agreements	18,117	-	18,117	-	(18,117)	-
	$ 20,043	$ (10)	$ 20,033	$ -	$ (20,033)	$ -

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

				Related amounts not offset on the consolidated balance sheets		2014
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including) cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 10	$ (10)	$ -	$ -	$ -	$ -
Obligations under repurchase agreements	52,413	-	52,413	(52,413)	-	-
	$ 52,423	$ (10)	$ 52,413	$ (52,413)	$ -	$ -

Note 12 – Other Assets

	2015	2014
Intangible assets	**$ 18,836**	$ 11,669
Capital assets	**14,369**	3,964
Prepaid expenses and other	**8,223**	6,399
Real estate owned	**8,200**	7,473
Receivable relating to securitization activities	**5,524**	4,592
Income taxes recoverable	**3,578**	-
Derivative financial instruments — interest rate swaps	**990**	1,916
Accrued interest and dividends on non-mortgage assets	**420**	412
Mortgage commitments	**2**	16
	$ 60,142	$ 36,441

Intangible assets comprise of internally generated system and software development costs relating to the bank's information systems.

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

Note 13 – Deposits

	2015	2014
Term and other deposits	**$ 8,115,483**	$ 7,385,456
Accrued interest	**113,563**	122,670
Deferred deposit agent commissions	**(17,781)**	(18,708)
	$ 8,211,265	$ 7,489,418

Term and other deposits include $45,193 (December 31, 2014 – $135,841) of deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at December 31, 2015 is $238 (December 31, 2014 – ($109)).

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

		2015		2014
Fair value loss recognized in income	$	(347)	$	(61)

Term and other deposits also include $100,000 (December 31, 2014 – $502,060) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at December 31, 2015 is $946 (December 31, 2014 – $1,764).

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

		2015		2014
Fair value loss recognized in income	$	(2,410)	$	(518)

Note 14 – Income Taxes

(a) Income tax provision:

		2015		2014
Current tax expense:				
Current year	$	27,899	$	31,905
Adjustments for prior years		(52)		(829)
		27,847		31,076
Deferred tax expense:				
Reversal of temporary differences		13,683		5,034
Adjustments for prior years		(59)		817
Changes in tax rates		127		29
		13,751		5,880
Total income tax expense	$	41,598	$	36,956

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

	2015	2014
Canadian statutory income tax rate	26.5%	26.4%
Increase (decrease) resulting from:		
Tax-exempt income	(2.0%)	(1.0%)
Future tax rate changes	0.1%	0.1%
Non-deductible expenses and other	0.2%	0.3%
Effective income tax rate	24.8%	25.8%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	2015	2014
Deferred income tax assets:		
Allowance for credit losses	$ 8,502	$ 7,896
Share issue expenses	1,011	1,427
Other	1,248	1,165
	10,761	10,488
Deferred income tax liabilities:		
Securitization activities	19,310	13,974
Deposit agent commissions	4,638	4,822
Net mortgage fees	10,264	3,720
Intangible costs	3,645	2,061
Other	1,602	754
	39,459	25,331
Net deferred income tax liabilities	$ 28,698	$ 14,843

Note 15 – Other Liabilities

	2015	2014
Mortgagor realty taxes	$ 39,268	$ 31,512
Accounts payable and accrued liabilities	24,999	16,075
Securitized mortgage servicing liability	14,552	11,192
Derivative financial instruments – bond forwards	1,592	908
Derivative financial instruments – total return swaps	879	-
Income taxes payable	-	2,284
	$ 81,290	$ 61,971

Note 16 – Bank Facilities

(a) Operating credit facility:

The company has a $35,000 credit facility in place with a major Schedule I Canadian Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance as at December 31, 2015 and 2014.

(b) Secured funding facility:

The Company has a $350,000 credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. The balance outstanding on this facility as at December 31, 2015 is $50,779 (December 31, 2014 – $92,236).

During the year, the Company secured a $350,000 revolving facility with a group of major Schedule I Canadian banks to finance insured residential mortgages until such time as they can be securitized. The balance outstanding on this facility as at December 31, 2015 is $185,000 (December 31, 2014 – nil).

Note 17 – Debentures

Equitable Group Inc. has one series of debentures outstanding at December 31, 2015, compared with two series outstanding at the end of the prior year.

The Company has used the proceeds from Equitable Group Inc.'s debentures to provide regulatory capital to Equitable Bank, and has done so by issuing subordinated debentures from Equitable Bank. These intercompany debentures are subordinated to the rights of Equitable Bank's depositors and other creditors. Equitable Bank can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements, including any applicable penalties, and the prior approval of OSFI.

During the year, the Company redeemed its 6.09% Series 9 debentures of $20,000 with all accrued and unpaid interest.

The series 10 debentures may be redeemed at any time at the option of the Company, subject to the terms and conditions of the debenture agreements, including any applicable penalties and its liquidity position. Interest on Series 10 debentures is paid semi-annually at a fixed rate of 5.399% per annum.

2015

Debenture	Interest rate	Issue date	Maturity date	**Outstanding December 31, 2014**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2015**
Series 9	6.09%	2010	December 2020	**$ 20,000**	**$ -**	**$ 20,000**	**$ -**
Series 10	5.40%	2012	October 2017	**65,000**	**-**	**-**	**65,000**
				$ 85,000	**$ -**	**$ 20,000**	**$ 65,000**

2014

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2013	Issued during the year	Repaid during the year	Outstanding December 31, 2014
Series 8	6.50%	2009	December 2019	$ 7,483	$ -	$ 7,483	$ -
Series 9	6.09%	2010	December 2020	20,000	-	-	20,000
Series 10	5.40%	2012	October 2017	65,000	-	-	65,000
				$ 92,483	$ -	$ 7,483	$ 85,000

Note 18 – Shareholders' Equity

(a) Capital stock:

Authorized:

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

Issued and outstanding shares:

	2015			2014		
	Number of shares	**Amount**	**Dividends per share**[1]	Number of shares	Amount	Dividends per share[1]
Preferred Shares:						
Series 1 - Balance, beginning of year	-	$ -		2,000,000	$ 50,000	
Redeemed during the year	-	-		(2,000,000)	(50,000)	
Balance, end of year	-	$ -	$ -	-	$ -	$ 1.36
Series 3 - Balance, beginning of year	3,000,000	$ 75,000		-	$ -	
Issued during the period	-	-		3,000,000	75,000	
Balance, end of year	3,000,000	$ 75,000	$ 1.59	3,000,000	$ 75,000	$ 0.63
Balance, end of year, before issuance cost	3,000,000	$ 75,000		3,000,000	$ 75,000	
Issuance cost	-	(2,443)		-	(2,588)	
Balance, end of year, after issuance cost	3,000,000	$ 72,557	$ 1.59	3,000,000	$ 72,412	$ 1.99

	2015			2014		
	Number of shares	**Amount**	**Dividends per share**[1]	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of year	15,435,356	$ 140,657		15,355,405	$ 137,969	
Contributions from reinvestment of dividends	-	-		10,062	542	
Contributions from exercise of stock options	103,249	2,473		69,889	1,746	
Transferred from contributed surplus relating to the exercise of stock options	-	560		-	400	
Balance, end of year	15,538,605	$ 143,690	$ 0.76	15,435,356	$ 140,657	$ 0.68

[1] *Dividends per share represents dividends declared by the Company during the year.*

(b) Preferred shares:

As at December 31, 2014, with the prior approval of OSFI, the Company has redeemed all of its outstanding Series 1 preferred shares at par, together with all accrued and unpaid dividends.

Series 3 – 5 – year rate reset preferred shares

Holders of Series 3 preferred shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 6.35% per share for an initial period ending September 30, 2019. Thereafter, the dividend rate will reset every five years at a level of 4.78% over the then five-year Government of Canada bond yield. Series 3 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on September 30, 2019 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 3 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 4 (the "Series 4 preferred shares"), subject to certain conditions, on September 30, 2019 and on September 30 every five years thereafter.

Series 4 – floating rate preferred shares

Holders of the Series 4 preferred shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.78%, as and when declared by the Board of Directors. Series 4 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on (i) September 30, 2024 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2019. Series 4 preferred shares are convertible at the holder's option to non-cumulative 5-year rate reset preferred shares, Series 3 (the "Series 3 preferred shares"), subject to certain conditions, on September 30, 2024 and on September 30 every five years thereafter.

(c) Common shares:

Issuance of common shares

During the year, 103,249 (2014 – 69,889) shares were issued as a result of the exercise of stock options for cash consideration of $2,473 (2014 – $1,746) and $560 (2014 – $400) was transferred from Contributed surplus to Common shares as a result of these exercises. In addition, nil (2014 – 10,062) common shares were issued under the Company's dividend reinvestment plan.

(d) Dividend reinvestment plan:

The Company has a dividend reinvestment plan. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price. The Company has suspended the plan in 2014 but retains the option to reinstate it in a future period.

(e) Dividend restrictions:

The Company's subsidiary, Equitable Bank, is subject to minimum capital requirements, as prescribed by OSFI under the Bank Act (Canada). The Company must notify OSFI prior to the declaration of any dividend and must ensure that any such dividend declaration is done in accordance with the provisions of the Bank Act (Canada), and those OSFI guidelines relating to capital adequacy and liquidity.

Note 19 – Stock-based Compensation:

(a) Stock-based compensation plan:

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

	2015		2014	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**544,449**	**$ 33.52**	521,631	$ 28.54
Granted	**109,195**	**59.66**	106,430	53.55
Exercised	**(103,249)**	**23.95**	(69,889)	24.98
Forfeited/cancelled	**(10,159)**	**60.83**	(13,723)	42.85
Outstanding, end of year	**540,236**	**$ 40.12**	544,449	$ 33.52
Exercisable, end of year	**267,725**	**$ 30.99**	248,540	$ 26.35

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2015:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 24.75	40,100	0.9	40,100
$ 24.50	58,200	0.9	58,200
$ 26.01	7,500	2.9	7,500
$ 29.32	105,972	3.2	76,670
$ 27.23	10,000	3.4	7,500
$ 36.11	106,168	4.2	49,623
$ 37.43	4,000	4.4	2,000
$ 46.65	6,000	4.9	3,000
$ 52.90	95,964	5.2	23,132
$ 59.98	98,832	6.2	-
$ 55.32	7,500	6.9	-

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $935 (2014 – $911) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during 2015 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	2015	2014
Risk-free rate	**0.9%**	1.6%
Expected option life (years)	**4.8**	4.8
Expected volatility	**24.7%**	23.3%
Expected dividends	**1.2%**	1.5%
Weighted average fair value of each option granted	**$ 10.74**	$ 9.24

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

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

During the year ended December 31, 2015, the Company expensed $508 (2014 – $387) under this plan.

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

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. A director will be credited with additional DSUs whenever a cash dividend is declared by the Company. When an individual ceases to be a Director (the "Separation Date"), the individual may elect up to two separate redemption dates to be paid out the value of the DSUs. The redemption date elected by the participant is a date after the Separation Date and no later than December 15 of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days immediately prior to the redemption date.

In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU Plan, any proportionate adjustment as it considers appropriate to reflect that change. The DSU plan is administered by the Board or a committee thereof.

During the year the Company began hedging the risk of change in future cash flows related to the DSU plan. Please refer to Note 10 – Derivative Financial Instruments for further details.

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

	2015	2014
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**24,709**	32,754
Granted	**5,117**	5,090
Dividend Reinvested	**307**	329
Exercised	**-**	(13,464)
Outstanding, end of year	**30,133**	24,709

In 2015, nil (2014 – 13,464) DSUs were exercised for a total value of nil (2014 – $847). The liability associated with DSU's outstanding as at December 31, 2015 was $1,565 (December 31, 2014 – $1,586). Compensation income (expense) recorded in 2015, relating to DSUs outstanding during the year amounted to $21 (2014 – ($854)).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs or PSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the plan, each RSU or PSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs or PSUs when cash dividends are paid on the Company's common shares. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employees in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to, and including the vesting date. The value of PSUs may be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada.

During the year, the Company began hedging the risk of change in future cash flows related to the RSU plan. Please refer to Note 10 – Derivative Financial Instruments for further details.

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

	2015	2014
	Number of Units	Number of Units
Outstanding, beginning of year	**39,794**	44,376
Granted	**26,855**	21,455
Dividend reinvested	**445**	326
Exercised	**(21,764)**	(24,153)
Forfeited/cancelled	**(2,469)**	(2,210)
Outstanding, end of year	**42,861**	39,794

In December 2015, 21,764 (2014 – 24,153) RSUs were exercised for a total value of $1,166 (2014 – $1,233). Compensation expense recorded relating to RSUs and PSUs outstanding during the year amounted to $886 (2014 – $1,832). The liability associated with RSUs and PSUs outstanding as at December 31, 2015 was $1,093 (December 31, 2014 – $1,574).

Note 20 – Earnings Per Share

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

	2015	2014
Earnings per common share — basic:		
Net income	$ 125,865	$ 106,718
Dividends on preferred shares	4,763	4,611
Net income available to common shareholders	$ 121,102	$ 102,107
Weighted average basic number of common shares outstanding	15,466,907	15,398,991
Earnings per common share — basic	$ 7.83	$ 6.63
Earnings per common share — diluted:		
Net income available to common shareholders	$ 121,102	$ 102,107
Weighted average basic number of common shares outstanding	15,466,907	15,398,991
Adjustment to weighted average number of common shares outstanding:		
Stock options	205,427	248,506
Weighted average diluted number of common shares outstanding	15,672,334	15,647,497
Earnings per common share — diluted	$ 7.73	$ 6.53

For the year ended December 31, 2015, the calculation of the diluted earnings per share excluded 110,759 (2014 – 9,637) average options outstanding with a weighted average exercise price of $58.39 (2014 – $54.40) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 21 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 36 -38 of the MD&A.

Equitable Bank maintains a Capital Management Policy and an Internal Capital Adequacy Assessment Process to govern the quality and quantity of capital utilized in its operations. During the year, Equitable Bank complied with all internal and external capital requirements.

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

($ THOUSANDS)	2015	2014
Common Equity Tier 1 Capital ("CET1"):		
Common shares	$ 145,836	$ 143,141
Contributed surplus	6,126	5,423
Retained earnings	600,128	490,774
Accumulated other comprehensive loss[1]	(22,458)	(2,453)
Less: Regulatory adjustments	(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	-	(4,806)
Tier 1 Capital	787,612	702,765
Tier 2 Capital:		
Collective allowance	31,890	29,510
Subordinated debentures	65,000	85,000
Tier 2 Capital	96,890	114,510
Total capital	$ 884,502	$ 817,275

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

Note 22 – Commitments and Contingencies

(a) Lease commitments:

The Company is committed to operating leases for office premises located in Toronto, Calgary, Montreal and Vancouver. The future minimum lease payments under the leases are as follows:

	2015	2014
Less than 1 year	$ 1,819	$ 1,222
1-5 years	9,358	476
Greater than 5 years	7,458	-
	$ 18,635	$ 1,698

In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the terms of the leases. Lease expense recognized in the consolidated statements of income for 2015 amounted to $2,333 (2014 – $2,123).

(b) Credit commitments:

As at December 31, 2015, the Company had outstanding commitments to fund $1,009,763 (December 31, 2014 – $777,890) of mortgages in the ordinary course of business. Of these commitments, $540,332 (December 31, 2014 – $521,345) are expected to be funded within 1 year and $469,431 (December 31, 2014 – $256,545) after 1 year.

The Company has issued standby letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letter of credits in the amount of $8,560 were outstanding at December 31, 2015 (December 31, 2014 – $5,992), none of which have been drawn upon at that date.

(c) Contingencies:

In September 2013, Equitable entered into an agreement to resolve the litigation related to an alleged fraud that was identified in 2011. The net outstanding receivable balance is $3.2 million (December 31, 2014 – $3.2 million) and the Company is currently pursuing a 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.

The Company is subject to other various claims and litigation arising from time to time in the ordinary course of business. Management has determined that the aggregate liability, if any, which may result from other various outstanding legal proceedings would not be material and no other provisions have been recorded in these consolidated financial statements.

Note 23 – Related Party Transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. The Company's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. The Company considers the members of the Board of Directors as part of key management personnel.

(a) Key management personnel compensation table:

	2015	2014
Short-term employee benefits	**$ 3,306**	$ 3,120
Post-employment benefits	**45**	45
Share-based payments	**728**	1,861
	$ 4,079	$ 5,026

(b) Share transactions, shareholdings and options of key management personnel and related parties:

As at December 31, 2015, key management personnel held 2,154,585 (December 31, 2014 – 2,125,986) common shares and 9,000 (December 31, 2014 – 23,000) preferred shares. These shareholdings include common shares of 2,001,400 (December 31, 2014 – 2,006,356) that were beneficially owned by the non-management Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management held 312,126 (December 31, 2014 – 315,853) options to purchase common shares of the Company at prices ranging from $24.50 to $59.98.

(c) Other transactions:

As at December 31, 2015, deposits of $32 (December 31, 2014 – $328) were held by key management personnel and related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the Directors. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

Note 24 – Interest Rate Sensitivity

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

	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive	Total[1]
Assets:								
Cash and cash equivalents and restricted cash	**$ 531,354**	**$ -**	**$ -**	**$ 531,354**	**$ -**	**$ -**	**$ -**	**$ 531,354**
Effective interest rate	*0.76%*	*-*	*-*	*0.76%*	*-*	*-*	*-*	*0.76%*
Securities purchased under reverse repurchase agreements	**-**	**19,918**	**-**	**19,918**	**-**	**-**	**-**	**19,918**
Effective interest rate	*-*	*0.50%*	*-*	*0.50%*	*-*	*-*	*-*	*0.50%*
Investments	**12,980**	**7,635**	**43,044**	**63,659**	**104,066**	**14,868**	**(28,879)**	**153,714**
Effective interest rate	*3.80%*	*6.66%*	*6.63%*	*6.05%*	*6.10%*	*5.84%*	*-*	*7.20%*
Mortgage receivable	**2,042,478**	**698,917**	**3,121,706**	**5,863,101**	**2,791,514**	**10,324**	**9,660**	**8,674,599**
Effective interest rate	*4.39%*	*4.63%*	*4.49%*	*4.47%*	*4.55%*	*5.93%*	*-*	*4.50%*
Mortgage receivable securitized	**336,970**	**165,041**	**637,894**	**1,139,905**	**3,514,124**	**1,301,002**	**71,176**	**6,026,207**
Effective interest rate	*1.88%*	*3.25%*	*3.12%*	*2.77%*	*2.91%*	*3.23%*	*-*	*2.92%*
Securitized Retained Interest	**-**	**-**	**-**	**-**	**-**	**-**	**61,650**	**61,650**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**60,142**	**60,142**
Total assets	**$ 2,923,782**	**$ 891,511**	**$ 3,802,644**	**$ 7,617,937**	**$ 6,409,704**	**$ 1,326,194**	**$ 173,749**	**$ 15,527,584**
Liabilities:								
Deposits[2]	**$ 184**	**$ 1,786,510**	**$ 3,523,349**	**$ 5,310,043**	**$ 2,802,284**	**$ -**	**$ 98,938**	**$ 8,211,265**
Effective interest rate	*1.31%*	*1.61%*	*1.88%*	*1.79%*	*2.15%*	*-*	*-*	*1.89%*
Securitization liabilities	**-**	**698,089**	**757,926**	**1,456,015**	**3,411,219**	**1,240,248**	**1,954**	**6,109,436**
Effective interest rate	*-*	*1.54%*	*2.10%*	*1.83%*	*2.17%*	*2.93%*	*-*	*2.24%*
Bank facilities	**-**	**235,779**	**-**	**235,779**	**-**	**-**	**-**	**235,779**
Effective interest rate	*-*	*1.62%*	*-*	*1.62%*	*-*	*-*	*-*	*1.62%*
Debentures[3]	**-**	**-**	**-**	**-**	**65,000**	**-**	**-**	**65,000**
Effective interest rate	*-*	*-*	*-*	*-*	*5.47%*	*-*	*-*	*5.47%*
Other liabilities and deferred taxes	**-**	**-**	**-**	**-**	**-**	**-**	**109,988**	**109,988**
Shareholders' equity	**-**	**-**	**-**	**-**	**75,000**	**-**	**721,116**	**796,116**
Total liabilities and shareholders' equity	**$ 184**	**$ 2,720,378**	**$ 4,281,275**	**$ 7,001,837**	**$ 6,353,503**	**$ 1,240,248**	**$ 931,996**	**$ 15,527,584**
Off-balance sheet items[4]	**$ -**	**$ (159,009)**	**$ 36,747**	**$ (122,262)**	**$ 217,000**	**$ (94,738)**	**$ -**	**$ -**
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	**$ 2,923,598**	**$ (1,987,876)**	**$ (441,884)**	**$ 493,838**	**$ 273,201**	**$ (8,792)**	**$ (758,247)**	**$ -**
Total assets – 2014	$ 1,929,870	$ 817,370	$ 2,955,264	$ 5,702,504	$ 5,399,788	$ 1,593,470	$ 159,141	$ 12,854,903
Total liabilities and shareholders' equity – 2014	$ 366,244	$ 1,103,204	$ 3,721,133	$ 5,190,581	$ 5,292,349	$ 1,567,463	$ 804,510	$ 12,854,903
Off-balance sheet items – 2014	$ -	$ (673,902)	$ 276,126	$ (397,776)	$ 492,544	$ (94,768)	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet– items – 2014	$ 1,563,626	$ (959,736)	$ (489,743)	$ 114,147	$ 599,983	$ (68,761)	$ (645,369)	$ -

[1] Accrued interest is included in "Non- interest sensitive" assets and liabilities.

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

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

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

DIRECTORS

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

Johanne Brossard
Corporate Director

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

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

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

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer of the Company and Equitable Bank

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

Vincenza Sera
Corporate Director

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

OFFICERS

Andrew Moor
President and Chief Executive Officer of the Company and Equitable Bank

Ron Tratch
Vice-President of the Company and 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

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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

An Equitable Approach to Value Creation.

As a branchless bank, broadly owned by and for Canadians, we take a uniquely Equitable approach to serving our customers and shareholders.

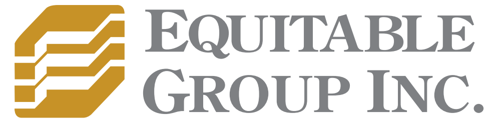
Rather than investing in branch infrastructure, we deploy our resources in highly responsive service, innovative mobile and digital banking capabilities and in savings and lending solutions that customers nationwide rely on to achieve their financial and lifestyle goals.

In doing so, we deliver consistently great results for shareholders who have come to recognize Equitable (TSX: EQB and EQB.PR.C) as the Bank to bank on for dividend and earnings growth, risk-managed asset accumulation and an always attractive Return on Equity.

We believe the future is Equitable and we invite you to be part of it today.

To learn more, visit equitablebank.ca

Single Family Lending Services | Business Enterprise Solutions
Commercial Finance Group | Securitization Financing
Deposit Services | EQ Bank



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