EQUITABLE

ANNUAL REPORT 2014

Service Opens New Doors for Our Branchless Bank

Prime Time Ambitions

Our new prime mortgage business sets serious goals based on service excellence

High Interest in Our HISA

Savers appreciate better returns from Equitable

CONTENTS

High Interest in our HISA

6

The Equitable Bank High Interest Savings Account offers highly competitive savings rates

Prime Time Ambitions

8

Equitable launches its prime mortgage business with serious long-term objectives

Commercial Storeys

12

Our Commercial Lending Services team manages a $2.3 billion portfolio

Service

Opens New Doors for Our Branchless Bank

Fundamentally, banking is a straightforward business. Canadians with money look to save it in a bank that offers a good rate of interest while those looking to borrow need funding.

In organizing this monetary exchange, a bank's role is to manage risks so that savers know their money is safe and regulators are able to satisfy themselves that the guarantee offered on those savings is sensible. The difference between the rate at which borrowers pay to borrow from the bank and savers are paid by the bank must cover the institution's cost of doing business.

Banks incur many such costs to operate. The three largest are human resources, owning and operating real estate that houses bank branches and technology. In this equation, a bank that can create a highly productive workforce and reduce the cost of real estate is the one that delivers the best value to savers, borrowers and shareholders.

Equitable is that Bank.

Over the past decade, Equitable has achieved tremendous productivity for our stakeholders as a result of the way we designed our Bank – without branches – leveraged our technology, forged partnerships with mortgage brokers and built a highly effective and caring workforce.

Today, we are Canada's ninth largest independent Schedule I Bank and one of the few financial institutions in the country that are truly branchless. This makes us extremely well positioned to address the needs of consumers who prefer the flexibility and convenience of working with their bank on their own terms, whenever and wherever they want. That consumer preference is growing rapidly at the expense of branch banking. In a 2014 Abacus Data survey called *How Canadians Bank*, just 13% of Canadians identified branch banking as their main banking method, down from 29% in 2000.

Further, by avoiding the costs associated with branch bricks and mortar, Equitable is able to devote more resources to building partnerships, diversifying our products and developing internal expertise that directly benefit all of our stakeholders.

This past year served as a shining example of the merits, strengths and potential of the Bank's business model service-first attitude. Without adding a single branch, we:

- Achieved record annual mortgage originations of $4.6 billion ($1.1 billion higher than in 2013)
- Increased our share of the alternative mortgage market
- Attracted a record $1 billion of new savings deposits, more than a third of which were invested in our new *Equitable Bank High Interest Savings Account* offering
- Introduced two prime Single Family mortgage products – a natural complement to our alternative mortgage lending business – and the *Equitable Bank Home Equity Line of Credit*
- Brought our Single Family lending services to Québec, New Brunswick, Prince Edward Island and Newfoundland, marking the completion of a provincial expansion that began 10 years ago in the West when we decided to grow beyond Ontario to take advantage of cross currents in migration, immigration and economic trends within Canada

As a lender, we now have true coast-to-coast Single Family coverage and as a Bank, our platform is now stronger than ever. However, our strength comes not just from new products or territories or even the high level of productivity and low operating costs derived from our branchless model.

As much as anything else, it is attentive service that is opening new doors to growth for Equitable across Canada.

Mortgage Brokers: Our Key Service Partners

Unlike Canada's big banks, Equitable has never relied on branch personnel. Instead, we have long taken the view that homeowners are best served when they receive professional advice from independent mortgage agents and brokers who shop the market for the best solution.

To support our view, we offer a range of products and approaches to allow brokers to find great options for their

Service Pays Off With Share Gains

One of the ways we know our approach to service is working is market share.

In 2014, various independent sources reported that Equitable Bank's share of the alternative mortgage market, based on originations, increased by 430 basis points. This gain continues a long-term trend that began as the structure of the market changed after the global financial crisis in 2008 and Equitable made the strategic decision to put more resources into the single family market.

Delivering consistently great service is also the driving force for our Commercial Lending division, which must do so while effectively managing in a market environment where credit decision making and pricing are both complex and challenging. By employing a team of smart, dedicated and knowledgeable underwriters that can assess complex credit consistently, and working closely with our partners, we continue to make progress in this important market as well.

Objectively measuring the quality of service is hard to do, but our efforts have also been recognized with independent industry awards and these are the best indicators of all. In the 2014 Brokers on Lenders survey, Equitable Bank ranked far ahead of all lenders whose primary business, like ours, is serving brokers in the alternative mortgage market.

Our people are aware that it will be hard to maintain this reputation for excellence in a constantly changing world where risk management and compliance create complexity and with it, the risk of service disappointment. However, they are also aware that by making a diligent effort and sustaining their razor sharp focus on our service goals, we stand a good chance of staying on top of our game.

customers at Equitable on the premise that when our mortgage broker customers succeed, we succeed.

To ensure mutual success, we put a premium on responsiveness. When a mortgage broker calls or emails us with a borrower's request, our people are empowered to respond. In the words of one broker: "Equitable Bank performs much better than most because [its] team is reachable and turnaround times are quick."

Empowerment to act quickly and expertly has had a decidedly positive impact. It has increased the number of proposed transactions we receive from brokers with whom we enjoy long-term partnerships, helped us to secure new mortgage-broker relationships and overall, allowed us to build greater affinity with more borrowers who are the ultimate beneficiaries of our collaborative lender-broker service efforts.

Providing responsive, "high-touch" service has meant recruiting and developing experts who have the knowledge to react to opportunity when it knocks, and who share our corporate belief that a passion for service is the lifeblood of our Bank.

Service in a Complex Environment

Delivering great service in a highly regulated and complex environment is a challenge that has to be dealt with by constant attention to detail and improvements to our processes. In recent years, market participants have adapted to important new rules, including those governing residential mortgage underwriting, known as Guideline B-20, as well as the anti-money laundering regime and consumer disclosure.

In this complex environment, Equitable plays a constructive role in helping mortgage brokers and borrowers navigate the process to successfully complete business in a compliant manner. Examples of ways we have made life simpler for customers and brokers are simplifications to our commitment letters, enhanced communication and transparency in our decision making and an award-winning video that educates everyone on the steps necessary to complete a loan.

Support for professional organizations that represent mortgage brokers is another way we illustrate our commitment. This includes our long-term partnership with the Canadian Association of Accredited Mortgage Professionals (CAAMP), which promotes consumer awareness of the benefits of working with the mortgage broker channel and delivers training for mortgage professionals. We also lend our expertise by serving on educational and compliance committees for organizations such as the Independent Mortgage Brokers Association in Ontario, the Alberta Mortgage Brokers Association and the Mortgage Brokers Association of British Columbia.

"With our depth of knowledge in the industry, we're able to directly engage with our partners to help grow and enhance their business," says Kim Kukulowicz, Vice-President, Sales and Partner Relations. "This has resulted in deep relationships that are proving to be mutually beneficial."

We also recently joined the Canadian Bankers Association and are long-standing members of the Trust Companies Association of Canada. These organizations ensure that government understands the impact of potential policy changes on the marketplace and help us to air concerns shared by the financial services industry as whole. Our involvement also gives Equitable a seat at the table so we can advocate in favour of consumer-friendly banking regulation.

But nothing beats direct engagement with brokers and customers alike. By listening and acting on their advice and concerns, we are able to properly reflect their interests to policy makers while also continuously improving our own way of doing business.

Going National

As we have developed the strength of our service offering, we have been able to expand to new cities: 12 over the past decade. Everywhere we go, we invest to deliver the kind of service that differentiates our Bank in the local market.

Before expanding, our team researches the unique dynamics of each local property market and seeks to understand the needs of each local mortgage broker community. The result is a solid game plan that we use to win over new customers and manage risk as we gain experience in each market we serve. Take our Single Family residential expansion in Québec as an example.

For the past five years, our Commercial Lending operation has successfully operated, sans branches, in Montreal where we have forged a reputation as a service-first Bank and met many commercial mortgage brokers who are also active in the residential housing market. This experience and our familiarity with the Gatineau Region (which is contiguous to Ottawa where we lend on single family properties) encouraged us to enter the Montreal and Gatineau Single Family residential markets in 2014.

Montreal and Gatineau are, in aggregate, home to four million residents now including our Québec Single Family team. Headed by Lisa Taylor, Senior Manager, Residential Mortgage Underwriting, Québec, our team is comprised of eight dedicated professionals with a collective 80 years of provincial lending experience among them.

"As a result of the close working relationship between our Commercial and Single Family Lending teams in the province, who now serve many of the same mortgage brokers and occasionally the same borrowers," says Lisa, "our expansion has created important service and business development advantages for the Bank."

Many Possibilities, One Purpose

Providing great service is opening new avenues to growth across all parts of the Bank – Savings, Commercial Lending and Single Family Lending. In 2015, we will focus on improving execution in all our of business lines while building interest in our High Interest Savings Account, Prime Single Family Mortgages and rolling out new digital banking capabilities.

Our services are best delivered through a branchless configuration. As we grow, we intend to play to our natural advantages so that we can continue to deliver the best value to savers, borrowers and shareholders.

High Interest In Our HISA

As a Schedule I Bank and member of the Canada Deposit Insurance Corporation (CDIC), Equitable has proven time and again that our business model works better for those wishing to save.

Rather than investing in branches, Equitable instead offers highly competitive savings rates on GICs and has been rewarded with steady long-term growth for what is now our multi-billion dollar savings business.

Recently, we made the decision to diversify our savings products and reach those who have yet to experience the financial advantage of saving with us. Just over a year ago, we introduced the *Equitable Bank High Interest Savings Account* (HISA) and made it available on the FundSERV network (Company Code EQB), a national platform used by professional financial advisors to exchange information and order products for their clients. This channel to market is important for us as many Canadians rely on highly informed independent advisors to access strategies such as laddered investing.

Market reception to our HISA through this channel has been remarkable. By year-end 2014, HISA balances surpassed even our most optimistic expectations as we attracted $346 million of savings compared to our first year goal of $150 million (climbing to half a billion dollars by the end of March, 2015). Our GIC products also attracted much higher balances: over $500 million of new funds were invested in Equitable Bank GICs in 2014. Together, savers placed a record amount of new savings with us during the year, bringing deposits in the Bank to $7.4 billion.

In this era of ultra-low interest rates, it is understandable that Canadians search out the best possible rates on their savings. They find them at Equitable Bank. Whether they choose one to five year Equitable Bank GICs, Cashable GICs or our HISA, savers typically find our rates are superior to those available from the Big Banks and are also better than the returns offered by most fixed income mutual funds.

But beyond high interest rates, Canadians come here for other reasons as well, most notably our status as a strong, stable and regulated Schedule I Bank where deposits are safeguarded. Savers also appreciate other features such as interest rate transparency, which means they know exactly what return they will receive on their funds, easy-to-understand terms, and a choice of savings vehicles to suit just about every financial objective, be it long, medium or short term.

The Savings Service Team

As a savings institution, we seek to make service excellence a key part of our approach and a recognized emblem of our Bank brand. That is why we employ a dedicated team of professionals with the expertise to respond quickly and accurately to questions and requests from financial advisors and savers. We also continue to show our support for the financial planning industry in Canada. In 2014, we sponsored the *Canadian Institute of Financial Planners'* annual conference in Halifax where attendees learned the latest in risk management, income and estate planning.

It is important for Equitable to excel in service delivery. As the rapid inflow of savings over the past year attests, we are making strides in this regard but we believe we can do more. Over the next year, we plan to introduce digital banking capabilities which will take us to the next level as a financial solutions provider that is ready to meet the needs of a new generation of retail consumers.

Take Note

To grow our mortgage business, it is vital for our Bank to have many reliable sources of cost-competitive funding. And we do; but there is always room for more. That's why we chose to further diversify those sources in 2014 with our first ever deposit note offering.

In April, 2014, we placed $150 million with a group of institutions. On a three-year fixed rate term, the note has a coupon of 2.595%. This attractive rate – which was 135 basis points over benchmark Government of Canada bond yields at the time of issuance – coupled with investors' assessment of the Bank's financial strength, led to an over-subscribed offering.

Considering both market demand for our products and our strategy of maintaining funding diversification, we plan to offer more deposit notes in the future.

Prime Time Ambitions

Canada's prime mortgage lending market now has a new player: in late 2014, Equitable Bank launched its Single Family Prime Lending business.

This important addition to the Bank's business lines was made possible as a result of recent changes to the way Canada Mortgage and Housing Corporation (CMHC) allocates volumes under its Mortgage Backed Securities securitization program. In simple terms, CMHC's revised allocation methodology gave us confidence that we have a secure and meaningful source of cost-competitive funding to support a prime mortgage offering.

For mortgage brokers, Equitable's entry into the prime market means the arrival of a financial solution from a Bank they know well and one that does not attempt to compete with them for customers, but rather partners for mutual benefit. For Canadian borrowers, it means they can look beyond the Big Six for a mortgage that best suits their needs, whether they are buying their first home, their first home in Canada, a vacation property or making a real estate investment. For Equitable, it marks the start of an exciting new business that we believe can originate between $1 billion and $2 billion in new mortgages per annum once we achieve full ramp-up.

To achieve these ambitions, and distinguish Equitable, we are employing the very same approach that makes us a leader in the alternative mortgage lending space in Canada: service first and always. We assembled a prime mortgage team to excel in this regard. Led by Martin Beaudry, Director, Residential Mortgage Underwriting who joined the Bank in 2014 after a successful 14-year career in retail lending, our prime mortgage group includes experienced professionals serving in Toronto and Calgary, with more resources to be added as we grow.

Our team has much to work with, including a branded prime mortgage offering called the eqb evolution suite™ that offers all the same features and benefits of traditional prime offerings, including interest rates that are amongst the most competitive of all Schedule I banks, terms of one to five years with fixed rates, and terms of three and five years with adjustable rates.

During the final few months of 2014, our prime business was introduced gradually in several cities to mortgage brokers and borrowers. This staged launch – which is a strategy we have used successfully over the past decade in expanding the Bank – allows us to introduce our products thoroughly to local mortgage brokers and gain feedback that we use to enhance service and refine our products.

eqb evolution™ suite

welcome2CAN™ mortgage

homENTREPRENEUR™ mortgage

staycation™ mortgage

investure™ mortgage

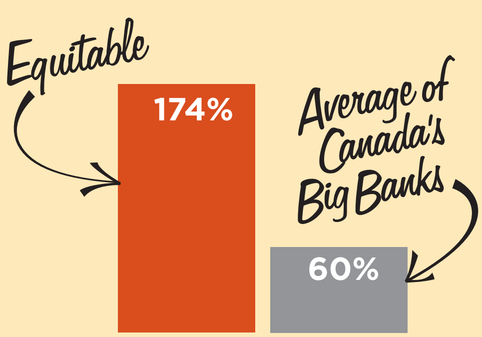
Initial market response to our offerings is positive. In the fourth quarter of 2014, we closed almost $40 million in Equitable originated prime mortgages. Based on this strong start, we are confident in our future potential.

"Because our team is made up of seasoned and broker-centric credit professionals, we were able to achieve positive results very quickly after the launch," says Martin. "Our success going forward hinges on the same tenets as those for our alternative business, most notably, quality of service. As we grow with a well-defined service approach, we will increase our efficiency and reduce costs."

Becoming a prime mortgage lender offers Equitable the opportunity to leverage our existing relationships in the mortgage broker community for growth, and creates important synergies with both our alternative residential mortgage and our commercial lending businesses, fashioning what is one of the only 'one-stop' independent, branchless banks in the country. In practical terms, this means alternative borrowers, whose financial needs evolve, no longer need to turn to another financial institution for a prime mortgage; they can stay with Equitable Bank for great service and great rates.

As a more comprehensive financial solutions provider, Equitable Bank has the chance to expand our relationships with mortgage broker communities across Canada and deliver more choice to Canadian borrowers. These are prime-time ambitions indeed.

Three-Year Total Shareholder Return [1]
(%)



[1] 2011 - 2014

Shareholders Win with Our Business Model

Our customer service approach and branchless business model have made Equitable Bank competitive for our customers but also helped us to deliver strong results for shareholders.

In each of the past three years, Equitable has been the best performing bank stock on the TSX with a total shareholder return of 174% compared to the average of the Big Banks of 60%. Reflecting value created for shareholders, Equitable crested a billion dollars in market capitalization for the first time in 2014.

Underlying this substantial increase in market value, is strong growth in earnings per share and a consistently high return on shareholders' equity, averaging 17.5% between 2011 and 2014. ROE is a demonstration of our value creation capabilities and validates our strategy of retaining a large portion of our annual earnings to fund growth. Even though we redeploy the vast majority of earnings in the Bank, where they earn high returns for shareholders, we've also made room for five common share dividend increases over the past three years.

Although giving great customer service comes at a cost, and one we are proud to bear, our branchless business model "allows us to offer competitive rates to borrowers and savers as we invest in our people, technologies and products," says Tim Wilson, Vice-President and Chief Financial Officer. "One way to measure competitiveness is our efficiency ratio, which is a proxy for how much it costs to generate each dollar of revenue. Our efficiency ratio was 32.6% in 2014, compared to the average of the Big Six of 57.7%."

While we are proud of these metrics, we are prouder still of how they have been achieved: by providing our customers with competitive product choices backed by excellent service.

Protect & Serve

Successfully operating a bank demands sophisticated risk management and full compliance with all of Canada's banking rules and regulations of which there are hundreds.

At Equitable, we employ almost a dozen professionals in the areas of compliance and privacy alone, but more than this, we seek to create a culture of compliance, where every member of our team is a compliance officer who understands the rules, is aware of the greater purpose served by those rules – to protect Canadians – and lives not only by the letter but the spirit of the law.

It's not easy to achieve this level of awareness and expertise, particularly with the constant pace of emerging and changing legislation. This information is then included in our well-referenced digital compliance library which forms part of our Regulatory Compliance Management framework. However, it's not enough to merely create policy; we need to embrace it and use a number of strategies to accomplish this.

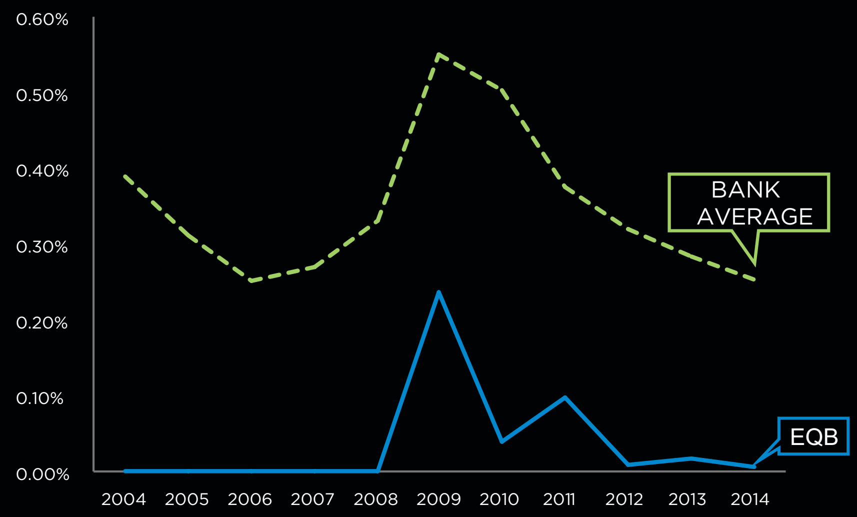
When a new employee joins our team, they receive a series of compliance-related training sessions – many face-to-face. Says Dan Ruch our Vice-President and Chief Compliance Officer, a 30-year veteran with experience in the fields of compliance and privacy at Equitable and other leading financial institutions, "our goal is to set the right tone, right from the beginning".

All new employees are asked to read and sign our Code of Conduct as an acknowledgement that they will abide by Equitable's ethical values, the most critical of which is integrity. In a banking world where rules are complex and sometimes overlap, and goals can compete, integrity means having consistent mindful personal behaviour and vigilant management to produce good ethical outcomes.

Our compliance group also provides regular and department-relevant training and workshops so our team understands and can effectively apply regulations such as Canada's Anti-Money Laundering legislation and the Foreign Account Tax Compliance Act as they relate to Equitable's operations. Beyond these formal exchanges, our compliance team engages with each department on a daily basis.

"Banks face various risks but one of the most fundamental is the risk of non-compliance," says Dan. "We think the best way to mitigate that risk is to entrench this idea of ever-mindful personal behaviour, meaning that when everyone subscribes to the need for the high standards of care a culture of compliance is created".

Net Realized Credit Losses as a % of Total Loans



Risk Management Track Record

Managing risk successfully is a core function of any bank. Equitable has proven to be very adept at managing our risks over many years. While we have identified seven core risks, managing credit risk is a central concern of the management team and all of our employees. In fact, with consistently lower realized credit losses as a percentage of total loans than other Canadian banks, we have a record of superior credit risk management in the Canadian market. To be sure, this reflects our risk management system, including sound credit decision-making, risk appetite and the application of the three lines of defense model: operational management control, corporate risk management oversight and independent assurance through internal audit. But other Banks use similar systems as well.

The difference is that we specialize in mortgage lending and have detailed knowledge of the real estate backing our loans, experience in dealing with real estate owners in Canada and use considerable rigour in applying the 5 C's of credit in making lending decisions. Understanding the Character of the borrower, the borrower's Capacity to repay, the amount of Capital the borrower has invested in a property or available to support the loan, the Collateral used to secure the loan and the Conditions of the loan, including its interest rate, helps us to make prudent decisions time and again.

As Ron Tratch, Vice-President and Chief Risk Officer observes, "Our underlying risk management fundamentals are designed to take us through market cycles. We take a consistent approach, insist on conservative loan-to-value ratios for uninsured mortgages and concentrate our lending in urban markets that are characterized by providing opportunities for employment in both the public and private sectors across a range of services and industries. This approach gives us confidence in the quality of our book at all times and has been borne out by experience".

Managing risk, remaining fully compliant with all of Canada's banking rules and regulations and properly pricing risk into each loan we make are important capabilities for our Bank.

Compared to larger national or international banks that are inherently more complex, it is easier for Equitable's management and employees to see and manage risk in all its forms, but we need to maintain a focus on managing these risks. As we grow, we will look to advance our proven track record of protecting capital and operating a Bank that complies with the law and deserves the trust of our customers and shareholders.

COMMERCIAL STOREYS

Equitable Bank has been an active lender in the Canadian commercial real estate market for well over four decades.

During that time, our Commercial Lending Services team has built an outstanding reputation with individual entrepreneurs, some of Canada's largest real estate investors as well as mortgage brokers and partners while financing the acquisition, construction and redevelopment of prime commercial properties across Canada.

Today, we manage a diversified $2.3 billion portfolio of commercial mortgages. Regardless of the size of the individual mortgage – it might be as little as $200,000 or as large as $25 million or more – or the nature of the borrower, as specialists, we strive to provide great service.

In every case, this requires a deep understanding of the borrower's objectives and financial capacity. Sometimes it also means seeing the commercial property not just as it stands today but how it may look in the future with the right management.

One recent example is provided by our Commercial team in Montreal. In mid-2014, Alex Gurunlian, Chief Operating Officer of Universal Development, a real estate development company, came to us seeking a loan on an eight storey commercial building, which he was acquiring and would manage on behalf of foreign investors.

The plan for the building was ambitious. As Equitable's Vince Faustini, Vice-President, Commercial Mortgage Origination, says "Universal is an existing customer and it has a track record of taking measured risk in order to transform potential into reality and strengthening their clients' investments by providing solid management for sustained yet steady growth. They were determined to realize this objective by bringing professional management to this property, which is located in one of the most prominent retail areas in Canada."

The challenge for Equitable was two-fold: the property would be held by investors outside Canada; and the borrowers were seeking part of their downpayment via a refinance from another financial institution – a long-time financial services provider of Universal's – meaning that we would be one of two lenders on this time-sensitive transaction.

For our Commercial team, challenges such as this are not unusual. Our compliance team addressed the foreign ownership issue immediately, satisfying themselves of the integrity of the borrowers. As well, we knew the other lender and were content with the proposed transaction.

Following preliminary due diligence process, we issued a term sheet, while Alex waited on the other institution to do likewise. It was a long wait. Despite the delay, Alex continued the process with both lenders, and once again Equitable delivered a firm commitment. Concerned that the other lender might not respond in time to meet closing conditions, Alex asked us if we would consider underwriting the entire loan.

Having satisfied ourselves of the value of the property, Alex's plans for it, and the capacity for repayment, we agreed to fund the entire amount of the acquisition.

Despite a 30-year relationship with the borrower, the other lender failed to deliver a mortgage approval within the timeframe Alex needed to close the acquisition. On a Friday afternoon, Alex formally transferred the entire mortgage loan request to Equitable. Less than two business days later, we issued an amended commitment. The acquisition proceeded.

Since taking the loan, Alex reports that he has already received an offer to acquire the property for significantly more than originally paid. Says Alex, "Equitable always respected our due diligence deadlines by responding quickly and efficiently; an experience we couldn't enjoy with other lenders. They have a dynamic team here in Montreal that provides an efficient and personalized service. They know how to value their customers. I would definitely use them again".

Equitable likes to work in partnership with other lenders rather than displace them, "but in this case, says Vince, "we did what was necessary to assist the borrower while maintaining all of our underwriting, risk management and pricing disciplines. I know the other institution wanted to be part of the transaction, and no doubt will be on future deals with Equitable, but when it comes down to it, time is of the essence and Equitable had the timely solution".

One of our points of distinction as a commercial lender – and one that was in plain view for Alex – is our approval process. Like other banks, we collect all of the requisite information we need to satisfy ourselves of the borrower's integrity, the viability of the transaction and the condition of the property. However, before we issue a non-binding Letter of Intent (LOI), our commercial underwriters provide all of this information to senior management and host a due diligence call. As a consequence, we are better able to stand behind our letter of intent. We believe our customers appreciate this, particularly since many of them are deeply experienced real estate investors for whom time is money.

Partnerships for Progress

Like our Single Family Lending operation, our Commercial group works extensively with independent mortgage brokers and legal advisors to help borrowers achieve their objectives.

Strategically, we have also sought to position Equitable as a partner to large commercial mortgage financiers. Partnerships with like-minded organizations further expand our horizons and allow us to participate in large, high-quality syndicated commercial transactions across Canada.

For partners, Equitable provides a proven source of funding on a variety of commercial transactions, including bridge loans, construction facilities and what are commonly referred to as 'asset repositioning' transactions. These involve mortgages on commercial properties that are being renovated and repurposed to generate higher cash flows.

"For Equitable, partners bring not only high-quality opportunities, typically with mortgage values of $7.5 million and above, but comprehensive investment analytics on each potential transaction that help us to make informed decisions quickly," says Jonathan Reed, Manager Commercial Credit. "When it comes down to it, there is a natural advantage that is created when like-minded organizations come together to fund a commercial mortgage."

While we benefit greatly from partnerships because they broaden our deal pipeline and allow us to participate in mortgages structures that fit our desired parameters for risk-adjusted returns, borrowers also win as it means the receipt of reliable funding from a committed group of lenders.

"On any given day, our Commercial Lending Services operation may have up to 300 different potential transactions on the go at various stages of development: from inception to funding," says Kasey Chauhan, Director of Commercial Credit. "Not every deal will come to fruition but every deal receives the full attention it deserves. This is part of the service promise Equitable makes to all customers."

The ability to close large, complex transactions with tight timeframes while also providing optimal customer service and meeting all of the Bank's business and compliance obligations are clear strengths for the Equitable team and are reflected in 2014 Commercial originations of over $760 million. These strengths rest, as Kasey says, "on a set of core disciplines, processes and technology tools that help us get the job done but when it comes right down to it, it's our people that make all the difference."

As these stories attest, Equitable is developing new customer relationships and new partnerships that are adding to our potential as a well-diversified Bank with a vibrant Commercial Lending operation.

Alex Gurunlian
Chief Operating Officer
Universal Development

BUILDING THE NEXT GENERATION BANK

Technology is changing consumer behaviour and expectations. Nowhere is this more evident than in the world of financial services. In the digital era, Canadians want all that digital banking can offer: 24/7 convenience, full transparency and control.

For Equitable, digital banking technology creates an opportunity for us to offer greater convenience and value to consumers. When launched later this year, Equitable's digital platform will be focused on our savings business – but it also provides us with an avenue for cost-efficiently distributing other products and services in the future. Our dedicated digital banking team, led by Dan Dickinson, Vice-President, has established partnerships with leading technology providers to help us develop and realize on our digital ambitions.

While we're excited that technology is removing barriers that stand in the way of true customer convenience and is in many ways levelling the competitive playing field for all banks, we also recognize the constructive role that government policy is playing in our industry.

In this regard, we take great interest in recent moves by the Federal Government to bolster financial services competition. In particular, recent changes to how CMHC allocates its securitization capacity have paved the way for our Bank to enter the prime mortgage market. Moreover, in the 2014 federal budget, the Government made clear policy statements in support of the development of smaller financial institutions. As a mid-sized Bank, we find this to be an encouraging sign.

Generally, we are of the view that it is possible to refine regulations – such as those governing new account openings – to improve consumer convenience without affecting the integrity of Canada's banking system. We believe this view is shared by many in our industry.

Overall, the world of banking is changing and with our commitment to employing new thinking and advanced technology, we plan to be on the winning side of those changes.

Equitable Chosen One of Canada's Top Employers

2015 SME CANADA'S TOP SMALL & MEDIUM EMPLOYERS

As a service-oriented Bank, it stands to reason that we employ service-oriented people. And we do; more than 400 of them. From the front lines to the back office, our people make Equitable one of Canada's most caring and productive banks. They are our greatest assets.

As such, we work hard to create a workplace that is engaging; where goals are clearly communicated, learning and career development opportunities are frequent and results are rewarded.

More than that, we strive to develop a strong and identifiable culture – the Equitable culture – where diverse skills, experiences and languages are celebrated because they make us better as a team; one team in pursuit of common goals.

One of the ways we support the development of such a culture is through our people programs and performance management system. Based on suggestions we receive from customers, feedback from employees in formal surveys, and business development needs identified by our senior leaders, we try to enhance our approach every year.

A willingness to listen and act to make improvements has enabled the Bank to make great strides in employee engagement scores and in recruiting and retention. These are the most telling metrics we use to assess progress. But we also take note of external benchmarks that compare Equitable with other employers. One such benchmarks is Canada's Top 100 Employers, a competition promoted by the Globe & Mail. In March 2015, Equitable was chosen as one of (small and medium sized) Employers. We were honoured to receive this recognition and delighted that an accompanying story in the Globe highlighted our workplace collegiality, employee engagement, opportunities for advancement and support for important charities.

> "Giving our employees the chance to expand their talents and grow as managers is an integral part of our ongoing strategy to develop the industry's best performers and create a sustainable competitive advantage."
>
> **Jody Sperling, Vice-President, Human Resources.**

While this was the first time in our history that we were chosen for this honour, we intend to ensure it is not the last. As part of our continuous improvement efforts and to sustain recent gains, we recently introduced several enhancements to our training programs.

As part of our goal to empower our people so they can do more for our customers, further enhance accountability and move to a self-managing culture, we launched Phase II of our Leadership Development and Coaching Program for Managers. More than 50 Equitable people managers received customized one-on-one coaching over four months where they honed their talent assessment, mentoring and presentation skills.

"This most recent initiative was built on leadership assessment and training programs that we introduced back in 2011." says Jody Sperling, Vice-President, Human Resources. "It addressed specific learning and development needs identified by previous program











THE PINK PANTHERS

attendees through classroom sessions, one-on-one coaching and interactive exercises. To further our objectives and really entrench learning as a discipline, we recently created a new role in the Bank – Manager, Training and Development – and appointed Jadwiga Gebalska formerly our Manager, Residential Mortgage Underwriting to head up this important position."

We also take inspiration from experts outside our Bank. During a recent employee townhall, we invited Christine Magee, the President of Sleep Country Canada, to discuss how her company built a reputation that is renowned for customer service throughout North America. Christine's words of advice, particularly around the importance of repeatable execution in delivering service resonated with our team and allowed us to contemplate how we might enhance our own efforts.

Wellness Works

Healthy employees make for a healthy business. Knowing that to be true, Equitable has put considerable effort into building our wellness programs. In addition to workplace immunization clinics, health programs, health seminars and free access to a gym and yoga studio, we introduced a flexible work hours' policy in early 2015. This policy recognizes the fact that individuals who are able to meet the needs of work and home are more effective employees and community members. The ability to introduce this benefit is the result of mutual trust, which is a hallmark of our employee-employer relationships.

To raise awareness of mental health issues, we participated in the Not Myself Today campaign that saw employees don different coloured mood buttons to express their feelings. This aspect of the campaign served to encourage meaningful dialogue on mental well-being through all levels of the Bank.

We complemented this campaign with a lunch & learn session entitled A New Attitude – The Truth About Mental Health that featured a professional speaker with a keen understanding of how to cope with workplace stress.

We draw inspiration for all of our people programs, including the regular "lunch & learns" we host based on employee feedback. These sessions improve our knowledge of industry trends and help us to add to our repertoire of personal skills and talents.

A recent example? When one of the members of our finance group expressed interest in starting a Toastmasters chapter within Equitable, we jumped on the bandwagon and have now held regular meetings where staff hone their communication and presentation skills in a fun and supportive environment.

It takes significant brain power to successfully operate the treasury, credit, finance, securitization, legal, compliance, risk management, marketing, sales, HR, IT and digital banking functions of our Bank. It also takes a high-performance culture, a culture where employees are always willing to go the extra mile to find the best solutions for our customers and our Bank. Equitable is building this culture based on a foundation of great people and innovative people-focused programs.

Sustainability Starts with Teamwork

We punch above our weight in every one of our endeavours, including supporting the communities in which we live. By leveraging the talent, skills, and drive of our people and the resources of our Bank, we make a big difference for our community partners.

Our sustainability strategy deliberately focuses on helping organizations that help those with mental health issues and those who find themselves without a home.

In every case, we look for the chance to be active, and to partner with community groups that can make good use of our talents and energy as volunteer groups right in our own neighbourhoods that can help us learn more about the needs of those less fortunate than ourselves.

Applying this strategy has paid incredible dividends for important social causes and for Equitable as an organization. When people from various departments across our Bank get together to help, a lasting bond is created that makes our workdays more enjoyable and our team spirit more palpable.

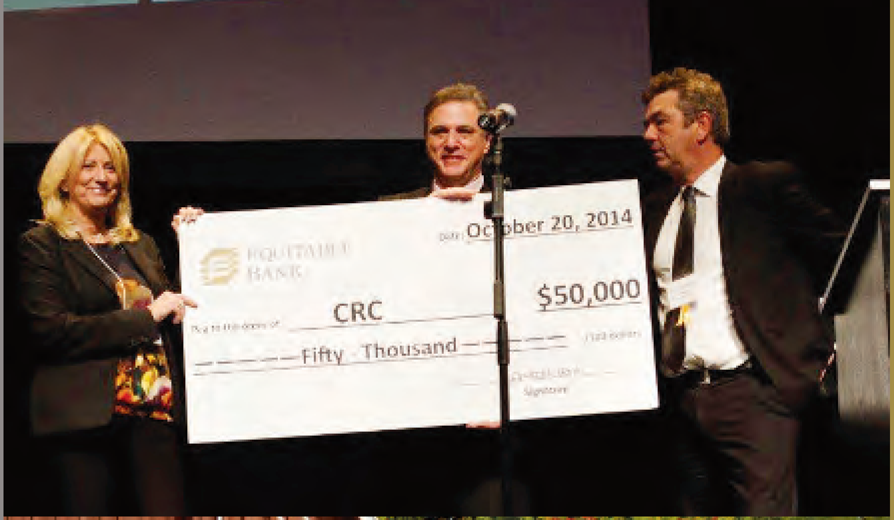
40 Oaks and Madison Community Services are our key community partners. In 2014, Equitable employees devoted 1,894 volunteer hours to serve meals, while we provided resources for housing renovations and funded a bursary for skills training. As a result of our collective efforts, 40 Oaks was better able to serve residents of Toronto's Regent Park with affordable housing solutions and a community recreation centre, while Madison Community Services delivered its mission of assisting those with mental illness to recover their health and reintegrate into society.

Our commitment and drive as volunteers and corporate donors was also on display in other ways. This past year, 237 members of the Equitable Bank Corporate Cycling Team pedalled their way to raising

$52,808 for the Heart and Stroke Foundation during its annual Ride for Heart. As a testament to our community spirit, the Foundation named us their top fundraising team in the financial category. Meantime, Equitable teams from Montreal and Toronto rode stationary bikes on the way to raising over $10,000 in aid of the Junior Diabetes Research Foundation.

We didn't stop there. Several years ago, we became aware of the devastating consequences of Amyotrophic Lateral Sclerosis (ALS) after a family member of an Equitable employee became ill. To show our support for her and for finding a cure to what is commonly referred to as Lou Gehrig's Disease, we made a commitment to the ALS Society of Canada by participating and fundraising for the Bombardier ALS Plane Pull event. This past year, when the ALS Ice Bucket Challenge went viral, over 30 members of our team found an additional, albeit cold way, to express our desire to eradicate this debilitating and progressive neuromuscular disease.

Through these and many, many other volunteer activities, our people, our Bank and our partners engage collaboratively, respectfully, collegially and with the common purpose of helping our neighbours in need. As a financial institution committed to healthy communities inside and outside our Bank, teamwork makes us all the difference.



Fellow Shareholders:

Led by a consistent focus on delivering fantastic service every day, the Bank's 2014 performance was better than ever.

Headlined by 40 percent year-over-year growth in Single Family Residential originations and strong renewal rates, mortgages under management reached $13.8 billion, a new record. This led to record earnings per share of $6.53 and record book-value per share of $40.90. EPS and book value per share increased year over year by 12 and 16 percent, respectively, even as we incurred expenses that improve the business for the longer-term, but adversely impacted profits in 2014.

We did not sacrifice quality for quantity. Strong management and rigid underwriting standards kept portfolio losses low. This is not a new phenomenon. In 2014 and for most of the past decade, Equitable's realized loan losses as a percentage of total loans have been consistently lower than the average of Canada's Big Six banks and the well-known Canadian regional banks.

We are dedicated to being good stewards of shareholders' capital. As commercial real estate has attracted more interest, this discipline has been important for our Commercial Lending Services team which manages $2.3 billion in mortgages. Through more partnerships, we have broadened our access to commercial business that makes financial sense.

For shareholders, the tell-all measure is maximising return on equity while working within our risk appetite framework. Equitable achieved ROE of 17.4 percent in 2014, in line with our five-year average of 17.5 percent. These consistently strong returns reinforce our strategy of reserving about 90 percent of Equitable's annual earnings for redeployment in the business. Growing earnings supported another two common share dividend increases in 2014. This performance solidifies Equitable's track record as a reliable dividend grower.

Growing and Diversifying the Bank's Services

In 2014, we invested to ensure that our customers could find even more to like at our Bank. We now provide Canadians with new choices in both borrowing and saving: a suite of prime Single Family mortgages; the Equitable Bank Home Equity Line of Credit; and the Equitable Bank High Interest Savings Account.

We also made it possible for borrowers in urban markets in Québec, New Brunswick, Prince Edward Island and Newfoundland to take advantage of our approach to Single Family Residential lending for the first time. This geographic expansion made the Bank a true coast-to-coast Single Family lender and improved our ability to partner with national, regional and local mortgage brokers.

We choose to differentiate the Bank on great service and strive to continuously improve our response times and customer support. We believe that our service and the passion for delivering it gives us an edge across our business. Our service advantage was recognized in 2014 as Equitable was rated the top independent bank in the Brokers on Lenders survey conducted by Canadian Mortgage Professional. Equitable far outperformed our primary competitors in the broker channel.

Although we have yet to realize the full benefits of the Bank's new product launches and geographic expansion, our efforts to improve service were rewarded in other ways. During the year, we added a record $1.2 billion in mortgage assets and attracted a record $1 billion in deposits to our savings business, including $347 million for the Equitable Bank High Interest Savings Account. We also grew our market share in both the mortgage broker and savings markets, which bodes well for the future.

We are grateful to mortgage brokers for choosing Equitable ahead of other lenders. Their seal of approval is vitally important and we value their professional feedback because it makes us a better Bank. Our senior management team believes that Canadian homeowners are best served in making mortgage decisions by getting advice from professionals working in the mortgage broker channel.

Prime Mortgages

The debut of our eqb evolution suite of prime Single Family mortgage offerings allowed us to set a goal for the next three to five years: originating between $1 and $2 billion in prime mortgages annually. Achieving this objective will come with advantages to borrowers and mortgage brokers alike as we broaden the competitive choices available to them. It will also further enhance the Bank's earnings potential and diversify our risk profile. Market reaction has been encouraging, with $40 million in prime mortgages closed in the fourth quarter.

Strong and Diversified Funding Sources

In order to support asset growth, we maintain diversified funding sources. Beyond the Equitable Bank High Interest Savings Account, we added another new source: Equitable Bank Deposit Notes. In April, we successfully completed our first Deposit Note offering with an oversubscribed institutional placement of $150 million.

Furthermore, our prime mortgage business is funded mainly through Canada Mortgage and Housing Corporation's National Housing Act Mortgage-Backed Securities (MBS). This low-cost funding source allows Equitable to compete effectively with larger lenders.

We also redeemed our Series 1 preferred shares (coupon 7.25%) and replaced them with a $75 million new issue of Series 3 Non-Cumulative 5-Year Rate Reset Preferred Shares (coupon 6.35%). These new shares provide preferred holders with an attractive return at a lower overall cost to Equitable and qualify as Tier 1 capital for the Bank.

Despite double-digit asset growth, we increased all of the Bank's capital ratios and those ratios were well above regulatory minimums at year-end. Beginning in 2015, all Canadian banks will report their Basel III leverage ratio and we are comfortable with the Bank's position on this ratio as well.

Equitable continues to adjust well to new regulations designed to reinforce the world's banking system. We are proud to operate in a market known worldwide for sound banking practices. We are also encouraged by the Federal Government's commitment, expressed in its 2014 budget, to ensuring the regulatory framework allows smaller banks to "emerge, grow and compete to offer Canadians better products and services," and believe that Canadian consumers will be well served by adjustments to some of Canada's banking regulations.

Managing for Growth

We are expanding the depth and skills of our team by recruiting people that share our passion for excellence in customer service and supplementing the skills we already have in house. As a result, we have grown our workforce by 49 percent over the last three years, increased leadership training, achieved high levels of employee engagement and were recently named one of Canada's Top 100 Small and Medium Employers in the Globe and Mail.

Governance Matters

Corporate governance is in good hands at Equitable. The members of our Board of Directors are deeply experienced and actively engaged in the business of running a safe, secure and growing Bank that cares deeply about its corporate reputation. We appreciate the efforts of our Directors, and reserve a special thank you to Kathy Rethy who decided to retire after six years. Kathy served with distinction as Chair of our Human Resources and Compensation Committee during a transformational period for the Bank.

One of the hallmarks of a great company is its ability to attract strong directors. The appointment of Johanne Brossard as a Director in February, 2015 is a case in point. Among many highlights of a successful 30-year career, Ms. Brossard held the positon of President and CEO of ING Bank of Canada from 2003-2008.

As you will recall, Austin Beutel retired as our Chairman at last year's meeting of shareholders, yet we continue to benefit from his wise counsel as he agreed to serve as Honorary Chairman for another year.

David LeGresley
Chair of the Board

Andrew Moor
President and Chief Executive Officer

Strategic Position

With just six large, federally regulated Schedule I banks, the Canadian market is unusually concentrated by international standards. Equitable Bank, along with Canadian Western, Laurentian and Manulife Bank, form a select group of four medium-sized Schedule I banks that are well positioned to provide alternative approaches to banking in Canada. Unburdened by the overhead, traditions and structures of a branch network, Equitable Bank in particular has a natural efficiency that provides enormous advantages. The evolution of our business has been evident over the last five years and we expect more change as we strive to provide valuable and innovative services for savers and real estate owners.

The Way Forward

Due to well-executed diversification over the past five years, and growth in our Single Family Lending business, we expect 2015 to be another strong year. We intend to grow our new service lines and then, late this year introduce new digital capabilities to make it easier for consumers to bank with us. In conjunction with our digital banking launch, we plan to support the Bank's branding through targeted spending on consumer awareness. Equitable's brand is well known among mortgage brokers, however elevating our retail consumer profile will draw more borrowers and savers to the Bank. Looking at market conditions, we are attuned to challenges facing Alberta and Saskatchewan as a result of the decline in oil prices. Yet, based on the size and quality of our portfolio, we do not anticipate material losses in either province. On a national basis, forecasts suggest Canada's gross domestic product will grow, but at slightly lower levels than originally predicted. Even so, we are confident that Equitable will produce another year of record earnings and growth in book value.

We sincerely thank our employees, for their dedication as well as our customers and shareholders, for their continued support and belief in the Bank. Our plan is to continue to execute our proven strategies to create value for all.

Yours sincerely,

David LeGresley
Chair of the Board

Andrew Moor
President and Chief Executive Officer

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

For the three months and year ended December 31, 2014

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, 2014. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 26, 27 and 28 on pages 60, 61 and 62 of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 24, 2015. 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", "2014 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 of approximately $14 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

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

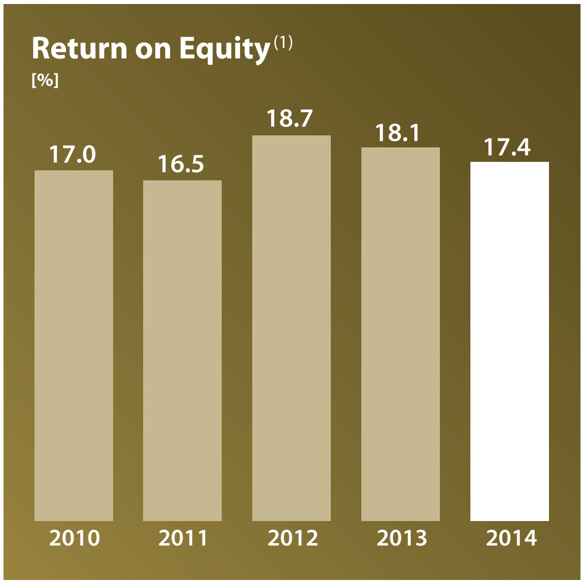
Currently, Equitable Bank provides mortgage loans to a wide range of customers that include business-for-self borrowers, newcomers to Canada and commercial real estate investors. The Bank also provides Canadian savers with savings accounts and Guaranteed Investment Certificates ("GIC") that provide security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

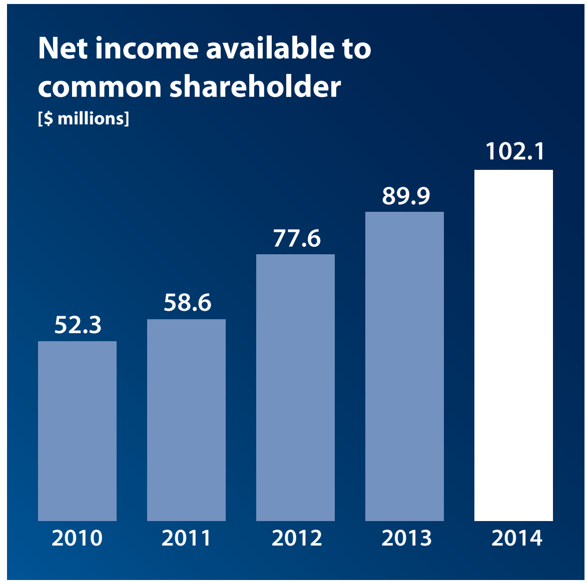
Our strategy includes four major priorities:

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 and flexible cost structure.
Build our capabilities and brand	We are committed to investing in the continuous improvement of our people and systems, and to becoming 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 Return on Equity. We use retained earnings and non-dilutive forms of capital to fund growth and are committed to growing common share dividends consistently.
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.

Our value creation strategies have allowed Equitable to generate a consistently high ROE, averaging 17.5% over the past five years. Underpinning our ROE is steady earnings growth that has also enabled Equitable to increase common share dividends five times over the past three years. Equitable's consistent performance has been recognized by the capital markets; over the past three years, Equitable posted total shareholder return(1) of 174%, well above the TSX Capped Financials Index return of 67%.

(1) *Total shareholder return represents total return of stock to an investor including stock appreciation and dividends. See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*





CAPABILITIES

We compete successfully with other financial institutions on the basis of our niche strategy and the breadth of our capabilities, in particular our customer service focus. Management intends to build on these capabilities to prudently diversify the products and services we offer to savers and borrowers 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 the 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 process that is efficient and effective in responding to each opportunity. We then apply our service strategies to retain customer accounts and position Equitable to gain additional share of each customer's credit and savings needs.

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, even though they involve higher operating costs. 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 and savers across Canada through independent mortgage brokers, deposit agents, 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. To reinforce our national presence, we give back to the communities in which the Bank does business.

Efficient operations: Equitable is one of the most efficient Schedule I Banks in Canada, 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 sustained a consistently attractive efficiency ratio.

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

Rigorous risk management standards: Our Board of Directors and senior management 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 formulaic: 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. Our rigorous approach, along with broadly positive Canadian economic conditions, has resulted in impairment provisions(1) that have averaged just 0.05% of total average mortgage principal since 2009.

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 $7.4 billion of GICs and High Interest Savings Accounts ("HISA"s), and deposit notes from tens of thousands of Canadian investors. These deposits fund our unsecuritized mortgage lending and over the long term have served as a reliable source of funding and asset-liability matching. We are also 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. 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 405 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.

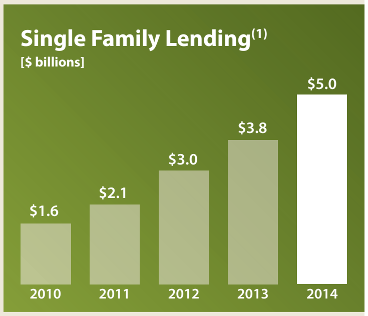
(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

OUR BUSINESS LINES

We organize our operations according to product and target customers:

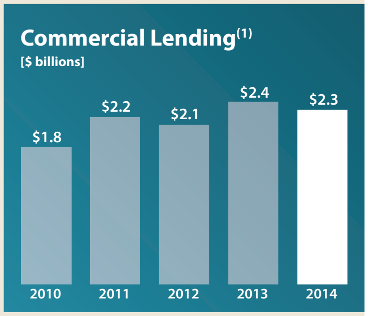
Single Family Lending Services: $5.0 billion

- **Products:** mortgages for owner-occupied and investment properties including detached and semi-detached houses, townhouses, and condos across Canada. Competitive products include a Home Equity Line 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



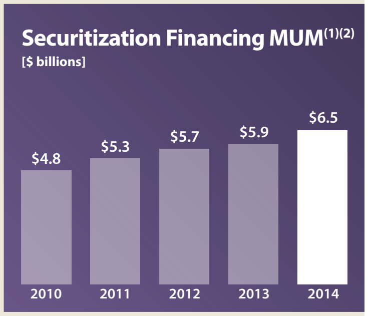
Commercial Lending Services: $2.3 billion

- **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



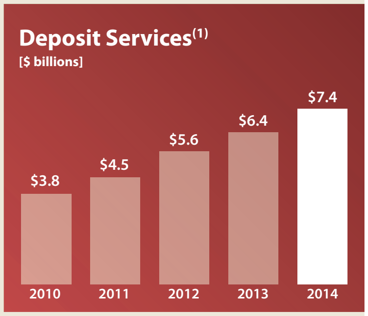
Securitization Financing: $6.5 billion of Mortgages under Management ("MUM")

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



Deposit Services: $7.4 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.*

KEY PERFORMANCE INDICATORS

Management looks at a range of metrics to assess the performance of the business. The primary indicators of Equitable's success are:

Performance Metric	What it Represents and Why it Matters
Return on Equity ("ROE")[(1)]	• The earnings and returns that we are able to generate for our common shareholders, relative to the book value of our equity • Reflects management's ability to deploy capital in a disciplined manner by making profitable lending decisions and operating an efficient business
Total Capital and 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
Net Interest Margin ("NIM")[(1)]	• The excess of our interest revenues over our funding costs, as a percentage of our average 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)] • Measures 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.
Impairment Provision Rates[(1)]	• The provision for credit losses recorded during the year on mortgages that we have individually identified as impaired, as a percentage of the loan portfolio • Reflects the credit quality of our loan book, specifically the level of impaired loans and our ability to mitigate potential losses thereon

(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)	2014	2013	2012	Change from 2013	
RESULTS OF OPERATIONS					
Net income	**$ 106,718**	$ 93,530	$ 81,207	$ 13,188	14%
Net income available to common shareholders	**102,107**	89,905	77,582	12,202	14%
Total revenue	**522,967**	508,565	483,199	14,402	3%
EPS – basic	**$ 6.63**	$ 5.89	$ 5.15	$ 0.74	13%
EPS – diluted	**$ 6.53**	$ 5.82	$ 5.11	$ 0.71	12%
ROE – annualized(1)	**17.4%**	18.1%	18.7%		(0.7%)
Return on average assets – annualized(1)	**0.8%**	0.8%	0.7%		0.0%
NIM – TEB – total assets(1)	**1.70%**	1.49%	1.47%		0.21%
Efficiency ratio – TEB(1)(2)	**32.6%**	30.1%	30.2%		2.5%
BALANCE SHEET					
Total assets	**12,854,903**	11,816,453	11,601,440	1,038,450	9%
Assets under management(1)	**14,373,911**	12,815,373	11,934,362	1,558,538	12%
Mortgages receivable	**12,269,945**	11,129,867	10,609,472	1,140,078	10%
Mortgages under management(1)	**13,759,706**	12,105,968	10,909,480	1,653,738	14%
Shareholders' equity	**703,694**	588,318	501,571	115,376	20%
CREDIT QUALITY					
Impairment provision(3)	**1,213**	596	1,817	617	103%
Net impaired mortgages as a % of total mortgage assets(4)	**0.30%**	0.24%	0.30%		0.06%
Allowance for credit losses as a % of total mortgage assets	**0.27%**	0.28%	0.25%		(0.01%)
COMMON SHARE INFORMATION					
Shares outstanding	**15,435,356**	15,355,405	15,189,983	79,951	1%
Book value per share(1)	**$ 40.90**	$ 35.14	$ 29.83	$ 5.76	16%
Share price – close	**$ 65.67**	$ 50.76	$ 32.65	$ 14.91	29%
Market capitalization	**1,013,640**	779,440	495,953	234,200	30%
EQUITABLE BANK CAPITAL RATIOS(1)(5)					
Common Equity Tier 1 capital ratio(6)	**13.5%**	12.4%	N/A		1.1%
Tier 1 capital ratio	**14.9%**	13.5%	13.5%		1.4%
Total capital ratio	**17.3%**	16.3%	17.4%		1.0%

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(3) *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(4) *Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.*
(5) *Effective the first quarter of 2013, we calculate capital ratios using the Basel III framework. The capital ratios are calculated on the "all-in" basis. The 2012 capital ratios were calculated using the Basel II framework. Basel III and Basel II are not directly comparable.*
(6) *The Common Equity Tier 1 capital ("CET1") ratio is a regulatory measure under the Basel III framework. The CET1 ratio was not applicable for 2012 as Basel III was adopted prospectively, effective the first quarter of 2013.*

2014 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record earnings and a strong ROE in 2014 due primarily to a 22% increase in Core Lending Net Interest Income ("NII") and despite a 15% lower NII contribution from our Securitization Financing business, which resulted from lower asset balances and the roll off of higher spread mortgages originated in 2009. The vast majority of the abnormally wide spread mortgages originated during the financial crisis had matured by the end of 2014, so we will not experience this same level of margin pressure in future years. We successfully delivered on our key strategic priorities in the year and, maintaining a view to the long-term, made significant investments that increased our costs and impacted 2014 earnings 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 Mortgages under Management[(1)] by 14% over 2013 • Originated a record $4.6 billion of mortgages, a 33% increase over 2013, led by Single Family Lending • Originated an all-time record of $2.3 billion of Single Family Lending mortgages, which represents a 40% increase over 2013 • Launched a prime single family business and built on the successful introduction of our Home Equity Line of Credit product • Grew our *Equitable Bank High Interest Savings Account* balances to $366 million from $20 million at December 31, 2013, further broadening our portfolio of safe and secure deposit solutions • Increased our Net Interest Margin ("NIM") by 21 bps, from 1.49% to 1.70%
Build our capabilities and brand	• Expanded our Single Family Lending business to Québec and throughout the Maritime provinces, realizing on our long-term strategy of becoming a national single family residential lender • Achieved the highest rating among alternative lenders in the 2014 *Brokers on Lenders Survey* by Canadian Mortgage Professional magazine • Launched a Deposit Note program and closed a successful $150 million, three-year fixed rate offering, at a 135 bp spread over benchmark Government of Canada yields • Issued $75 million of 6.35% non-cumulative 5-Year Rate Reset Preferred Shares and redeemed $50 million of existing 7.25% preferred shares • Initiated a syndicated MBS program, with the sale of our $209 million inaugural MBS in November • Launched an expansion plan to grow our head office by almost 30,000 square feet or 70% by Q4 2016 to support our growth plans and strategic initiatives
Consistently create shareholder value	• Delivered record EPS of $6.53[(2)], up 12% over the prior year • Produced an ROE of 17.4% (in-line with our five-year average of 17.5%) • Declared common share dividends that were 13% higher than in 2013
Maintain a low risk profile	• Recorded an impairment provision of just $1.2 million or one bp in the year • Maintained a loan-to-value ratio of 69% on our residential mortgage portfolio • Reported a Common Equity Tier 1 ("CET1")[(1)] capital ratio of 13.5%, which was well ahead of 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 2014 financial results were impacted by the following item:

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

Our 2013 financial results were impacted by the following items:

- fair value gains of $1.4 million on derivative financial instruments related to our securitization activities, resulting in a $0.07 increase in our diluted EPS; and
- gains of $0.9 million from the planned sale of preferred shares in our investment portfolio, which were sold to meet certain regulatory requirements that came into effect at the beginning of the year, increasing our diluted EPS by $0.05.

DIVIDENDS

On February 24, 2015 the Company's Board of Directors declared a quarterly dividend in the amount of $0.18 per common share, payable on April 3, 2015, to common shareholders of record at the close of business on March 13, 2015. This dividend represents a 13% increase over dividends declared in February 2014.

In addition, on February 24, 2015, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on March 31, 2015, to preferred shareholders of record at the close of business on March 13, 2015.

BUSINESS OUTLOOK

In the fourth quarter of 2014, our performance demonstrated the strength of our franchise and the benefits of our relentless focus on service quality. 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 year.

Core Lending

In Q4 2014, our Single Family mortgage business set another new record for originations, driven by our superior levels of customer service and consumer demand across our now national operations. At the end of the quarter the portfolio was at $5.0 billion, a record level, and up 31% year-over-year. Even in the context of current economic conditions, we expect that the performance of the Single Family portfolio will remain strong in 2015. Growth will be aided by our continued geographic expansion and product diversification.

Management anticipates maintaining the commercial portfolio around current levels throughout 2015. Our focus for the year will be on deepening our existing distribution partnerships and increasing our operating efficiencies.

Securitization Financing

Our Securitization Financing business is comprised of two distinct portfolios: multi-unit residential ("multis") and single family residential mortgages.

In 2015, we believe that growth of our multi-unit residential MUM will accelerate, as we aim to utilize the majority of our expected $350 to $400 million of quarterly CMB capacity ($1.4 to $1.6 billion annually), the target level of our securitization activity. Multi-unit residential MUM should grow by roughly three quarters of a billion dollars, from $5.4 billion at the end of 2014, as the increase from new securitizations is offset partly by half a billion of mortgage maturities and by mortgage payments. Approximately one-third of assets securitized are being derecognized, so we expect multi-unit residential Securitization Financing assets reported on our consolidated balance sheet to grow by just under half a billion dollars.

In addition, we plan to originate and securitize a significant volume of insured single family mortgages during 2015, driving further growth in our overall Securitization Financing MUM. We believe that the level of originations will increase each quarter as we develop our market presence. Insured single family mortgages will be securitized through the NHA-MBS program shortly after being originated, building on our successful syndicated MBS offering in Q4 of last year. Our intention is to sell the retained interests in most of these securitized assets, which will allow us to derecognize the mortgages. As a result, they will contribute to our MUM but not to balance sheet growth and will create a gain on sale during the quarter in which they are derecognized.

Credit Quality

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

Given recent oil price declines and the expected economic impact thereof, we anticipate that our overall arrears rates in Alberta and Saskatchewan will rise this year. Due to our conservative underwriting approach, our robust workout process, and our focus on lending in diversified urban centres (such as Calgary and Edmonton), we do not expect to incur significant losses as a result of these conditions. We will continue to monitor the related developments closely and will continue to adjust our risk management approach in both markets if warranted. We have provided further details of our Alberta and Saskatchewan portfolios in Table 9 of our 2014 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

Net Interest Margin

We maintain a very low level of interest rate risk in our book, and as such do not expect that recent rate decisions by the Bank of Canada and adjustments to our prime rate will have a significant impact on our margins in 2015. An interest rate sensitivity analysis is provided in Table 33 of this MD&A.

While NII should increase at low double-digit rates in 2015 due to continued growth of our assets, management believes that our total Net Interest Margin ("NIM") will decrease slightly throughout 2015. Quarterly NIM may experience some fluctuations due to mortgage prepayment charge income and other factors. More specifically, relative to Q4 2014 levels we expect that in 2015:

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

Non-Interest Expenses

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

We anticipate that all other expenses will increase at rates in line with the growth rate of the overall business as we expand the number of people at the Bank supporting the underlying growth in our lending and savings portfolios.

We expect that in the first half of 2015 our efficiency ratio will improve slightly from Q4 2014 levels, as revenue increases on the back of portfolio growth and expenses decrease slightly from Q4 levels. Our efficiency ratio should rise again beginning in the middle of 2015 as our marketing investments increase. Even with this increase, the Bank will continue to operate efficiently on both an absolute and relative basis compared to other financial institutions, particularly taking into account the relative scale of our operations, as a result of our branchless business model.

Strategic Initiatives

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

These initiatives also align well with the overall policy direction from the Department of Finance – specifically a commitment in both the 2013 and 2014 federal budgets to promote the competitiveness of the financial services market place by, amongst other things, encouraging a regulatory framework that allows medium-sized banks, like Equitable, to provide alternatives to the large banks that dominate Canada's banking landscape. We support this policy objective and are actively providing input to the Government on issues such as Anti-Money Laundering requirements for new bank account openings that are not face-to-face and improved access to brokered deposit markets.

Management launched an insured single family mortgage business in August 2014 and intends to build in-house capabilities to originate $1 to $2 billion of prime loans annually within the next three to five years. Over the near term, as we develop our insured mortgage origination capabilities and systems, we will supplement our internal originations with mortgages sourced through business partners, in order to optimize use of our available MBS capacity. We are pleased by the progress with our in-house offering to date; we closed $40 million of mortgages within the first four months of operation and our pipeline is building well.

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

We are also in the early stages of exploring a migration to the Advanced Internal Ratings Based ("AIRB") approach for risk-weighting our assets and invested in the initiative in Q4. We believe that this approach could have many benefits to Equitable, such as providing us with enhanced risk management models, matching appropriate levels of capital to our risks, and introducing a methodology that better allocates capital across a broader range of asset types. This initiative has become more important given proposed changes to the Standardized approach for risk weighting assets. Management intends to determine the appropriate path forward by the end of fiscal 2015.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. **See "Cautionary Note Regarding Forward-Looking Statements" on page 24 of this MD&A.**

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2014	2013	Change from 2013	
Net income	**$ 106,718**	$ 93,530	$ 13,188	14%
EPS – diluted	**$ 6.53**	$ 5.82	$ 0.71	12%
Net interest income[1]	**204,522**	174,537	29,985	17%
Provision for credit losses	**2,627**	6,732	(4,105)	(61%)
Non-interest expenses	**71,644**	57,514	14,130	25%
Income taxes	**36,956**	31,147	5,809	19%

(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 2014 and 2013, by product and business:

Table 3: Net interest income

	2014			2013		
($ THOUSANDS)	**Average balance**	**Revenue/ expense**	**Average rate[1]**	Average balance	Revenue/ expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 6,574,546**	**$ 324,692**	**4.94%**	$ 5,610,861	$ 278,921	4.97%
Liquidity investments	**346,524**	**5,177**	**1.49%**	559,597	7,826	1.40%
Equity securities – TEB[2]	**123,398**	**7,388**	**5.99%**	104,306	5,557	5.33%
	7,044,468	**337,257**	**4.79%**	6,274,764	292,304	4.66%
Expenses related to:						
Deposits	**6,258,121**	**145,975**	**2.33%**	5,592,821	133,585	2.39%
Debentures and bank facilities	**107,190**	**5,713**	**5.33%**	107,339	6,688	6.23%
	6,365,311	**151,688**	**2.38%**	5,700,160	140,273	2.46%
Net interest income – TEB[2][3]		**185,569**	**2.60%**		152,031	2.40%
Taxable Equivalent Basis – adjustment[2]		**(1,932)**			(2,134)	
Core Lending		**$ 183,637**			$ 149,897	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 4,861,662**	**$ 171,643**	**3.53%**	$ 5,252,185	$ 200,522	3.82%
Liquidity investments	**148,451**	**2,576**	**1.74%**	221,338	3,487	1.58%
	5,010,113	**174,219**	**3.48%**	5,473,523	204,009	3.73%
Expenses related to:						
Securitization liabilities	**4,435,016**	**141,518**	**3.19%**	5,019,485	170,110	3.39%
Deposits and secured funding facility	**509,823**	**11,816**	**2.32%**	387,153	9,259	2.39%
	4,944,839	**153,334**	**3.10%**	5,406,638	179,369	3.32%
Securitization Financing		**$ 20,885**	**0.42%**		$ 24,640	0.45%
Total assets – TEB[2][3]	**$ 12,157,392**	**$ 206,454**	**1.70%**	$ 11,832,579	$ 176,671	1.49%

(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 17% due to an increase in our average asset balances of $325 million or 3% and a widening of our NIM. Total NIM increased 21 basis points ("bps") to 1.70% from 1.49% a year ago, as we continue to shift our asset mix towards our higher margin Core Lending business and achieved higher margins within Core Lending.

NIM earned on Core Lending assets increased 20 bps to 2.60% due to more efficient management of our low margin liquidity portfolio and our efforts to optimize renewal pricing in Single Family, offset in part by the shift in the portfolio towards lower spread but higher ROE single family assets. NIM growth was also helped by a debt redemption charge recorded in the prior year.

Securitization Financing NIM was down three bps from a year ago to 0.42% as a result of rate compression within the book and lower prepayment income. The decrease was partially offset by reduced levels of low margin liquid assets. The rate compression experienced in this business over the past several quarters is the result of the maturity of five year mortgages originated during the credit crisis at wider spreads than those being originated or renewed now. These wider spread mortgages substantially all matured by the end of 2014, so we expect less margin compression in future periods.

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)	2014 vs. 2013
Core Lending NIM:	
Size and rate of liquidity investments	15
Size and rate of equity securities holdings	1
2013 debt redemption charge	1
Other[1]	3
Total change in NIM	20
Securitization Financing NIM:	
Mortgage prepayment income	(1)
Size and rate of liquidity investments	3
Other[1]	(5)
Total change in NIM	(3)

[1] *Other may include the effects of various factors such as a mix shift in 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 credit quality of our mortgage portfolio continues to be strong. Our provision for credit losses was $2.6 million for 2014, $4.1 million lower than 2013. After our normal extensive review of our collective and individual allowances, management determined that the allowance was sufficient and as a result we recorded a provision that was lower than our historical average.

Management uses the term impairment provision to refer to the portion of our overall provision that we have taken during the year on loans that we specifically identified as impaired, and each of which is individually assessed for potential loss. We view the impairment provision metric as the most important indicator of the credit quality of our portfolio. During 2014, we recorded an impairment provision of $1.2 million, $0.6 million higher than the historically low level recorded in in 2013. The continued modest levels of impairment provision reflect the health of our mortgage portfolio and low loss estimates for newly impaired loans.

OTHER INCOME

Table 5: Other income

($ THOUSANDS)	2014	2013	Change from 2013	
Fees and other income	$ 8,345	$ 5,815	$ 2,530	44%
Net gain on investments	1,033	987	46	5%
Securitization activities:				
Gains on securitization and income from retained interests	4,628	6,205	(1,577)	(25%)
Fair value (losses) gains on derivative financial instruments	(583)	1,379	(1,962)	(142%)
Total	$ 13,423	$ 14,386	$ (963)	(7%)

Other income decreased $1.0 million or 7% to $13.4 million compared with the prior year. The decrease is mainly attributable to:

- $1.9 million decrease in fair value gains on derivative financial instruments related to securitization activities;
- $1.6 million lower gains recorded on securitization and income from retained interests, driven by reduced securitization transactions that qualify for derecognition and a lower gain on sale percentage; and
- $0.4 million additional HST refunds recorded as Fees and other income in 2013;

offset by:

- $2.3 million increase in mortgage administration fees, driven by growth in the mortgage portfolio; and
- $0.6 million of rental income from foreclosed assets recorded in Fees and other income.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and efficiency ratio

($ THOUSANDS EXCEPT FTE)	2014	2013	Change from 2013	
Compensation and benefits	$ 42,544	$ 33,870	$ 8,674	26%
Premises, equipment and systems costs	7,417	5,840	1,577	27%
Other	4,051	3,258	793	24%
Licenses, regulatory fees and insurance	3,891	3,151	740	23%
Mortgage servicing	3,835	4,245	(410)	(10%)
Professional, audit and related services	3,550	2,601	949	36%
Marketing, travel and communications	3,454	2,620	834	32%
Amortization	2,902	1,929	973	50%
Total	$ 71,644	$ 57,514	$ 14,130	25%
Efficiency ratio – TEB	32.6%	30.1%	N/A	2.5%
Full-time employee ("FTE") — period average	348	279	69	25%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our efficiency ratio was 32.6% in 2014, up from 30.1% in 2013, due to a 25% or $14.1 million increase in non-interest expenses. The increase in non-interest expenses reflects the successful growth in our business, as well as strategic investments made to enable future growth and to maintain the high level of service that we provide to mortgage brokers and borrowers. In most cases, these investments were made ahead of the associated benefits, and as such, reduced our net income and increased our efficiency ratio in the current year. The investments will help to improve our growth and efficiency in future periods.

The majority of the $14.1 million net increase in our expenses during 2014 was driven by:

Growth of Our Franchise: $11.0 million or 78% of the net increase

- $7.5 million increase in compensation and $1.6 million in related costs (such as premises, equipment, and systems), which is primarily the result of the 21% growth in the FTE supporting our existing business, RSU/DSU expenses related to the appreciation of our stock price, and severance costs during the year;
- $1.5 million increase in licenses, regulatory fees, insurance, and other general expenses, reflecting an increase in the standard CDIC base premium rates, higher deposit balances, and business growth; and
- $0.8 million increase in marketing and other expenses driven by the growth of our portfolio and incentives paid to mortgage brokers for achieving certain origination thresholds (expenses were volume driven as our loyalty program rates were unchanged);

offset by:

- $0.4 million decrease in mortgage servicing fees paid to third parties.

Investments in Our Future: $3.1 million or 22% of the net increase

- $1.2 million of compensation expenses related to various strategic initiatives such as our prime single family launch and development of a digital banking platform;
- $0.9 million of professional fees to support of our strategic initiatives; and
- $1.0 million of amortization, most of which relates to the amortization of HELOC related investments.

This $3.1 million investment in our future accounted for one-fifth of the 25% year-over-growth and adjusted for these investments our efficiency ratio would have been 31.2% for 2014.

INCOME TAXES

The Company's statutory tax rate was 26.4% compared to 26.3% for 2013. Our effective income tax rate in 2014 was 25.8% compared to 25.0% in 2013. The 0.8% increase was largely due to lower tax exempt income recorded in 2014 and other adjustments.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

($ THOUSANDS)	**2014**	2013	Change from 2013	
Total assets	**$ 12,854,903**	$ 11,816,453	$ 1,038,450	9%
Mortgage principal – Core Lending	**7,265,225**	6,196,930	1,068,295	17%
Mortgage principal – Securitization Financing	**4,975,473**	4,910,118	65,355	1%
Deposit principal	**7,385,456**	6,377,987	1,007,469	16%
Total liquid assets as a % of total assets[1]	**5.3%**	6.0%	N/A	(0.7%)

[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 2014 and 2013:

Table 8: Mortgage principal continuity schedule

							2014
($ THOUSANDS)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[1]**	**Securitized Financing MUM[2]**
2013 closing balance	**$ 3,797,999**	**$ 2,398,931**	**$ 6,196,930**	**$ 4,910,118**	**$ 11,107,048**	**$ 998,920**	**$ 5,909,038**
Originations	**2,309,428**	**760,329**	**3,069,757**	**1,570,913**	**4,640,670**	**-**	**1,570,913**
Core Lending securitized[3]	**(383,503)**	**-**	**(383,503)**	**383,503**	**-**	**-**	**383,503**
Securitized and derecognized	**-**	**-**	**-**	**(564,743)**	**(564,743)**	**564,743**	**-**
Net repayments	**(764,074)**	**(853,885)**	**(1,617,959)**	**(1,324,318)**	**(2,942,277)**	**(44,655)**	**(1,368,973)**
2014 closing balance	**$ 4,959,850**	**$ 2,305,375**	**$ 7,265,225**	**$ 4,975,473**	**$ 12,240,698**	**$ 1,519,008**	**$ 6,494,481**
% Change from 2013	**31%**	**(4%)**	**17%**	**1%**	**10%**	**52%**	**10%**
Net repayments percentage[4]	**20.1%**	**35.6%**	**26.1%**	**27.0%**	**26.5%**	**4.5%**	**23.2%**

							2013
($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[1]	Securitized Financing MUM[2]
2012 closing balance	$ 3,026,523	$ 2,134,262	$ 5,160,785	$ 5,415,773	$ 10,576,558	$ 332,922	$ 5,748,695
Originations	1,655,326	832,077	2,487,403	1,003,616	3,491,019	-	1,003,616
Core Lending securitized[3]	(267,710)	-	(267,710)	267,710	-	-	267,710
Securitized and derecognized	-	-	-	(690,154)	(690,154)	690,154	-
Net repayments	(616,140)	(567,408)	(1,183,548)	(1,086,827)	(2,270,375)	(24,156)	(1,110,983)
2013 closing balance	$ 3,797,999	$ 2,398,931	$ 6,196,930	$ 4,910,118	$ 11,107,048	$ 998,920	$ 5,909,038
% Change from 2012	25%	12%	20%	(9%)	5%	200%	3%
Net repayments percentage[4]	20.4%	26.6%	22.9%	20.1%	21.5%	7.3%	19.3%

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

[2] *Securitization Financing MUM includes Securitization Financing and Derecognized Mortgage Principal.*

[3] *Core Lending securitized represents Single Family mortgages that were securitized in the year and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the year as part of Single Family Lending Services (i.e. not securitized again at time of renewal).*

[4] *Net repayments percentage is calculated by dividing net repayments by the previous year's closing balance.*

Total mortgage principal increased by $1.1 billion or 10% compared to a year ago, driven by 17% growth in Core Lending balances.

The growth in Core Lending was attributable to growth in Single Family Lending of 31% or $1.2 billion, offset by a 4% decrease in Commercial Lending. The main drivers of growth in Single Family Lending were a high level of originations and our success with mortgage renewals during the year. This growth was achieved despite the securitization of $384 million of Single Family mortgages during 2014 (which moves the reported balances from Core Lending to Securitization Financing). While we continue to benefit from our strong business partnerships, Commercial Lending balances decreased 4% from a year ago, reflecting our commitment to pricing discipline and risk parameters in a highly competitive market.

Securitization Financing Mortgages under Management ("Securitization Financing MUM"), which includes $1.5 billion of derecognized mortgage principal, is more reflective of the performance of the underlying securitization business than are assets reported on our balance sheet. Securitization Financing MUM grew 10% or $0.6 billion in the year, helped by the securitization of $384 million of mortgages previously reported in our Core Lending balances.

MORTGAGE ASSET ORIGINATIONS

The table below provides mortgage originations for 2014 and 2013 by lending business:

Table 9: Mortgage origination – by lending business

	2014		2013		Change from 2013	
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total		
Single Family Lending Services	**$ 2,309,428**	**49.7%**	$ 1,655,326	47.5%	$ 654,102	40%
Commercial Lending Services	**760,329**	**16.4%**	832,077	23.8%	(71,748)	(9%)
Core Lending	**3,069,757**	**66.1%**	2,487,403	71.3%	582,354	23%
Securitization Financing:						
Multi-unit residential	**1,143,479**	**24.7%**	1,003,616	28.7%	139,863	14%
Single family residential	**427,434**	**9.2%**	-	-	427,434	100%
Total mortgage origination	**$ 4,640,670**	**100.0%**	$ 3,491,019	100.0%	$ 1,149,651	33%

The Company delivered record mortgage origination volumes of $4.6 billion, up $1.1 billion or 33% from 2013.

Commensurate with Equitable's strategic focus, 66% of the mortgages funded were Core Lending mortgages. Within Core Lending, Single Family Lending was up by 40% over 2013 with an exceptionally strong finish to 2014. This performance reflected the strength of the Canadian housing market and our continuing high levels of service quality. Commercial Lending originated $760 million in mortgages during 2014, benefitting from our long-term and new business partnerships. Compared to 2013, Commercial volumes were down by $71.7 million or 9% as we chose to maintain our pricing discipline and risk parameters in a highly competitive market.

In Securitization Financing, origination of multi-unit residential mortgages is effectively limited by our quarterly CMB allocations and the volume of mortgage renewals (our capacity for net new originations is effectively our residual CMB allocation after our renewal volumes are re-securitized). During 2014, we originated $1.1 billion of multi-unit residential mortgages, a 14% increase from the prior year. Originations were up due to the combination of consistent CMB capacity and lower renewal volumes in 2014.

Securitization Financing figures also include originations of insured prime single family mortgages, a program we launched in Q3 2014. We originate Prime Single Family mortgages internally or through third-party agents. We generally securitize these mortgages through the MBS program and we believe we have more than enough MBS capacity to accommodate our strategic goal of originating $1 to $2 billion of volume per year within the next three to five years. Although, we are in the early stages of this program, we are encouraged by its initial success having funded $270 million of Prime Single Family mortgages in the fourth quarter alone.

SECURITIZATION

We regularly securitize mortgages in order to effectively manage our funding costs. When the Company securitizes mortgages, it applies the IFRS derecognition rules to determine whether it has effectively transferred substantially all the risks and rewards or control associated with the mortgages to a third party. If the structure of the transaction meets specific criteria, it may qualify for full or partial balance sheet derecognition of the securitized mortgages and an upfront gain on sale. In some cases, the Company retains 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 2014 and 2013, as well as the associated retained interest and gains on sale amounts.

Table 10: Securitization and derecognition activity

($ THOUSANDS)	2014	2013	Change from 2013	
Securitized and derecognized[1]	**$ 564,743**	$ 690,154	$ (125,411)	(18%)
Retained interest recorded	**20,092**	26,235	(6,143)	(23%)
Gains on sale	**3,960**	5,613	(1,653)	(29%)
Gains on sale – percentage[2]	**0.70%**	0.81%	N/A	(0.11%)

(1) *Securitized and derecognized reflects mortgages which were sold, removed from the Company's balance sheet and a retained interest recorded.*
(2) *Gains on sale – percentage represents the gains on sale as a percentage of total principal derecognized.*

During 2014, we derecognized $565 million of non-prepayable mortgages, which represented 28% of mortgages securitized in 2014, down from 44% of mortgages securitized in the prior year. The 18% decrease in volume derecognized reflected lower demand for non-prepayable mortgage products (which generally qualify for derecognition).

We recorded $4.0 million of gains on sale of these securitized and derecognized transactions. Gains on sale were $1.7 million or 29% lower than in 2013, primarily as a result of the lower volumes derecognized. In addition, the 70 bps gain recognized in the year was 11 bps lower than in 2013, even though the spreads on the underlying mortgages remained relatively consistent year-over-year. This change in gains on sale percentage was largely due to differences in the assumptions used to calculate the gains, such as the cash flow discount rates.

We note that while gains are lower this period, the reduced levels of derecognition provide a benefit to us in future periods. If the assets remain on our balance sheet, the associated spread will continue to flow through our income statement in future periods, rather than be fully recognized in the period of securitization (as happens when the assets are derecognized).

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management actively analyzes the profile of its lending portfolio and its originations taking into account external market conditions, 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 ensure a prudent 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 for credit losses adequately provide for our risk of loss.

In recent months, management has extensively examined and stress tested our exposure to the Alberta and Saskatchewan markets, given the economic risks associated with declining oil prices. We are comfortable that our current exposures in those provinces are well managed and believe that there is a low likelihood of Equitable incurring any significant credit losses. At a high level, the highlights of our investments in Alberta and Saskatchewan at December 31, 2014 include:

- $2.2 billion or 18% of the Company's total mortgage principal are in these two provinces.
  - $1.1 billion or 48% of those assets are insured. $0.3 billion of the insured assets are single family residential, with the remainder being multi-unit residential. None of our other commercial mortgages are insured.
  - $1.1 billion of the assets are uninsured, with $0.8 billion of that total being single family residential and $0.3 billion being commercial. These uninsured assets represent only 10% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, $0.9 billion or 83% are in the cities of greater Edmonton and Calgary. Similarly, $90.9 million or 8% are in Regina and Saskatoon. Those cities have more diversified economies and stronger real estate markets and in our belief can better withstand any economic shocks.
- The average loan to value of our uninsured single family residential portfolio in these provinces is 67%.

Details of our Alberta and Saskatchewan lending portfolios can be found in Table 9 of our 2014 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

Table 11: Mortgage credit metrics

($ THOUSANDS)	2014	2013	Change from 2013	
Impairment provision[1]	**1,213**	596	617	104%
Impairment provision-rate[1]	**0.01%**	0.01%	N/A	0.00%
Gross impaired mortgage assets[2]	**41,253**	29,955	11,298	38%
Net impaired mortgage assets[2][3]	**37,316**	26,574	10,742	40%
Net impaired mortgage assets as a % of total mortgage assets[2][3]	**0.30%**	0.24%	N/A	0.06%
Allowance for credit losses	**33,447**	31,477	1,970	6%
Allowance for credit losses as a % of total mortgage assets	**0.27%**	0.28%	N/A	(0.01%)
Allowances for credit losses as a % of gross impaired mortgage assets	**81%**	105%	N/A	(24%)
Mortgage principal in arrears 30 to 89 days[4]	**44,201**	45,282	(1,081)	(2%)
Mortgage principal in arrears 30 to 89 days as a % of total mortgage principal[4]	**0.36%**	0.41%	N/A	(0.05%)
Mortgage principal in arrears 90 days or more[5]	**37,256**	25,884	11,372	44%
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[5]	**0.30%**	0.23%	N/A	0.07%

(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.

(4) Mortgage principal in arrears 30 to 89 days does not include insured mortgages less than 365 days in arrears.

(5) Mortgage principal in arrears 90 days or more does not include insured mortgages that are less than 365 days in arrears.

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remains high in 2014, despite a slight decline in certain metrics relative to the exceptionally low levels experienced a year ago. All metrics continue to remain within historical normal ranges.

- Mortgage principal in arrears 90 days or more and impaired mortgages both increased from the exceptionally low levels experienced a year ago. This increase results mainly from one commercial mortgage of $8.5 million becoming impaired in the first quarter of 2014. We do not expect to realize any loss on this mortgage.
- Allowance for credit losses represented 81% of gross impaired mortgage assets, down from 105% in 2013 as a result of the increase in impaired mortgages.
- The rate of early stage delinquency (between 30 to 89 days past due) decreased to 0.36% from 0.41%. Early stage delinquency may be a leading indicator of credit quality in future periods.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management closely monitors the Company's liquidity position and believes that the level of liquid assets held, together with Equitable's ability to raise deposits, is sufficient for us to meet our mortgage funding and deposit maturity commitments, as well as to ensure that we can meet our other obligations. Liquidity 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)	2014	2013	Change from 2013	
Eligible deposits with regulated financial institutions[2]	**$ 229,462**	$ 243,297	$ (13,835)	(6%)
Debt securities issued by regulated financial institutions	**-**	70,586	(70,586)	(100%)
Government issued and guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**9,998**	20,026	(10,028)	(50%)
Debt securities guaranteed by Government of Canada	**20,597**	25,227	(4,630)	(18%)
Mortgages held in the form of debt securities guaranteed by Government of Canada[3]	**316,501**	246,266	70,235	29%
Obligations under repurchase agreements	**(52,413)**	(8,143)	(44,270)	544%
Liquid assets held for regulatory purposes	**524,145**	597,259	(73,114)	(12%)
Other deposits with regulated financial institutions	**601**	348	253	73%
Equity securities[4]	**151,813**	106,405	45,408	43%
Total liquid assets[1]	**$ 676,559**	$ 704,012	$ (27,453)	(4%)
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**4.1%**	5.1%	N/A	(1.0%)
Total liquid assets as a % of total assets	**5.3%**	6.0%	N/A	(0.7%)

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *Eligible deposits with regulated financial institutions exclude $13.6 million (December 31, 2013 – $10.1 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $54.1 million (December 31, 2013 – $77.2 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.*

Liquid assets held for regulatory purposes were down by $73.1 million or 12% due to more efficient management of our liquid assets portfolio and despite the increase in outstanding mortgage commitments from $486 million at December 31, 2013 to $778 million at the end of December 31, 2014.

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 interest rate swap transactions and securitization activities. We also maintain an equity portfolio, the majority of which is preferred shares that are held to yield tax-preferred dividend income.

Beginning in Q1 2015, Equitable will begin to report to OSFI on its Liquidity Coverage Ratio ("LCR"), a new requirement for Canadian Banks based on guidelines issued by the Basel Committee on Banking Supervision ("BCBS"). Based on our analysis, management believes that Equitable's liquidity position exceeds minimum regulatory thresholds and the LCR metric will not cause us to alter our current liquidity management framework or business strategy.

OTHER ASSETS

The table below provides a breakdown of other assets at December 31, 2014 and December 31, 2013:

Table 13: Other assets

($ THOUSANDS)	2014	2013	Change from 2013	
Deferred system costs	**$ 11,669**	$ 5,975	$ 5,694	95%
Prepaid expenses and other	**6,400**	6,497	(97)	(1%)
Real estate owned	**7,473**	7,703	(230)	(3%)
Receivable relating to securitization activities	**4,592**	2,512	2,080	83%
Capital assets	**3,963**	4,021	(58)	(1%)
Derivative financial instruments — interest rate swaps and bond forwards	**1,916**	2,355	(439)	(19%)
Accrued interest and dividends on non-mortgage assets	**412**	630	(218)	(35%)
Mortgage commitments	**16**	-	16	N/A
Total	**$ 36,441**	$ 29,693	$ 6,748	23%

Other assets were $36.4 million at the end of December 31, 2014, up by 23% or $6.7 million over the prior year. The increase was mainly due to:

- $5.7 million increase in capitalized system development costs, of which the majority will be amortized over a 10 year period;
- $2.1 million increase in receivables relating to securitization activities; and

Included in Prepaid expenses and other is a net receivable of $3.2 million (2013 – $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.

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, provide a reliable and stable source of funding that can be matched against mortgage maturities.

We continue to broaden our range of products for savers which further diversifies our sources of funding. In Q2 2014, we launched a Deposit Note Program and successfully closed a $150 million three-year fixed rate offering at a spread of 135 bps over benchmark Government of Canada yields. We also grew our HISA portfolio to $366 million as at December 31, 2014 from $20.5 million a year ago.

Total deposit principal outstanding increased $1.0 billion or 16%, to $7.4 billion as at December 31, 2014. Deposits have grown in line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

SECURITIZATION LIABILITIES

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

Securitization liabilities were $4.4 billion at the end of December 31, 2014, down $236 million from December 31, 2013. The amount is generally consistent with the level of Securitization Financing assets reported on our consolidated balance sheet.

DEBENTURES AND BANK FACILITIES

Equitable had two series of debentures outstanding at December 31, 2014, compared with three series at the end of the prior year. Both series of debentures mature between 2017 and 2020, but we can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements and our liquidity position.

We have used the proceeds from Equitable Group Inc.'s debentures to provide regulatory capital to Equitable Bank, and have 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's debentures mature between 2017 and 2020, but we can elect to redeem these debentures during their term subject to the terms and conditions of the debenture agreements and to the approval of OSFI.

Our debenture balances decreased by $7.5 million from a year ago due to the redemption of 6.5% Series 8 subordinated debentures on December 31, 2014 at par value. The following table details the Company's outstanding debentures at December 31, 2014 and 2013.

Table 14: Debentures

($ THOUSANDS)		2014	2013	Change from 2013	
Debentures	Interest rate				
Series 8	6.50%	**$ -**	$ 7,483	$ (7,483)	(100%)
Series 9	6.09%	**20,000**	20,000	-	0%
Series 10	5.40%	**65,000**	65,000	-	0%
Total debentures		**$ 85,000**	$ 92,483	$ (7,483)	(8%)

The Company has a $300 million credit facility with a major Canadian Schedule I Bank to finance insured residential mortgages prior to securitization. At December 31, 2014, the outstanding balance was $92.2 million (December 31, 2013 – $nil).

We have a $35.0 million credit facility in place with a major Canadian Schedule I Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance on the facility at December 31, 2014 (December 31, 2013 – $nil).

Details related to the Company's bank facilities and debentures can be found in Notes 16 and 17 to the 2014 audited consolidated financial statements.

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 a future servicing liability for securitized mortgages that achieved derecognition.

Table 15: Other liabilities and deferred income Taxes

($ THOUSANDS)	2014	2013	Change from 2013	
Mortgagor realty taxes	**$ 31,512**	$ 26,335	$ 5,177	20%
Accounts payable and accrued liabilities	**16,075**	12,092	3,983	33%
Securitized mortgage servicing liability	**11,192**	8,883	2,309	26%
Income taxes payable	**2,284**	7,921	(5,637)	(71%)
Derivative financial instruments — securitization activities	**908**	-	908	N/A
Mortgage commitments	**-**	19	(19)	(100%)
	61,971	55,250	6,721	12%
Deferred tax liabilities	**14,843**	10,826	4,017	37%
Total other liabilities and deferred tax liabilities	**$ 76,814**	$ 66,076	$ 10,738	16%

Other liabilities and deferred tax liabilities totaled $76.8 million at December 31, 2014, up from $66.1 million in 2013. The increase was mainly due to:

- $9.2 million increase in mortgage realty taxes, and accounts payable and accrued liabilities due to the growth of our business;
- $4.0 million higher deferred tax liabilities due to timing differences related to when securitization income is recorded on our consolidated statement of income and when it is recognized for tax purposes;
- $2.3 million increase in securitized mortgage service liability as a result of securitization activities where derecognition is achieved, in part, and residual interests in the mortgages are retained by the Company; and
- $0.9 million increase in derivative financial instruments related to securitization activities;

offset by:

- $5.6 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 at the end of 2014.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased $115 million or 19% to $704 million at December 31, 2014, from $588 million a year ago. The increase reflects the high level of earnings retained by the Company and a preferred share issuance, partly offset by dividends paid.

At December 31, 2014, the Company had 15,435,356 common shares issued and outstanding compared to 15,355,405 issued and outstanding at December 31, 2013. In Q3 2014, the Company issued $75 million of Series 3 non-cumulative five-year rate reset preferred shares and redeemed $50 million of Series 1 non-cumulative five-year rate reset preferred shares. At December 31, 2014, the Company had 3,000,000 issued and outstanding Series 3 preferred shares and had no Series 1 preferred shares issued and outstanding (2013 – 2,000,000).

During 2014, 106,430 options were granted. In addition, 69,889 stock options were exercised that contributed $1.7 million to common share capital. At December 31, 2014, there were 544,449 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $18.3 million. For information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) of the consolidated financial statements.

During Q3 2014, the Company suspended its Dividend Reinvestment Plan ("DRIP"). Participation in the plan was optional, and under the terms of the plan cash dividends on common shares were 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. Common shares issued as a result of participation in the DRIP were issued from the Company's treasury. During the year ended December 31, 2014, prior to the suspension, the Company issued 10,062 common shares under the DRIP (2013 – 23,699). The Company maintains the right to reinstate the DRIP in future periods.

CAPITAL MANAGEMENT

We manage the Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the 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 mandated all Canadian-regulated financial institutions to meet a target CET1 ratio of 7% on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments), effective the first quarter of 2013. For Tier 1 and Total capital ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively, effective the first quarter of 2014.

Equitable Bank's CET1 ratio on an "all-in" basis was 13.5% as at December 31, 2014, while our Tier 1 and Total capital ratios were 14.9% and 17.3%, respectively, exceeding the regulatory minimums on an "all-in" basis. Our Tier 1 and Total capital ratios were up compared to December 31, 2013 mainly due to internal capital generation driven by our strategy of retaining the vast majority of our earnings. The growth in our equity outpaced the growth in our risk-weighted assets during this period, partly because our asset mix shifted towards lower risk-weighted single family mortgages.

During Q3 2014, the Bank issued three million Basel III compliant, non-cumulative, perpetual, 5-Year Rate Reset Preferred Shares (the "Series 3 preferred shares") for gross cash consideration of $75 million, of which $50 million was used to redeem our Series 1 preferred shares on September 30, 2014. Quarterly non-cumulative cash dividends, if declared, will be paid on the Series 3 preferred shares at a per annum rate of 6.35% for the initial period from and including the closing date, but excluding September 30, 2019. Thereafter, the dividend rate will reset every five years at a level of 4.78% over the Government of Canada Bond Yield. To qualify as Tier 1 Capital under Basel III, the Series 3 preferred shares issued by the Bank included a non-viability contingent capital ("NVCC") provision in accordance with OSFI's CAR Guideline. The conditions and mechanics of the NVCC provision are set out in Equitable Group Inc.'s Series 3 prospectus supplement dated July 25, 2014.

OSFI continued to require Canadian financial institutions to meet an Assets-to-Capital Multiple ("ACM") requirement until December 31, 2014. The ACM is calculated on a Basel III "transitional basis", by dividing total assets, including specified off-balance sheet items, by total capital. On October 30th, 2014, OSFI issued the final version of its new Leverage Requirements Guideline that is based on the Basel III leverage ratio framework and will replace the current ACM, effective January 2015. OSFI will establish leverage ratio targets on a confidential, institution by institution basis. We will begin to disclose our leverage ratio in our Q1 2015 MD&A and expect to be fully compliant with regulatory standards.

Our ACM was 14.7x at Q4 2014, up 0.9x compared to Q4 2013. The change in our ACM is attributable to solid asset growth over the past few quarters and the maturity of $1.3 billion 'grandfathered' assets (which were excluded from our ACM prior to maturity).

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.

As part of our capital management process, we stress test the mortgage portfolio on a regular basis, in order to understand the potential impact of extreme but plausible adverse economic scenarios. We use the tests to analyze the impact that an increase in unemployment, rising interest rates, a decline in real estate prices, and other factors could have on our financial position. Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the 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, EXCEPT ACM)	**2014**	2013
Total risk-weighted assets ("RWA")	**$ 4,721,132**	$ 4,328,555
Common Equity Tier 1 capital ("CET1"):		
Common shares	**143,141**	140,997
Contributed surplus	**5,423**	4,911
Retained earnings	**490,774**	398,493
Accumulated other comprehensive (loss) income ("AOCI")[(2)]	**(2,453)**	(4,574)
Less: Total Regulatory adjustments to Common Equity Tier 1	**(1,723)**	(1,188)
Common Equity Tier 1 capital	**635,162**	538,639
Additional Tier 1 capital:		
Non-cumulative preferred shares[(3)]	**72,409**	45,000
Less: Regulatory adjustments	**(4,806)**	-
Tier 1 capital	**702,765**	583,639
Tier 2 capital:		
Collective allowance	**29,510**	28,097
Debentures (Tier 2B)	**85,000**	92,483
Tier 2 capital	**114,510**	120,580
Total capital	**$ 817,275**	$ 704,219
Capital Ratios and multiplies:		
Common Equity Tier 1 capital ratio	**13.5%**	12.4%
Tier 1 capital ratio	**14.9%**	13.5%
Total capital ratio	**17.3%**	16.3%
Assets-to-capital multiple ("ACM")	**14.7**	13.8

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

(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 derecognized.*

(3) *At December 31, 2014, 100% (December 31, 2013 – 90%) of Equitable Bank's non-cumulative preferred shares qualified as additional Tier 1 Capital under Basel III rules.*

Table 17: Risk-weighted assets of Equitable Bank

($ THOUSANDS)	Amounts	Risk Weighting	Risk-weighted Amounts
			2014
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	**4,974,357**	**34%**	**1,679,392**
Commercial Lending Services	**2,307,161**	**97%**	**2,233,738**
Mortgage receivables – Securitization Financing	**5,012,469**	**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**

($ THOUSANDS)	Amounts	Risk Weighting	Risk-weighted Amounts
			2013
On balance sheet:			
Cash and cash equivalents	$ 314,517	17%	$ 52,899
Securities purchased under reverse repurchase agreements	56,349	0%	-
Investments	254,932	47%	120,581
Mortgage receivables – Core Lending:			
Single Family Lending Services	3,812,306	35%	1,327,175
Commercial Lending Services	2,403,953	97%	2,330,310
Mortgage receivables – Securitization Financing	4,941,704	0%	270
Securitization retained interests	30,784	100%	30,784
Other assets	28,386	92%	26,144
Total Equitable Bank assets subject to risk rating	11,842,931		3,888,163
Less: Collective allowance	(28,096)		-
Total Equitable Bank assets	$ 11,814,835		$ 3,888,163
Off-balance sheet:			
Loan commitments			130,953
Derivatives			4,639
Total credit risk			4,023,755
Operational risk[1]			304,800
Total			$ 4,328,555

[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 prepayment income levels and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 18: Summary of quarterly results

	2014				2013			
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
RESULTS OF OPERATIONS								
Net income	**$ 26,885**	$ 27,764	$ 26,778	$ 25,291	$ 26,492	$ 23,226	$ 22,898	$ 20,914
Net income available to common shareholders	**24,993**	26,857	25,872	24,385	25,586	22,319	21,992	20,008
EPS – basic[1]	**$ 1.62**	$ 1.74	$ 1.68	$ 1.59	$ 1.67	$ 1.46	$ 1.44	$ 1.32
EPS – diluted[1]	**$ 1.59**	$ 1.71	$ 1.65	$ 1.56	$ 1.65	$ 1.44	$ 1.43	$ 1.30
Net interest income[2]	**54,220**	51,716	49,902	48,684	47,264	44,705	42,406	40,162
NIM – TEB:[3][4]								
Total Assets	**1.72%**	1.72%	1.69%	1.67%	1.60%	1.50%	1.46%	1.42%
Core Lending	**2.58%**	2.64%	2.57%	2.60%	2.49%	2.38%	2.39%	2.32%
Securitization Financing	**0.41%**	0.39%	0.46%	0.43%	0.47%	0.44%	0.42%	0.47%
Total revenues[2]	**134,928**	131,900	129,752	126,387	128,813	127,861	127,380	124,511
ROE[4]	**16.0%**	17.8%	18.0%	17.9%	19.2%	17.5%	18.2%	17.5%
Return on average assets[4]	**0.8%**	0.9%	1.0%	0.8%	0.9%	0.8%	0.8%	0.7%
Efficiency ratio – TEB[4]	**35.4%**	31.5%	31.3%	31.9%	28.4%	31.6%	30.3%	30.3%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**758,442**	645,842	501,434	403,710	506,244	463,961	400,403	284,718
Commercial Lending Services	**253,961**	193,668	187,036	125,664	183,008	265,383	210,694	172,992
Core Lending	**1,012,403**	839,510	688,470	529,374	689,252	729,344	611,097	457,710
Securitization financing	**576,527**	479,104	237,522	277,760	365,771	190,537	280,932	166,376
BALANCE SHEET								
Total assets	**12,854,903**	12,193,335	11,785,388	11,886,479	11,816,453	11,831,155	11,837,872	11,602,293
Mortgages receivable	**12,269,945**	11,555,700	11,128,395	11,204,349	11,129,867	10,970,223	10,806,401	10,737,609
MUM[3]	**13,759,706**	12,897,242	12,287,267	12,265,257	12,105,968	11,737,731	11,360,724	11,156,031
Liquid assets[4]	**676,559**	664,663	707,631	711,385	704,012	858,349	845,033	770,516
Shareholders' equity	**703,694**	682,863	636,376	611,456	588,318	565,506	545,919	521,829
SHARE CAPITAL								
Dividends declared per:								
Common share	**$ 0.18**	$ 0.17	$ 0.17	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.14
Preferred share	**$ 0.63**	$ 0.45	$ 0.45	$ 0.45	$ 0.45	$ 0.45	$ 0.45	$ 0.45
Common shares outstanding								
Weighted average basic	**15,416,625**	15,408,311	15,398,461	15,371,973	15,326,042	15,294,743	15,262,648	15,204,757
Weighted average diluted	**15,683,821**	15,672,253	15,644,288	15,588,303	15,526,253	15,480,627	15,417,784	15,368,873
Book value per common share	**$ 40.90**	$ 39.61	$ 38.16	$ 36.58	$ 35.14	$ 33.77	$ 32.55	$ 31.07

[1] *Annual EPS does not equal the sum of the quarterly EPS' as a result of rounding.*
[2] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[3] *NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.*
[4] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

FOURTH QUARTER OVERVIEW

The fourth quarter of 2014 was another period of strong asset growth for Equitable, though earnings and ROE were down slightly from the levels achieved in recent quarters due to investments in several strategic initiatives that management believes will benefit Equitable in the future. These investments muted our financial performance in what would otherwise have been another strong quarter but are important in fulfilling our commitment to grow the bank, provide superior customer service, and enhance shareholder returns over the long term.

We also achieved a record level of $13.8 billion in MUM, a 7% increase during the quarter. This growth was driven by a quarterly record of $758 million of Single Family originations, 17% above the previous record established in the preceding quarter. As a result, Core Lending originations surpassed $1 billion for the first time in our history. On the strength of that performance, we grew our Core Lending portfolio by $428 million, providing Equitable with higher than expected momentum as we launch into a new year. Similarly, our Securitization Financing MUM increased by $434 million in the quarter, partly due to the successful launch of our prime single family business in Q3 2014.

During the three months ended December 31, 2014, Equitable also:

- produced record total originations of $1.6 billion;
- delivered diluted EPS of $1.59, down 4% from Q4 of the prior year as a result of investments in our strategic initiatives;
- declared common share dividends of $0.18, up 13% from Q4 2013; and
- generated an ROE of 16.0% compared to 19.2% in the fourth quarter of 2013 and 17.8% in the prior quarter.

ITEMS OF NOTE

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.

There were no items of note in our financial results for Q3 2014 or Q4 2013.

NET INTEREST INCOME

Table 19 details the Company's NII and NIM for the three months ended December 31, 2014, 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, 2014		Sep 30, 2014		Dec 31, 2013	
($ THOUSANDS)	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]	Revenue/ expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 86,163**	**4.85%**	$ 82,432	4.97%	$ 74,799	4.91%
Liquidity investments	**1,214**	**1.48%**	1,301	1.68%	1,672	1.45%
Equity securities – TEB[2]	**2,459**	**7.28%**	1,573	4.88%	1,787	7.06%
	89,836	**4.74%**	85,306	4.83%	78,258	4.70%
Expenses related to:						
Deposits	**38,820**	**2.31%**	36,584	2.33%	34,953	2.35%
Debentures and bank facilities	**1,497**	**4.45%**	1,403	5.52%	1,423	5.66%
	40,317	**2.35%**	37,988	2.38%	36,376	2.40%
Net interest income – TEB[2][3]	**49,519**	**2.58%**	47,319	2.64%	41,882	2.49%
Taxable Equivalent Basis – adjustment[2]	**(499)**		(433)		(794)	
Core Lending	**$ 49,020**		$ 46,886		$ 41,088	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 41,771**	**3.41%**	$ 42,201	3.52%	$ 46,725	3.67%
Liquidity investments	**491**	**1.78%**	576	1.56%	806	1.72%
	42,262	**3.38%**	42,777	3.46%	47,531	3.60%
Expenses related to:						
Securitization liabilities	**33,414**	**3.10%**	34,859	3.20%	38,535	3.25%
Deposits and secured funding facility	**3,648**	**2.35%**	3,089	2.38%	2,820	2.43%
	37,062	**3.00%**	37,948	3.11%	41,355	3.18%
Securitization Financing	**$ 5,200**	**0.41%**	$ 4,830	0.39%	$ 6,176	0.47%
Total assets – TEB[2][3]	**$ 54,719**	**1.72%**	$ 52,148	1.72%	$ 48,058	1.60%

(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 2014 v Q4 2013

NIM increased 12 bps to 1.72% from 1.60% in Q4 2013, as our asset base continued to shift towards our higher margin Core Lending business and margins increased within Core Lending.

NIM earned on Core Lending assets increased by nine bps to 2.58% mainly due to more efficient management of our low margin liquidity portfolio and pricing optimization of Single Family mortgage renewals. These favourable effects were offset, in part, by a mix shift in the portfolio towards our Single Family assets, which generally earn lower spreads than our Commercial business but provide a higher return on capital.

Securitization Financing NIM was down six bps in 2014 primarily due to margin compression within the portfolio and lower mortgage prepayment income. The decrease was offset in part by reduced levels of low margin liquid assets held in the current quarter.

Q4 2014 v Q3 2014

NII was up by 5% sequentially due to a $577 million increase in our average asset balances and a stable NIM. NIM was consistent as the effect of the mix shift towards our higher margin Core Lending business was offset by a lower NIM within that portfolio.

Core Lending NIM was down six bps mainly due to reduced levels of mortgage prepayment income and the shift towards our lower spread, but higher ROE, Single Family business. The decrease was partially offset by higher returns on our equity securities in Q4 2014.

Securitization Financing NIM was up two bps due to reduced levels of low margin liquid assets (related to the timing of mortgage maturities and securitization liability repayments).

Table 20: Factors affecting NIM

(IN BASIS POINTS)	Q4 2014 vs. Q3 2014	Q4 2014 vs. Q4 2013
Core Lending NIM:		
Mortgage prepayment income	(5)	1
Size and rate of liquidity investments	(1)	9
Size and rate of equity securities holdings	4	1
Size and rate of debentures and bank facilities	1	1
Other[(1)]	(5)	(3)
Total change in NIM	(6)	9
Securitization Financing NIM:		
Mortgage prepayment income	-	(3)
Size and rate of liquidity investments	2	3
Other[(1)]	-	(6)
Total change in NIM	2	(6)

(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 $0.8 million in the quarter, up $0.1 million from the prior quarter and down $0.5 million compared to the same period of last year.

Management uses the term impairment provision to refer to the portion of our overall provision that we have taken during the year on loans that we specifically identified as impaired, and each of which is individually assessed for potential loss. We view the impairment provision metric as the most important indicator of the credit quality of our portfolio. During Q4 2014, the Company recorded an impairment provision of $0.6 million or two bps, compared to $0.3 million in Q3 2014 and an impairment recovery of $0.4 million in corresponding period of the prior year. The low level of impairment provision reflects the health of our mortgage portfolio and low loss estimates for newly impaired loans.

OTHER INCOME

Table 21: Other income

				Three months ended	
($ THOUSANDS)	**Dec 31, 2014**	Sep 30, 2014	% Change	Dec 31, 2013	% Change
Fees and other income	**$ 2,480**	$ 2,231	11%	$ 1,467	69%
Net (loss) gain on investments	**(1)**	426	(100%)	357	(100%)
Securitization activities:					
Gains on securitization and income from retained interests	**1,259**	1,560	(19%)	1,924	(35%)
Fair value (losses) gains on derivative financial instruments	**(409)**	32	(1,379%)	70	(685%)
Total	**$ 3,329**	$ 4,249	(22%)	$ 3,818	(13%)

Q4 2014 v Q4 2013

Other income decreased by $0.5 million or 13% compared with Q4 2013. The decrease is mainly due to:

- $0.7 million lower gains recorded on the securitization and derecognition of insured residential mortgages;
- $0.5 million increase in fair value losses on derivative financial instruments related to securitization activities which we do not expect to reverse in future periods; and
- $0.4 million lower investment gains, related to the sale of certain common share investments in Q4 2013;

offset by:

- $0.8 million increase in mortgage administration fees, driven mainly by growth in the mortgage portfolio.

Q4 2014 v Q3 2014

Other income decreased $0.9 million or 22% sequentially mainly due to:

- $0.4 million increase in fair value losses on derivative financial instruments related to securitization activities;
- $0.4 million lower investment gains, related to the sale of certain common share investments in Q3 2014; and
- $0.3 million reduction in gains recorded on the securitization and derecognition of insured residential mortgages.

NON-INTEREST EXPENSES

Table 22: Non-interest expenses and efficiency ratio

				Three months ended	
($ THOUSANDS EXCEPT FTE)	**Dec 31, 2014**	Sep 30, 2014	% Change	Dec 31, 2013	% Change
Compensation and benefits	**$ 11,443**	$ 10,742	7%	$ 8,742	31%
Premises, equipment, and systems costs	**1,977**	2,143	(8%)	1,469	35%
Professional, audit and related services	**1,897**	356	433%	469	304%
Marketing, travel and communications	**1,340**	704	90%	903	48%
Licenses, regulatory fees and insurance	**1,135**	1,123	1%	817	39%
Other	**1,108**	1,040	7%	767	44%
Mortgage servicing	**961**	976	(2%)	1,050	(8%)
Amortization	**691**	683	1%	507	36%
Total	**$ 20,552**	$ 17,767	16%	$ 14,724	40%
Efficiency ratio — TEB	**35.4%**	31.5%	3.9%	28.4%	7.0%
Full-time employee ("FTE") — period average	**391**	360	9%	291	34%

Q4 2014 v Q4 2013

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. In Q4, our efficiency ratio remained low but increased to 35.4% due to a $5.8 million rise in our expenses. The increase in non-interest expenses reflects the successful growth in our business, as well as strategic investments made to enable future growth and to maintain the high level of service that we provide to mortgage brokers and borrowers. In most cases, these investments were made ahead of the associated benefits, and as such, reduced our net income and increased our efficiency ratio in the current quarter. The investments will help to improve our growth and efficiency in future periods.

During Q4 2014, the Company's non-interest expenses increased $5.8 million compared to the same period of the prior year. The majority of the net increase in our expenses was driven by:

Growth of Our Franchise: $4.4 million or 76% of net increase

- $2.2 million increase in compensation and $0.5 million in related costs (such as premises, equipment, and systems), which is primarily the result of the 28% growth in the FTE that support our existing businesses;
- $1.0 million increase in marketing and other expenses, primarily driven by the growth of our portfolio and incentives paid to mortgage brokers for achieving certain origination thresholds (expenses were volume driven as our loyalty program rates were unchanged); and
- $0.7 million increase in licenses, regulatory fees and insurance expenses, reflecting an increase in the CDIC base premium rates, a higher deposit principal balances, and business growth.

Investments in Our Future: $1.4 million or 24% of net increase

- $0.7 million increase in professional services to support our key strategic initiatives;
- $0.5 increase in compensation expenses related to various strategic initiatives such as our prime single family launch and development of a digital banking platform; and
- $0.2 million in HELOC related amortization.

This $1.4 million investment in our future accounted for a quarter of the 40% year-over-growth and adjusted for these investments our efficiency ratio would have been 32.6% for Q4 2014.

Q4 2014 v Q3 2014

As discussed above, Q4 2014 was a period of investment in Equitable's future and strong growth of our existing businesses. Compared to Q3 2014, our efficiency ratio increased by 3.9 percentage points, driven by a $2.8 million increase in non-interest expenses.

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

Growth of Our Franchise: $1.7 million or 57% of net increase

- $1.1 million increase in marketing and other expenses, primarily driven by the growth of our portfolio and incentives paid to mortgage brokers for achieving certain origination thresholds (expenses were volume driven as our loyalty program rates were unchanged); and
- $0.5 million increase in compensation which is primarily the result of the 7% growth in our FTE, the majority of which was in our Single Family Lending underwriting team and was a function of our origination growth.

Investments in Our Future: $1.3 million or 43% of net increase

- $1.1 million increase in consulting costs and $0.2 million increase in compensation to support these initiatives.

INCOME TAXES

Q4 2014 v Q4 2013

The Company's effective income tax rate in the quarter was 25.6% compared to 24.4%, in the same quarter last year. The 1.2% increase is largely due to a lower level of tax exempt income recorded in the quarter and other adjustments.

Q4 2014 v Q3 2014

Our effective income tax rate decreased 0.3% to 25.6% from 25.9% in the prior quarter. The decrease resulted from a higher level of tax-exempt dividend income from our securities portfolio.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2014 and Q4 2013:

Table 23: Mortgage principal continuity schedule

($ THOUSANDS)	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[(1)]	Securitization Financing MUM[(2)]
							Three months ended December 31, 2014
Q3 2014 closing balance	$ 4,553,195	$ 2,283,825	$ 6,837,020	$ 4,695,775	$ 11,532,795	$ 1,364,448	$ 6,060,223
Originations	758,442	253,961	1,012,403	576,527	1,588,930	-	576,527
Core lending securitized[(3)]	(138,310)	-	(138,310)	138,310	-	-	138,310
Securitized and derecognized	-	-	-	(166,709)	(166,709)	166,709	-
Net repayments	(213,477)	(232,411)	(445,888)	(268,430)	(714,318)	(12,149)	(280,579)
Q4 2014 closing balance	$ 4,959,850	$ 2,305,375	$ 7,265,225	$ 4,975,473	$ 12,240,698	$ 1,519,008	$ 6,494,481
% Change from Q3 2014	9%	1%	6%	6%	6%	11%	7%
% Change from Q4 2013	31%	(4%)	17%	1%	10%	52%	10%
Net repayments percentage[(4)]	4.7%	10.2%	6.5%	5.7%	6.2%	0.9%	4.6%

($ THOUSANDS)	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[(1)]	Securitization Financing MUM[(2)]
							Three months ended December 31, 2013
Q3 2013 closing balance	$ 3,526,983	$ 2,371,029	$ 5,898,012	$ 5,047,184	$ 10,945,196	$ 792,535	$ 5,839,719
Originations	506,244	183,008	689,252	365,771	1,055,023	-	365,771
Core lending securitized[(3)]	(69,338)	-	(69,338)	69,338	-	-	69,338
Securitized and derecognized	-	-	-	(214,263)	(214,263)	214,263	-
Net repayments	(165,890)	(155,106)	(320,996)	(357,912)	(678,908)	(7,878)	(365,790)
Q4 2013 closing balance	$ 3,797,999	$ 2,398,931	$ 6,196,930	$ 4,910,118	$ 11,107,048	$ 998,920	$ 5,909,038
% Change from Q3 2013	8%	1%	5%	(3%)	1%	26%	1%
Net repayments percentage[(4)]	4.7%	6.5%	5.4%	7.1%	6.2%	1.0%	6.3%

(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) *Core lending securitized represents Single Family mortgages that were securitized in the period and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the period as part of Single Family Lending Services (i.e not securitized again at the time of renewal).*

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

Q4 2014 v Q3 2014

Total mortgage balances were up 6% due to growth across all portfolios.

Within Core Lending, Single Family was up 9% due to high levels of originations and renewals, and despite the securitization of $138 million of Single Family mortgages in the quarter (these balances move from Core Lending to Securitization Financing when securitized). Commercial increased by 1% as a result of origination activity in the quarter.

Securitization Financing MUM, which includes $1.5 billion of derecognized mortgage principal, grew by 7% due to both high levels of originations and reduced maturity volumes.

MORTGAGE ASSET ORIGINATIONS

Mortgage production levels are seasonal, particularly in Single Family Lending Services, and as such we do not focus on quarter-over-quarter production comparisons. The table below provides mortgage origination for Q4 2014 and Q4 2013.

Table 24: Mortgage origination – by lending business

						Three months ended
	Dec 31, 2014		Dec 31, 2013		Change from 2013	
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Single Family Lending Services	**$ 758,442**	**47.7%**	$ 506,244	48.0%	$ 252,198	50%
Commercial Lending Services	**253,961**	**16.0%**	183,008	17.3%	70,953	39%
Core Lending	**1,012,403**	**63.7%**	689,252	65.3%	323,151	47%
Securitization Financing :						
Multi-unit residential	**306,352**	**19.3%**	365,771	34.7%	(59,419)	(16%)
Single family residential	**270,175**	**17.0%**	-	-%	270,175	100%
Total mortgage origination	**$ 1,588,930**	**100.0%**	$ 1,055,023	100.0%	$ 533,907	51%

The Company delivered all-time record mortgage originations of $1.6 billion, which was $534 million or 51% ahead of the fourth quarter of 2013. Single Family production was exceptionally strong at $758 million, up by 50% from the same period of the prior year. This performance reflected the strength of the Canadian housing market and our continued high levels of service quality.

Within Securitization Financing, multi-unit residential mortgage funding was down 16% compared to the same quarter of the prior year. Originations of this product fluctuate from quarter to quarter depending on renewal volumes, as we aim to utilize the full amount of our CMB allocations. Our capacity for new originations is equal to our current quarterly CMB allocation less our renewal volumes.

Securitization Financing also includes originations of insured prime single family mortgages, a program we launched in the previous quarter. We originate Prime Single Family mortgages internally or through third-party agents and then securitize them through CMHC's MBS program. During the fourth quarter, we funded $270 million of Prime Single Family mortgages and expect these volumes to continue growing in future quarters.

SECURITIZATION

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

Table 25: Securitization and derecognition activity

					Three months ended
($ THOUSANDS)	**Dec 31, 2014**	Sep 30, 2014	% Change	Dec 31, 2013	% Change
Securitized and derecognized[1]	**$ 166,710**	$ 197,927	(16%)	$ 214,263	(22%)
Retained interest recorded	**5,922**	6,860	(14%)	7,485	(21%)
Gains on sale	**1,154**	1,291	(11%)	1,423	(19%)
Gain on sale – percentage[2]	**0.69%**	0.65%	0.04%	0.66%	0.03%

[1] *Securitizations that result in derecognition with no retained interests recorded on the consolidated balance sheet occur when the Company sells its residual interests in the securitizations (commonly referred to as interest-only strips) to third parties.*

[2] *Gains on sale – percentage represents the gains on sale as a percentage of total principal derecognized.*

Q4 2014 v Q4 2013

We securitized and derecognized $167 million of mortgages during the fourth quarter of 2014 and recorded gains on sale of $1.2 million on these transactions. Volumes were down this year because of lower demand for non-prepayable mortgage products (non-prepayable mortgages are derecognized from the Company's consolidated balance sheet when securitized).

The gains recognized in the quarter relative to the principal derecognized were relatively consistent with Q4 2013, reflecting the stability of the underlying mortgage spreads and the assumptions used in calculating the gains.

Q4 2014 v Q3 2014

The volume of mortgages securitized and derecognized decreased by 16% or $31.2 million sequentially. Gains on sale as a percentage of the assets derecognized were down 11%, as the effect of lower derecognition volumes was offset partly by a higher gain on sale percentage. The spreads on the underlying mortgages have been relatively consistent.

Table 26: Unaudited interim consolidated statements of income

		Three months ended	
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Dec 31, 2014**	Sep 30, 2014	Dec 31, 2013
Interest income:			
Mortgages – Core Lending	**$ 86,163**	$ 82,432	$ 74,799
Mortgages – Securitization Financing	**41,771**	42,201	46,725
Investments	**2,123**	1,315	1,577
Other	**1,542**	1,703	1,894
	131,599	127,651	124,995
Interest expense:			
Deposits	**41,630**	38,913	37,360
Securitization liabilities	**33,414**	34,859	38,535
Bank facilities	**838**	1,403	413
Debentures	**1,402**	760	1,403
Other	**95**	-	20
	77,379	75,935	77,731
Net interest income	**54,220**	51,716	47,264
Provision for credit losses	**842**	733	1,332
Net interest income after provision for credit losses	**53,378**	50,983	45,932
Other income:			
Fees and other income	**2,480**	2,231	1,467
Net (loss) gain on investments	**(1)**	426	356
Gains on securitization activities and income from retained interests	**850**	1,592	1,995
	3,329	4,249	3,818
Net interest and other income	**56,707**	55,232	49,750
Non-interest expenses:			
Compensation and benefits	**11,443**	10,742	8,742
Other	**9,109**	7,025	5,982
	20,552	17,767	14,724
Income before income taxes	**36,155**	37,465	35,026
Income taxes			
Current	**5,567**	8,820	7,752
Deferred	**3,703**	881	782
	9,270	9,701	8,534
Net income	**$ 26,885**	$ 27,764	$ 26,492
Earnings per share			
Basic	**$ 1.62**	$ 1.74	$ 1.67
Diluted	**$ 1.59**	$ 1.71	$ 1.65

Table 27: Unaudited interim consolidated statements of comprehensive income

	Three months ended		
($ THOUSANDS)	**Dec 31, 2014**	Sep 30, 2014	Dec 31, 2013
Net income	**$ 26,885**	$ 27,764	$ 26,492
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized losses from change in fair value	**(1,272)**	(780)	(1,494)
Reclassification of net gains to income	**(33)**	(475)	(299)
	(1,305)	(1,255)	(1,793)
Income tax recovery	**345**	331	472
	(960)	(924)	(1,321)
Cash flow hedges:			
Net unrealized losses from change in fair value	**(2,238)**	(54)	(298)
Reclassification of net gains to income	**589**	574	469
	(1,649)	520	171
Income tax recovery (expense)	**435**	(137)	(45)
	(1,214)	383	126
Total other comprehensive loss	**$ (2,174)**	$ (541)	$ (1,195)
Total comprehensive income	**$ 24,711**	$ 27,223	$ 25,297

Table 28: Unaudited interim consolidated statements of cash flows

($ THOUSANDS)	Dec 31, 2014	Sep 30, 2014	Three months ended Dec 31, 2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income for the period	**$ 26,885**	$ 27,764	$ 26,492
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	**(957)**	(913)	(2,355)
Amortization of premiums/discounts on investments	**190**	203	613
Amortization of capital assets	**384**	393	343
Amortization of deferred assets	**404**	387	260
Provision for credit losses	**842**	733	1,332
Securitization gains	**(1,154)**	(1,291)	(1,423)
Net gain on sale or redemption of investments	**1**	(426)	785
Stock-based compensation	**250**	212	233
Income taxes	**9,270**	9,701	8,533
Changes in operating assets and liabilities:			
Restricted cash	**(19,992)**	11,363	(20,258)
Securities purchased under reverse repurchase agreements	**5,429**	(13,547)	7,948
Mortgages receivable	**(886,973)**	(630,669)	(378,685)
Other assets	**(3,863)**	(4,789)	4,692
Deposits	**434,707**	544,991	89,741
Securitization liability	**172,619**	(192,290)	(149,014)
Obligations under repurchase agreements	**18,844**	33,569	2,572
Bank facilities	**(2,751)**	(22,954)	-
Other liabilities	**24,617**	(2,401)	12,837
Income taxes paid	**(6,701)**	(6,955)	(3,099)
Proceeds from loan securitization	**167,184**	197,301	213,896
Securitization retained interest	**1,942**	1,708	1,067
Cash flows used in operating activities	**(58,823)**	(47,910)	(183,490)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Redemption of debentures	**(7,483)**	-	-
Dividends paid on preferred shares	**(1,892)**	(907)	(906)
Dividends paid on common shares	**(5,396)**	(2,605)	(2,287)
Proceeds from issuance of common shares	**540**	152	635
Issuance of preferred shares	**-**	71,479	-
Redemption of preferred shares	**-**	(50,000)	-
Cash flows (used in) from financing activities	**(14,231)**	18,119	(2,558)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of investments	**(29,979)**	(9,069)	(19,824)
Proceeds on sale or redemption of investments	**3,914**	18,050	57,972
Net change in Canada Housing Trust re-investment accounts	**14,610**	43,853	18,187
Purchase of capital assets and system development costs	**(2,734)**	(631)	(376)
Cash flows (used in) from investing activities	**(14,189)**	52,203	55,959
Net (decrease) increase in cash and cash equivalents	**(87,243)**	22,412	(130,089)
Cash and cash equivalents, beginning of period	**317,306**	294,894	373,994
Cash and cash equivalents, end of period	**$ 230,063**	$ 317,306	$ 243,905
Cash flow from (used in) operating activities include:			
Interest received	**$ 127,316**	$ 127,750	$ 125,475
Interest paid	**(69,357)**	(68,731)	(54,712)
Dividends received	**1,413**	1,229	2,246

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. A summary of the Company's significant accounting policies is presented in Note 3 to the consolidated financial statements.

Effective January 1, 2014, the Company also adopted IFRIC 21 on Levies and amendments to IAS 32 on Offsetting Financial Assets and Liabilities:

Levies (IFRIC 21)

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets and defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The Company adopted IFRIC 21 effective January 1, 2014 and the adoption did not have a material effect on the Company's financial statements.

Offsetting Financial Assets and Liabilities – Amendments to IAS 32

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Company adopted the amendments to IAS 32 effective January 1, 2014 and the adoption did not have a material effect on the Company's financial statements.

FUTURE ACCOUNTING CHANGES

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. The new impairment model is an expected loss model as against an incurred loss model in IAS 39. The new general hedge accounting principles under IFRS 9 are aimed to align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

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

Revenue from Contracts with Customers (IFRS 15)

The IASB issued IFRS 15 Revenue from Contracts with Customers, which is effective for fiscal years beginning on January 1, 2017 and is available for early adoption. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

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.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017 and is currently analyzing the impact on the Company's financial statements.

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 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 risk associated with residential mortgages and mortgage commitments intended for securitization, as well as certain fixed rate deposits.

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 that qualify for derecognition upon securitization and sale, 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 funded mortgages before securitization are included in the consolidated statements of income and are substantially offset by the change in value of the bond forwards. The Company does not apply hedge accounting to these derivative instruments.

The Company also hedges its interest rate exposure on certain fixed rate deposits used to fund its floating rate mortgages and the hedging instruments used to manage these exposures are interest rate swaps. For most of these hedging relationships, the Company applies hedge accounting.

For more information on derivative financial instruments see Notes 3, 4, 5, 6 and 10 to the consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions that qualify for derecognition, the commitments we make to fund our pipeline of mortgage originations (see Note 9 and Note 22 to the consolidated financial statements for the year ended December 31, 2014) and letters of credit issued in the normal course of business.

Securitization of financial assets

Securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or the control associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $1.5 billion at December 31, 2014 (December 31, 2013 – $1.0 million). The securitization retained interest recorded with respect to these securitization transactions was $45.0 million (December 31, 2013 – $30.5 million) and the associated servicing liability was $11.2 million at December 31, 2014 (December 31, 2013 – $8.9 million).

Commitments and letters of credit

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $778 million of mortgages in the ordinary course of business at December 31, 2014 (December 31, 2013 – $486 million).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $5.9 million were outstanding at December 31, 2014 (December 31, 2013 – $2.7 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, debentures and/or Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. Related party transactions, including shareholdings and options, are described in Note 23 to the consolidated financial statements.

RISK MANAGEMENT

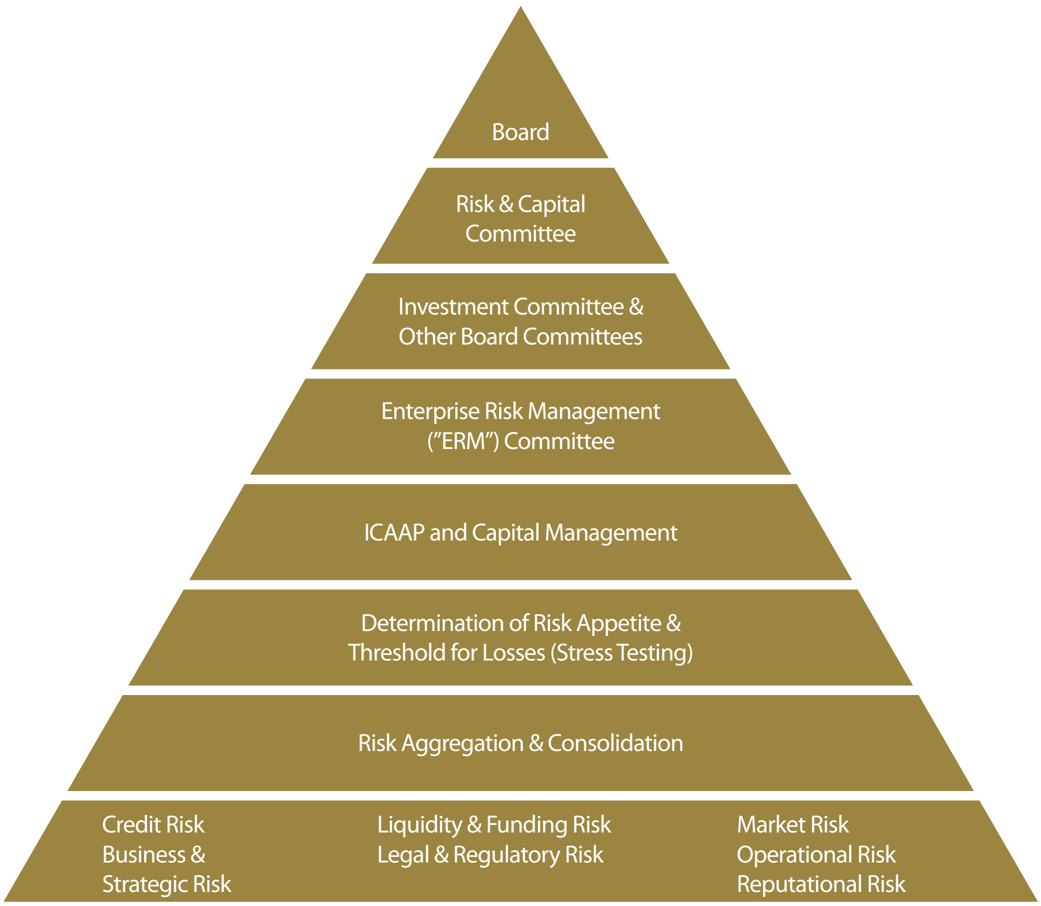
Through its wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those of other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect its business, financial condition 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 its use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, liquidity and funding risk, and market risk.

The Risk Management framework, Credit Risk Management, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2014 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. 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, known as our risk appetite. The 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. The framework sets out our approach for identifying, assessing, managing and reporting risk, including the establishment of roles, responsibilities, processes and tools to be used in relation to our appetite for risk as established by the Board.



The Risk and Capital Committee ("RCC") of the Board of Directors 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 its Internal Capital Adequacy Assessment Process ("ICAAP") and capital plans. It also reviews the Company's actual risk profile against the approved risk appetite and assesses the Company's policies, programs, procedures and controls in place to manage its core 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 Chair of the Board of Directors and the Chairs of the Investment Committee, Audit Committee, and Human Resources and Compensation Committee. It meets quarterly with the Chief Executive Officer and the Chief Risk Officer.

The Company's ERM Committee, which is chaired by the Chief Risk Officer ("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 capital adequacy assessment process. 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, relevant policies and related risk management considerations/actions to be taken, and reports to the Board at least quarterly.

The Investment Committee of the Board of Directors assists the Board in fulfilling its oversight role with regard to 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 Chief Executive Officer 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. It also has oversight responsibility for the Company's external audit. 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 Committee.

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 its risk appetite and risk management framework.

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. Internal Audit is accountable for independent assurance as the third line of defense.

To ensure capital management and risk management are aligned, the Company has a robust ICAAP that determines the capital needs of the business and reviews those needs in the context of the strategic plan and the operating environment. Material risks are regularly stress tested to determine the impact on capital and to set internal capital ratio 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 its investment in debt and equity securities. The Company's exposure to credit risk is monitored by senior management, the ERM Committee, as well as the Investment Committee of the Board of Directors, which undertakes the approval and monitoring of the Company's investment and lending policies.

The Company's primary lending business is providing first mortgages on real estate. All mortgages are individually evaluated by the Company's or its 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 rather than being formulaic in nature. 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.

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. On a regular basis, with the approval of the Investment Committee and the Board of Directors, 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.

The Company categorizes credit exposures in its mortgage portfolio using an internal risk rating system that rates the assets in the portfolio on the basis of risk of financial loss, in order to focus management on monitoring higher risk mortgages. The 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 loans. 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 also invests in equity securities to generate returns that meet an acceptable ROE threshold. 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 51.0% of the preferred share equity securities portfolio at December 31, 2014, compared to 50.1% a year earlier.

The Company's rating scale for the credit quality of its 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 its 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 – 7**

Management has assessed the credit quality of the Company's assets as at December 31, 2014 and 2013, 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

($ THOUSANDS)	Neither past due nor impaired						2014
	Low risk	Standard risk	High risk	Past due but not impaired	Individually 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.*

($ THOUSANDS)	Neither past due nor impaired						2013
	Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	Total
Cash and cash equivalents	$ 243,645	$ -	$ -	$ -	$ -	$ -	$ 243,645
Restricted cash	87,319	-	-	-	-	-	87,319
Securities purchased under reverse repurchase agreements	54,860	-	-	-	-	-	54,860
Investments:							
Debt securities[1]	95,813	-	-	-	-	-	95,813
Equity securities – preferred shares	46,491	46,388	-	-	-	-	92,879
Canada Housing Trust re-investment accounts	38,396	-	-	-	-	-	38,396
Mortgage receivable – Core Lending	828,856	5,093,818	221,415	46,717	28,949	31,447	6,188,308
Mortgage receivable – Securitization Financing	4,922,574	1,165	-	16,844	1,006	-	4,941,589
Securitization retained interests	30,455	-	-	-	-	-	30,455
Other assets:							
Receivables related to securitization activities	2,512	-	-	-	-	-	2,512
Accrued interest and dividends on non-mortgage assets	388	242	-	-	-	-	630
Derivative financial instruments – securitization activities	705	-	-	-	-	-	705
Other	908	-	-	-	-	-	908
	$ 6,352,922	$ 5,141,613	$ 221,415	$ 63,561	$ 29,955	$ 31,447	$ 11,778,019

[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, 2014 was $77.7 million (2013 – $48.8 million). At December 31, 2014, the appraised value of collateral held for mortgages past due but not impaired, as determined when the mortgages were originated, was $76.6 million (2013 – $82.8 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, 2014 amounted to $7.5 million (2013 – $7.7 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 its 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.

Concentration Risk

Concentration of credit exposure may arise when a group of counterparties have similar economic characteristics such as property type or are located in the same geographical region. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. Management believes that it is adequately diversified by borrower, property type, and geography. At December 31, 2014, no individual borrower represented more than $70.8 million (2013 – $66.3 million) or 1.01% (2013 – 1.1%) of uninsured mortgage principal outstanding. A breakdown of mortgage principal outstanding by property type and geography is provided in our 2014 Supplementary Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca.

LIQUIDITY AND FUNDING RISK

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

The Board of Directors defines the Company's liquidity and funding risk tolerance, based on recommendations made by the Investment Committee of the Board, the Risk and Capital Committee of the Board and the ERM Committee of the Bank. The Board of Directors reviews and approves the limits to measure and control liquidity and funding risk at least annually.

The Bank's ALCO has management oversight responsibility for liquidity and funding risk management. The Bank also maintains a Treasury Committee that reviews liquidity reports on a daily basis and reports to the ALCO. The ALCO reviews positions regularly and recommends changes to limits when necessary to the ERM Committee and the Investment Committee.

The treasury function is responsible for measuring, managing and reporting structural liquidity risk and contingent liquidity risk, as well as managing the liquidity portfolio. Treasury also monitors longer-term liquidity needs, primarily through rigorous stress testing. It also maintains a Contingency Funding Plan, which would guide the Company's actions and responses to a potential liquidity crisis. Treasury reports liquidity indicators to the ALCO, which include the Company's overall liquidity and funding position (including limit reporting) and liquidity stress indicators.

The Company has a low tolerance for liquidity and funding risk. It has established a variety of limit-based metrics and stress tests to avoid a liquidity event.

The Company adheres to a Liquidity and Funding Risk Management Policy that requires it to maintain a pool of high quality liquid assets. The Policy also specifies the parameters for asset eligibility, limits for liquidity ratios, concentration limits, liquidity stress testing targets and an approved contingency plan. The Company's liquidity position and adherence to the requirements of this policy are monitored daily by management and reported quarterly to the Investment Committee of the Board of Directors. Any exceptions to established limits are reported immediately to the appropriate internal governance committee or the Board, as specified by the Policy. The Company was in compliance with its Liquidity and Funding Risk Management Policy through the year ended December 31, 2014 and at the date of this MD&A.

Table 31: Assets held for liquidity protection

($ THOUSANDS)	Policy minimum	2014	2013
Liquidity assets held		**$ 524,145**	$ 597,259
Liquidity assets as a % of minimum required policy liquidity(1)	**100%**	**139%**	162%

(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.*

As defined in the Company's Liquidity and Funding Risk Management Policy, 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 a deposit raising 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 its deposit raising capacity and establishes assumptions related to the cash flow behavior of each type of asset and liability. As at December 31, 2014, 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.

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)	**$ 7,328,726**	**$ 4,121,899**	**$ 2,754,368**	**$ 452,459**	**$ -**
Securitization liabilities principal and interest(1)	**4,885,796**	**827,732**	**1,400,281**	**979,060**	**1,678,723**
Debentures principal and interest(1)	**102,112**	**4,728**	**74,033**	**2,188**	**21,163**
Bank facilities principal and interest(1)	**92,236**	**92,236**	**-**	**-**	**-**
Other liabilities	**57,374**	**46,182**	**3,167**	**3,370**	**4,655**
Total 2014 contractual obligations	**$ 12,466,244**	**$ 5,092,777**	**$ 4,231,849**	**$ 1,437,077**	**$ 1,704,541**
Total 2013 contractual obligations	$ 11,920,188	$ 5,026,641	$ 3,938,847	$ 1,645,436	$ 1,309,264

(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, 2014 and 2013.

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at December 31, 2014, see Note 24 to the consolidated financial statements.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters. The Company's primary method of managing interest rate risk involves matching the duration of its assets and liabilities. It measures this risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity ("EVE") and on NII. EVE is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in NII given that it captures all interest rate mismatches across all terms. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemption of deposits and early payouts of mortgages. The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company beyond approved thresholds.

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 on NII during the 12-month period following December 31, 2014. 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	$ 7,626	$ (2,940)
Impact on EVE	$ (1,435)	$ 6,249
EVE impact as a % of common shareholders' equity	-0.23%	1.00%
200 basis point shift		
Impact on net interest income	$ 15,570	$ (2,633)
Impact on EVE	$ (2,692)	$ 11,068
EVE impact as a % of common shareholders' equity	-0.43%	1.77%

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

Equity Price Risk is defined as the risk of loss due to an adverse movement in the value of the Company's securities portfolio due to volatility in financial markets. The value of the Company's securities portfolio can 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. The management of this risk is assigned to the ALCO, which oversees and monitors the performance of the Company's securities portfolio taking into account 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 role that each security investment or course of action plays within the overall securities 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 and the composition and quality of the portfolio. This information is also reviewed by the Investment Committee of the Board quarterly.

OPERATIONAL RISK

Operational risk is the possibility that a loss will result from inefficient, inadequate or failed internal processes; people or systems; or from external events. As a minimum, operational risk includes:

- fraud;
- employee practices and workplace safety;
- client, product and business practices;
- damage to physical assets;
- cyber security risk;
- business disruptions and system failures;
- internal control over financial reporting; and
- execution, delivery and process management.

The Bank has an Operational Risk Management Policy that was approved by the ERM Committee, the RCC and the Board of Directors. This Policy incorporates the content of the business continuity policy and a comprehensive operational risk management framework. The Bank's business units complete risk and control self-assessments and report monthly on operational risk to the ERM Committee and quarterly to the RCC.

LEGAL AND REGULATORY RISK

Legal and Regulatory Risk refers to the potential non-compliance with laws, rules, regulations, contractual obligations or ethical standards, including changes in their interpretation or application, that could affect the Company, limit the products or services it may provide and increase the ability of other institutions to compete with Equitable's products or services. Failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could materially and adversely impact earnings, operations, our ability to achieve our corporate initiatives, or damage the Company's reputation.

Management uses a risk-based approach to identify and manage legal and regulatory requirements and undertakes reasonable and prudent measures designed to achieve compliance with governing laws and regulations and promote a strong culture of compliance. Business units are engaged in the identification and proactive management of legal and regulatory risks while the Compliance, Legal, Anti-Money Laundering and Risk Management teams assist them by providing guidance and oversight. Management of these risks includes the timely escalation of issues to senior management and to the Board of Directors.

In addition, the Company's Regulatory Compliance Management Program provides a control framework to mitigate exposure to regulatory risk consistent with OSFI's expectations of our establishing and maintaining an enterprise-wide framework of regulatory risk management controls, including oversight by functions that are independent of the activities they oversee.

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 its business plans and/or strategies, the implementation of those strategies, or the failure to properly respond to changes in the external business environment.

The residential and commercial first mortgage 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 percentage share of the Canadian residential and commercial mortgage 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 market share in its mortgage lending and deposit-taking activities.

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"), Registered Deposit Brokers Association ("RDBA") and the Mutual Fund Dealer Association ("MFDA") to distribute its 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. 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 manages business and strategic risk through a comprehensive annual strategic planning process, which includes establishing Board-approved business growth strategies and quantifiable performance targets for each business unit over the one and five year horizons. Management of this risk includes regular monitoring of actual versus forecasted performance and reporting to senior management, the ERM Committee and to the Board of Directors.

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. The Company has established a number of policies and procedures to manage this risk.

UPDATED SHARE INFORMATION

At February 24, 2015, the Company had 15,438,256 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were also 541,549 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $18.2 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, 2014. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Equitable's Internal Control over Financial Reporting framework is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated the design and operational effectiveness of the Company's Internal Control over Financial Reporting as of December 31, 2014 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 internal control framework, 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, 2014.

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 2014 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

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

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

- **Return on Shareholders' Equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period. For the year ended December 31, 2014, ROE equaled 17.4% (2013 – 18.1%) – net income available to common shareholders of $102,107 (2013 – $89,905) divided by weighted average common equity outstanding of $585,766 (2013 – $496,639).
- **Risk-weighted assets:** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company.
- **Taxable Equivalent Basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and efficiency ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the year ended December 31, 2014, the TEB adjustment was $1.9 million as compared to $2.1 million for 2013.
- **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 measures, management also uses additional GAAP 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.
- **Total revenue:** is defined as total interest income plus other income.

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 24, 2015

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, 2014 and December 31, 2013, the consolidated statements of income and 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, 2014 and December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 24, 2015

Toronto, Canada

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31	**2014**	2013
Assets		
Cash and cash equivalents *(Note 6)*	**$ 230,063**	$ 243,645
Restricted cash *(Note 6)*	**67,690**	87,319
Securities purchased under reverse repurchase agreements	**18,117**	54,860
Investments *(Note 7)*	**187,664**	240,614
Mortgages receivable – Core Lending *(Note 8)*	**7,257,475**	6,188,278
Mortgages receivable – Securitization Financing *(Notes 8 & 9)*	**5,012,470**	4,941,589
Securitization retained interests *(Note 9)*	**44,983**	30,455
Other assets *(Note 12)*	**36,441**	29,693
	$ 12,854,903	$ 11,816,453
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits *(Note 13)*	**$ 7,489,418**	$ 6,470,029
Securitization liabilities *(Note 9)*	**4,355,328**	4,591,404
Obligations under repurchase agreements *(Note 9)*	**52,413**	8,143
Deferred tax liabilities *(Note 14)*	**14,843**	10,826
Other liabilities *(Note 15)*	**61,971**	55,250
Bank facilities *(Note 16)*	**92,236**	-
Debentures *(Note 17)*	**85,000**	92,483
	12,151,209	11,228,135
Shareholders' equity:		
Preferred shares *(Note 18)*	**72,412**	48,494
Common shares *(Note 18)*	**140,657**	137,969
Contributed surplus *(Note 19)*	**4,331**	5,326
Retained earnings	**496,097**	404,467
Accumulated other comprehensive loss	**(9,803)**	(7,938)
	703,694	588,318
	$ 12,854,903	$ 11,816,453

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	**2014**	2013
Interest income:		
Mortgages – Core Lending	**$ 324,692**	$ 278,921
Mortgages – Securitization Financing	**171,643**	200,522
Investments	**6,432**	6,473
Other	**6,777**	8,263
	509,544	494,179
Interest expense:		
Deposits	**154,980**	142,431
Securitization liabilities *(Note 9)*	**141,518**	170,110
Bank facilities	**2,810**	420
Debentures	**5,598**	6,578
Other	**116**	103
	305,022	319,642
Net interest income	**204,522**	174,537
Provision for credit losses *(Note 8)*	**2,627**	6,732
Net interest income after provision for credit losses	**201,895**	167,805
Other income:		
Fees and other income	**8,345**	5,815
Net gain on investments	**1,033**	987
Gains on securitization activities and income from securitization retained interests *(Note 9)*	**4,045**	7,584
	13,423	14,386
Net interest and other income	**215,318**	182,191
Non-interest expenses:		
Compensation and benefits	**42,545**	33,870
Other	**29,099**	23,644
	71,644	57,514
Income before income taxes	**143,674**	124,677
Income taxes *(Note 14)*		
Current	**31,076**	25,819
Deferred	**5,880**	5,328
	36,956	31,147
Net income	**$ 106,718**	$ 93,530
Earnings per share *(Note 20)*		
Basic	**$ 6.63**	$ 5.89
Diluted	**$ 6.53**	$ 5.82

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	**2014**	2013
Net income	**$ 106,718**	$ 93,530
Other comprehensive income – items that may be reclassified subsequently to income:		
Available for sale investments:		
Net unrealized gains (losses) from change in fair value	**1,779**	(4,241)
Reclassification of net gains to income	**(865)**	(1,143)
	914	(5,384)
Income tax (expense) recovery	**(241)**	1,418
	673	(3,966)
Cash flow hedges: *(Note 10)*		
Net unrealized (losses) gains from change in fair value	**(5,676)**	5,768
Reclassification of net losses to income	**2,228**	2,261
	(3,448)	8,029
Income tax recovery (expense)	**910**	(2,114)
	(2,538)	5,915
Total other comprehensive (loss) income	**(1,865)**	1,949
Total comprehensive income	**$ 104,853**	$ 95,479

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

2014	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): 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

2013	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Cash flow hedges	Available for sale investments	Total	Total
Balance, beginning of year	$ 48,494	$ 134,224	$ 5,003	$ 323,737	$ (9,279)	$ (608)	$ (9,887)	$ 501,571
Net income	-	-	-	93,530		-	-	93,530
Other comprehensive income (loss), net of tax	-	-	-	-	5,915	(3,966)	1,949	1,949
Reinvestment of dividends	-	849	-	-	-	-	-	849
Exercise of stock options	-	2,379	-	-	-	-	-	2,379
Dividends:							-	-
Preferred shares	-	-	-	(3,625)	-	-	-	(3,625)
Common shares	-	-	-	(9,175)	-	-	-	(9,175)
Stock-based compensation	-	-	840	-	-	-	-	840
Transfer relating to the exercise of stock options	-	517	(517)	-	-	-	-	-
Balance, end of year	$ 48,494	$ 137,969	$ 5,326	$ 404,467	$ (3,364)	$ (4,574)	$ (7,938)	$ 588,318

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 106,718**	$ 93,530
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(2,769)**	7,784
Amortization of premiums/discounts on investments	**1,470**	2,373
Depreciation of capital assets	**1,399**	1,215
Amortization of deferred costs	**1,888**	1,110
Provision for credit losses	**2,627**	6,732
Securitization gains	**(3,960)**	(5,613)
Net (gain) loss on sale or redemption of investments	**(1,033)**	154
Stock-based compensation	**911**	840
Income taxes	**36,956**	31,147
Changes in operating assets and liabilities:		
Restricted cash	**19,629**	(23,718)
Securities purchased under reverse repurchase agreements	**36,743**	23,691
Mortgages receivable	**(1,723,493)**	(1,228,321)
Other assets	**(1,789)**	(4,691)
Deposits	**1,018,811**	818,312
Securitization liabilities	**(236,076)**	(670,266)
Obligations under repurchase agreements	**44,270**	(1,739)
Bank facilities	**92,236**	-
Other liabilities	**15,028**	5,200
Income taxes paid	**(38,164)**	(22,557)
Proceeds from loan securitizations	**565,062**	683,844
Securitization retained interests	**6,479**	2,721
Cash flows used in operating activities	**(57,057)**	(278,252)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred shares	**71,479**	-
Redemption of preferred shares	**(50,000)**	-
Proceeds from issuance of common shares	**1,746**	2,379
Repayment of bank term loan	**-**	(12,500)
Redemption of debentures	**(7,483)**	(25,188)
Dividends paid on preferred shares	**(4,611)**	(3,625)
Dividends paid on common shares	**(12,390)**	(7,997)
Cash flows used in financing activities	**(1,259)**	(46,931)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(134,791)**	(57,877)
Proceeds on sale or redemption of investments	**164,051**	232,892
Net change in Canada Housing Trust re-investment accounts	**24,142**	16,056
Purchase of capital assets and system development costs	**(8,668)**	(1,690)
Cash flows from investing activities	**44,734**	189,381
Net decrease in cash and cash equivalents	**(13,582)**	(135,802)
Cash and cash equivalents, beginning of year	**243,645**	379,447
Cash and cash equivalents, end of year	**$ 230,063**	$ 243,645
Cash flow used in operating activities include:		
Interest received	**$ 506,610**	$ 500,583
Interest paid	**(274,144)**	(292,592)
Dividends received	**5,478**	6,072

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 Board of Directors on February 24, 2015.

(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 years ended December 31, 2014 and December 31, 2013 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. Except as otherwise noted in Note 3 (u) for new standards adopted in 2014, 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, obligations related to securities sold short, 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 inthe 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, 2014 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 any 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

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 value 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

If no objective evidence of impairment exists for an individual mortgage, the Company includes the mortgage in a group of mortgage assets with similar credit risk characteristics and collectively assesses them for impairment using a statistical model. Assets that are individually assessed for impairment and for which an individual allowance has been recognized are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, mortgage assets are grouped on the basis of similar credit risk characteristics which include security and mortgage type, risk rating, geographical exposure, loan-to-value ratios and other relevant factors. The collective allowance estimated by the Company's statistical model may 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.

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 sheets, which are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income and 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 – securitization financing 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 interests 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 other 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 as at fair value through income.

Separated embedded derivatives 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 are hedges of anticipated cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, Financial Instruments: Recognition and Measurement. The Company enters into bond forwards (including certain embedded derivatives) to sell government guaranteed debt securities and applies hedge accounting to these derivative financial instruments. To the extent that changes in the fair value of the derivative offset 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, over the term of the securitization 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 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.

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 are 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 uses bond forwards to manage interest rate exposures for mortgage commitments and funded mortgages till the date they are securitized. The fair value 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.

Restricted share unit ("RSU") plan:

The Company has an RSU plan for eligible employees. 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 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 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.

Deferred share unit ("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 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 a 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 taxes 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 income 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) Intangibles 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 are assessed for indicators of impairment at each reporting period. If there is 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) Changes in accounting policies:

(i) Liabilities for Levies (IFRIC 21)

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets and defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The Company adopted IFRIC 21 effective January 1, 2014 and the adoption did not have a material effect on the Company's financial statements.

(ii) Offsetting Financial Assets and Liabilities – Amendments to IAS 32

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Company adopted the amendments to IAS 32 effective January 1, 2014 and the adoption did not have a material effect on the Company's financial statements.

(w) 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 the process of evaluating the impact of IFRS 9 on the Company's financial statements.

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

The IASB issued IFRS 15 Revenue from Contracts with Customers, which is effective for fiscal years beginning on January 1, 2017 and is available for early adoption. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

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.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017 and is currently analyzing the impact on the Company's 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 65 to 74.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

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

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Debentures

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

(vii) Derivatives

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

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

The following table presents the carrying values for each category of financial assets and liabilities and their estimated fair values as at December 31, 2014 and December 31, 2013. The table does not include assets and liabilities that are not considered financial instruments.

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	-	-	7,208,353	7,257,475	7,272,341
Mortgages receivable – Securitization Financing	41,310	-	-	-	4,971,160	5,012,470	5,139,522
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

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

2013	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 243,645	$ -	$ -	$ -	$ -	$ 243,645	$ 243,645
Restricted cash	87,319	-	-	-	-	87,319	87,319
Securities purchased under reverse repurchase agreements	-	-	-	-	54,860	54,860	54,860
Investments	5,702	-	38,396	196,516	-	240,614	240,614
Mortgages receivable – Core Lending	-	50,503	-	-	6,137,775	6,188,278	6,202,270
Mortgages receivable – Securitization Financing	17,698	-	-	-	4,923,891	4,941,589	4,995,574
Securitization retained interests	-	-	-	30,455	-	30,455	30,455
Other assets:							
Derivative financial instruments – interest rate swaps	1,650	-	-	-	-	1,650	1,650
Derivative financial instruments – bond forwards	705	-	-	-	-	705	705
Other	-	-	-	-	5,002	5,002	5,002
Total financial assets	$ 356,719	$ 50,503	$ 38,396	$ 226,971	$ 11,121,528	$ 11,794,117	$ 11,862,094
Financial liabilities:							
Deposits	$ -	$ 320,557	$ -	$ -	$ 6,149,472	$ 6,470,029	$ 6,479,621
Securitization liabilities	-	-	-	-	4,591,404	4,591,404	4,674,097
Obligations under repurchase agreements	-	-	-	-	8,143	8,143	8,143
Other liabilities:							
Mortgage commitments	19	-	-	-	-	19	19
Other	-	-	-	-	54,816	54,816	54,816
Debentures	-	-	-	-	92,483	92,483	92,483
Total financial liabilities	$ 19	$ 320,557	$ -	$ -	$ 10,896,318	$ 11,216,894	$ 11,309,179

(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.

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

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:

2014	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/ financial liabilities at fair value**
Financial assets:				
Investments	**$ 173,410**	**$ 14,254**	**$ -**	**$ 187,664**
Mortgages receivable – Core Lending	**-**	**49,122**	**7,223,219**	**7,272,341**
Mortgages receivable – Securitization Financing	**-**	**41,310**	**5,098,212**	**5,139,522**
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	**$ 173,410**	**$ 151,601**	**$ 12,321,431**	**$ 12,646,442**
Financial liabilities:				
Deposits	**$ -**	**$ -**	**$ 7,500,809**	**$ 7,500,809**
Securitization liabilities	**-**	**1,908,915**	**2,587,905**	**4,496,820**
Other liabilities :				
Derivative financial instruments – bond forwards	**-**	**908**	**-**	**908**
Debentures	**-**	**85,474**	**-**	**85,474**
Total financial liabilities	**$ -**	**$ 1,995,297**	**$ 10,088,714**	**$ 12,084,011**

2013	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 131,632	$ 108,982	$ -	$ 240,614
Mortgages receivable – Core Lending	-	50,503	6,151,767	6,202,270
Mortgages receivable – Securitization Financing	-	17,698	4,977,876	4,995,574
Securitization retained interests	-	30,455	-	30,455
Other assets:				
Derivative financial instruments – interest rate swaps	-	1,650	-	1,650
Derivative financial instruments – bond forwards	-	705	-	705
Total financial assets	$ 131,632	$ 209,993	$ 11,129,643	$ 11,471,268
Financial liabilities:				
Deposits	$ -	$ -	$ 6,479,621	$ 6,479,621
Securitization liabilities	-	3,127,854	1,546,243	4,674,097
Other liabilities:				
Mortgage commitments	-	-	19	19
Debentures	-	92,483	-	92,483
Total financial liabilities	$ -	$ 3,220,337	$ 8,025,883	$ 11,246,220

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

Note 6 – Cash and Cash Equivalents and Restricted Cash

	2014	2013
Deposits with regulated financial institutions	$ 230,063	$ 243,645
Cash and cash equivalents	$ 230,063	$ 243,645
Restricted cash – securitization	$ 54,176	$ 77,250
Restricted cash – interest rate swaps	13,514	10,069
Restricted cash	$ 67,690	$ 87,319

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

Note 7 – Investments

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

	2014						2013
	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 issued by regulated financial institutions	$ -	$ -	$ -	$ -	$ -	$ -	$ 70,586
Debt securities guaranteed by Government of Canada	3,357	-	5,508	11,732	-	20,597	25,227
Debt securities – corporate debt	-	-	-	-	1,000	1,000	-
Equity securities – preferred shares	-	386	4,784	-	137,884	143,054	92,879
Equity securities – common shares	-	-	-	-	8,759	8,759	13,526
Canada Housing Trust re-investment accounts[(1)(2)]	11,758	-	2,127	369	-	14,254	38,396
	$ 15,115	$ 386	$ 12,419	$ 12,101	$ 147,643	$ 187,664	$ 240,614

(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 $8.1 million (2013 – $34.8 million) which are reclassified to Securities purchased under reverse repurchase agreements.*

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

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

	2014	2013
Debt securities issued by regulated financial institutions	$ -	$ 9
Debt securities guaranteed by Government of Canada	1,147	660
Equity securities – preferred shares	(7,149)	(7,347)
Equity securities – common shares	(396)	88
	$ (6,398)	$ (6,590)

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2014		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 7,264,421	$ 3,937	$ 29,510	$ 33,447	$ 7,230,974
Mortgages – Securitization Financing	5,000,082	-	-	-	5,000,082
Accrued interest	38,889	-	-	-	38,889
	$ 12,303,392	$ 3,937	$ 29,510	$ 33,447	$ 12,269,945

2013		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 6,196,540	$ 3,381	$ 28,096	$ 31,477	$ 6,165,063
Mortgages – Securitization Financing	4,927,763	-	-	-	4,927,763
Accrued interest	37,041	-	-	-	37,041
	$ 11,161,344	$ 3,381	$ 28,096	$ 31,477	$ 11,129,867

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale which consist of insured residential mortgages of $355,428 (2013 – $198,432), of which $41,310 (2013 – $17,698) 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, 2014 is $218 (2013 – ($107)).

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, 2014, mortgage principal outstanding for these mortgages was $47,180 (2013 – $48,184) and the fair value adjustment was $1,942 (2013 – $2,319).

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

	2014	2013
Changes in fair value for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	$ 325	$ (23)
Changes in fair value for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	$ (377)	$ (925)

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

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

	2014	2013
Mortgages – Core Lending	$ 3,159,558	$ 2,529,953
Mortgages – Securitization Financing	776,925	1,273,515
	$ 3,936,483	$ 3,803,468

(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, 2014, accrued interest on impaired mortgages amounted to $2,153 (2013 – $1,387).

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

			2014	2013
	Gross	Individual allowance	Net	Net
Mortgages – Core Lending	$ 40,448	$ 3,937	$ 36,511	$ 25,568
Mortgages – Securitization Financing – Insured	805	-	805	1,006
	$ 41,253	$ 3,937	$ 37,316	$ 26,574

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

				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

				2013
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 29,972	$ 15,310	$ -	$ 45,282
Mortgages – Core Lending – Insured	720	-	265	985
Mortgages – Securitization Financing – Insured	1,294	2,152	12,926	16,372
	$ 31,986	$ 17,462	$ 13,191	$ 62,639

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

(c) Allowance for credit losses:

			2014
	Individual allowance	**Collective allowance**	**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**

			2013
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 4,660	$ 21,960	$ 26,620
Provision for credit losses	596	6,136	6,732
Realized losses	(2,020)	-	(2,020)
Recoveries	145	-	145
Balance, end of year	$ 3,381	$ 28,096	$ 31,477

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 or predominantly to 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 the Company's securitization transactions do not qualify for derecognition as the Company either 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.

(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. Accrued interest on the MBS securitization liability is based on the MBS coupon 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 the CHT. Any excess or shortfall in these cash flows is absorbed by the Company. 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, 2014, the notional amount of these swaps was $1,800,048 (2013 – $3,019,555).

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the 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. Accrued interest on the CMB securitization liabilities is based on the CMB coupon. MBS accrued interest is paid to swap counterparties on a monthly basis and is recorded on the Company's consolidated balance sheets as Restricted cash – securitization. At the time of CMB coupon settlements, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by the Company.

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

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:

	2014		2013	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**$ 4,656,651**	**$ 52,413**	$ 4,742,851	$ 8,143
Carrying amount of associated liability	**4,355,328**	**52,413**	4,591,404	8,143
Fair value of assets	**4,783,429**	**52,413**	4,797,412	8,143
Fair value of associated liability	**4,496,820**	**52,413**	4,674,097	8,143
Fair value, net position	**$ 286,609**	**$ -**	$ 123,315	$ -

The carrying amount of assets include securitized assets that were not transferred to third parties of $309,797 (2013 – $247,514). The fair value of these assets are $310,754 (2013 – $248,670).

The carrying amount of assets excludes mortgages held for securitization of $355,600 (2013 – $198,845).

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

	MBS Liability	**CMB Liability**	**Total Liability**
2015	**$ 125,455**	**$ 461,731**	**$ 587,186**
2016	**89,202**	**411,305**	**500,507**
2017	**425,209**	**76,346**	**501,555**
2018	**378,964**	**42,302**	**421,266**
2019	**648,717**	**-**	**648,717**
Thereafter	**901,290**	**808,364**	**1,709,654**
	$ 2,568,837	**$ 1,800,048**	**$ 4,368,885**

(b) Transfers that are derecognized in their entirety:

Certain securitization transactions undertaken by the Company result in the Company derecognizing transferred assets in their entirety. This is the case where the Company has securitized and sold pools of residential mortgages with no pre-payment option to third parties. The Company has not substantially retained any of the risk or rewards of ownership and has transferred control in the assets. The Company has retained some continuing involvement in the transaction which is represented by the retained interests and the associated servicing liabilities.

The Company has also achieved derecognition on the securitization and sale of certain pools of residential mortgages with a pre-payment option. In these transactions, the Company has securitized and sold pools of residential mortgages as well as all its rights in the excess interest spreads, thereby transferring substantially all the risks and rewards of ownership in the asset and derecognizing the asset in its entirety.

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

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

	2014	2013
Mortgages securitized and sold	$ 564,743	$ 690,154
Carrying value and fair value of Securitization retained interests	44,983	30,455
Carrying value of Securitized mortgage servicing liability	11,192	7,921
Fair value of Securitized mortgage servicing liability	11,040	7,851
Gains on mortgages securitized and sold	3,960	5,613
Income from securitization activities and retained interests	85	1,971

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
2015	$ 76,807
2016	77,151
2017	256,996
2018	417,227
2019	399,186
Thereafter	478,281
	$ 1,705,648

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.

Fair value hedges

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

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

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

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at December 31, 2014 and 2013 are as follows:

							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:							
Hedging bond forwards							
1 or less	**$ 100,684**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (660)**	**$ (660)**
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	**185,000**	**83**	**83**	**17**	**83**	**-**	**83**
1 to 5	**322,000**	**1,827**	**3,437**	**687**	**1,827**	**-**	**1,827**
Interest rate swaps							
1 or less	**90,000**	**6**	**6**	**1**	**6**	**-**	**6**
Bond forwards							
1 or less	**42,300**	**-**	**-**	**-**	**-**	**(248)**	**(248)**
	$ 739,984	**$ 1,916**	**$ 3,526**	**$ 705**	**$ 1,916**	**$ (908)**	**$ 1,008**

							2013
					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:							
Hedging bond forwards							
1 or less	$ 54,200	$ 572	$ 572	$ 572	$ 572	$ -	$ 572
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	140,000	55	55	11	55	-	55
1 to 5	407,000	1,354	3,389	678	1,334	-	1,334
Interest rate swaps							
1 or less	185,000	120	120	24	120	-	120
1 to 5	90,000	141	591	118	141	-	141
Bond forwards							
1 or less	24,000	133	133	133	133	-	133
	$ 900,200	$ 2,375	$ 4,860	$ 1,536	$ 2,355	$ -	$ 2,355

(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).*

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

Cash flow hedges:

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

	2014	2013
Fair value changes recorded in Other comprehensive income	$ (3,448)	$ 8,029
Fair value changes recorded in income	(583)	1,379
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	(2,228)	(2,261)

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

Time period	2014	2013
Less than 1 year	$ 63,449	$ 45,630
1 – 3 years	109,906	86,939
4 – 5 years	78,196	58,368
Greater than 5 years	90,302	71,337
	$ 341,853	$ 262,274

Fair value hedges:

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

	2014	2013
Interest rate swaps – hedge accounting	$ 520	$ 1,389
Interest rate swaps	(255)	921
Bond forwards	(381)	350
Short sale and repurchase agreement	-	22
Changes in fair value recognized in income	$ (116)	$ 2,682

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.

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

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:

						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:

						2014
				Related amounts not offset on the consolidated balance sheets		
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 pledged)	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)	$ -	$ -

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

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

						2013
				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	$ 1,670	$ (20)	$ 1,650	$ -	$ (1,870)	$ (220)
Securities purchased under reverse repurchase agreements	54,860	-	54,860	-	(54,860)	-
	$ 56,530	$ (20)	$ 56,510	$ -	$ (56,730)	$ (220)

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

						2013
				Related amounts not offset on the consolidated balance sheets		
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 pledged)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 20	$ (20)	$ -	$ -	$ -	$ -
Obligations under repurchase agreements	8,143	-	8,143	(8,143)	-	-
	$ 8,163	$ (20)	$ 8,143	$ (8,143)	$ -	$ -

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

Note 12 – Other Assets

	2014	2013
Deferred system costs	$ 11,669	$ 5,975
Prepaid expenses and other	6,399	6,497
Real estate owned	7,473	7,703
Receivable relating to securitization activities	4,592	2,512
Capital assets	3,964	4,021
Derivative financial instruments – interest rate swaps	1,916	1,650
Accrued interest and dividends on non-mortgage assets	412	630
Mortgage commitments	16	-
Derivative financial instruments – bond forwards	-	705
	$ 36,441	$ 29,693

Deferred system costs comprise of internally developed system and software costs relating to the bank's information systems.

Included in Prepaid expenses and other is a net receivable of $3.2 million (2013 – $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

	2014	2013
Term and other deposits	$ 7,385,456	$ 6,377,987
Accrued interest	122,670	110,347
Deferred deposit agent commissions	(18,708)	(18,305)
	$ 7,489,418	$ 6,470,029

Term and other deposits include $135,841 (2013 – $320,727) 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, 2014 is ($109) (2013 – ($170)).

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

	2014	2013
Changes in fair value recognized in income	$ (61)	$ (964)

Term and other deposits also include $502,060 (2013 – $545,713) 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, 2014 is $1,764 (2013 – $1,246).

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

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

	2014	2013
Changes in fair value recognized in income	$ (518)	$ (1,246)

Note 14 – Income Taxes

(a) Income tax provision:

	2014	2013
Current tax expense:		
Current year	$ 31,905	$ 29,248
Adjustments for prior years	(829)	(3,429)
	31,076	25,819
Deferred tax expense:		
Reversal of temporary differences	5,034	2,401
Adjustments for prior years	817	2,930
Changes in tax rate	29	(3)
	5,880	5,328
Total income tax expense	$ 36,956	$ 31,147

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:

	2014	2013
Canadian statutory income tax rate	26.4%	26.3%
Increase (decrease) resulting from:		
Tax-exempt income	(1.0%)	(1.3%)
Future tax rate changes	0.1%	0.1%
Non-deductible expenses and other	0.3%	(0.1%)
Effective income tax rate	25.8%	25.0%

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

(b) Deferred taxes:

The net deferred income tax liabilities are comprised of:

	2014	2013
Deferred income tax assets:		
Allowance for credit losses	$ 7,896	$ 7,384
Share issue expenses	1,427	-
Other	1,165	577
	10,488	7,961
Deferred income tax liabilities:		
Securitization activities	13,974	10,060
Deposit agent commissions	4,822	4,821
Net mortgage fees	3,720	3,836
Other	2,815	70
	25,331	18,787
Net deferred income tax liabilities	$ 14,843	$ 10,826

Note 15 – Other Liabilities

	2014	2013
Mortgagor realty taxes	$ 31,512	$ 26,335
Accounts payable and accrued liabilities	16,075	12,092
Securitized mortgage servicing liability	11,192	7,921
Income taxes payable	2,284	8,883
Derivative financial instruments – bond forwards	908	-
Mortgage commitments	-	19
	$ 61,971	$ 55,250

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, 2014 and 2013.

(b) Secured funding facility:

The Company secured a $300,000 credit facility with a major Schedule I Canadian Bank to finance insured residential mortgages prior to securitization. The balance on this facility as at December 31, 2014 is $92,236 (2013 – nil).

Note 17 – Debentures

Equitable Group Inc. has two series of debentures outstanding at December 31, 2014, compared with three 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 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 debentures agreements, including any applicable penalties, and the prior approval of OSFI.

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

During the year, the Company redeemed its 6.5% Series 8 debentures of $7,483 with all accrued and unpaid interest.

All series of the Company's 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 9 debentures is payable monthly at a fixed rate of 6.09% per annum for the first five years of its 10-year term. Thereafter, Series 9 debentures will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 3.38%, payable quarterly.

Interest on Series 10 debentures is paid semi-annually at a fixed rate of 5.399% per annum.

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**

2013							
Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2012	Issued during the year	Repaid during the year	Outstanding December 31, 2013
Series 7	7.10%	2007	January 2017	$ 9,450	$ -	$ 9,450	$ -
Series 8	6.50%	2009	December 2019	23,221	-	15,738	7,483
Series 9	6.09%	2010	December 2020	20,000	-	-	20,000
Series 10	5.40%	2012	October 2017	65,000	-	-	65,000
				$ 117,671	$ -	$ 25,188	$ 92,483

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

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:

	2014			2013		
	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**		2,000,000	$ 50,000	
Redeemed during the year	**(2,000,000)**	**(50,000)**		-	-	
Balance, end of year	**-**	**$ -**	**$ 1.36**	2,000,000	$ 50,000	$ 1.81
Series 3 – Balance, beginning of year	**-**	**$ -**		-	$ -	
Issued during the period	**3,000,000**	**75,000**		-	-	
Balance, end of year	**3,000,000**	**$ 75,000**	**$ 0.63**	-	$ -	$ -
Balance, end of year, before issuance cost	**3,000,000**	**$ 75,000**		2,000,000	$ 50,000	
Issuance cost		**(2,588)**		-	(1,506)	
Balance, end of year, after issuance cost	**3,000,000**	**$ 72,412**	**$ 1.99**	2,000,000	$ 48,494	$ 1.81

	2014			2013		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of year	**15,355,405**	**$ 137,969**		15,189,983	$ 134,224	
Contributions from reinvestment of dividends	**10,062**	**542**		23,699	849	
Contributions from exercise of stock options	**69,889**	**1,746**		141,723	2,379	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**400**		-	517	
Balance, end of year	**15,435,356**	**$ 140,657**	**$ 0.68**	15,355,405	$ 137,969	$ 0.60

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

(b) Preferred shares:

On December 31, 2014, with the prior approval of OSFI, the Company 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

During the year, the Company issued Series 3 preferred shares which are outstanding as at December 31, 2014. 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:

Issuances of common shares

During the year, 69,889 (2013 – 141,723) shares were issued as a result of the exercise of stock options for cash consideration of $1,746 (2013 – $2,379) and $400 (2013 – $517) was transferred from Contributed surplus to Common shares as a result of these exercises. In addition, 10,062 (2013 – 23,699) 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 chose to suspend the plan during the year 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. 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, and those OSFI guidelines relating to capital adequacy and liquidity.

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

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 five to seven years and vest over a four or five-year period. As at December 31, 2014, the maximum number of common shares available for issuance under the plan was 1,475,570 (2013 – 1,475,570). The outstanding options expire on various dates to August 2021. A summary of the Company's stock option activity and related information for the years ended December 31, 2014 and 2013 is as follows:

	2014		2013	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**521,631**	**$ 28.54**	518,817	$ 22.96
Granted	**106,430**	**53.55**	144,537	37.03
Exercised	**(69,889)**	**24.98**	(141,723)	16.79
Forfeited/cancelled	**(13,723)**	**42.85**	-	-
Outstanding, end of year	**544,449**	**$ 33.52**	521,631	$ 28.54
Exercisable, end of year	**248,540**	**$ 26.35**	173,172	$ 24.01

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2014:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 20.60	60,700	0.9	60,700
$ 24.75	54,500	1.9	34,500
$ 24.50	70,000	1.9	56,000
$ 26.01	7,500	4.0	5,625
$ 29.32	111,332	4.2	52,724
$ 27.23	10,000	4.4	5,000
$ 36.11	116,310	5.2	31,491
$ 37.43	4,000	5.4	1,000
$ 46.65	6,000	5.9	1,500
$ 52.90	98,107	6.2	-
$ 64.36	6,000	6.7	-

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $911 (2013 – $840) 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 2014 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	2014	2013
Risk-free rate	**1.6%**	1.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**23.3%**	24.5%
Expected dividends	**1.5%**	1.7%
Weighted average fair value of each option granted	**$ 9.24**	$ 6.98

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

(b) ESP plan:

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

During the year ended December 31, 2014, the Company expensed $387 (2013 – $266) under this plan.

(c) 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.

A summary of the Company's DSU activity for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**32,754**	33,095
Granted	**5,090**	6,679
Dividends reinvested	**329**	502
Exercised	**(13,464)**	(7,522)
Outstanding, end of year	**24,709**	32,754

In May 2014, 13,464 (2013 – 7,522) DSUs were exercised for a total value of $847 (2013 – $282). The liability associated with DSUs outstanding as at December 31, 2014 was $1,586 (2013 – $1,579). Compensation expense recorded in 2014, relating to DSUs outstanding during the year amounted to $854 (2013 – $787).

(d) RSU plan:

The Company has a RSU plan for eligible employees. Under the plan, RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the RSU plan, each RSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs when cash dividends are paid on the Company's common shares. Each RSU 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, and including the vesting date.

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

A summary of the Company's RSU activity for the years ended December 31, 2014 and 2013 is as follows:

	2014 Number of RSUs	2013 Number of RSUs
Outstanding, beginning of year	44,376	19,577
Granted	21,455	24,723
Dividends reinvested	326	424
Exercised	(24,153)	-
Forfeited/cancelled	(2,210)	(348)
Outstanding, end of year	39,794	44,376

In December 2014, 24,153 RSUs were exercised for a total value of $1,233 (2013 – nil). Compensation expense recorded relating to RSUs outstanding during the year amounted to $1,832 (2013 – $787). The liability associated with RSUs outstanding as at December 31, 2014 was $1,574 (2013 – $975).

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.

	2014	2013
Earnings per common share – basic:		
Net income	$ 106,718	$ 93,530
Dividends on preferred shares	4,611	3,625
Net income available to common shareholders	$ 102,107	$ 89,905
Weighted average basic number of common shares outstanding	15,398,991	15,272,463
Earnings per common share – basic	$ 6.63	$ 5.89
Earnings per common share – diluted:		
Net income available to common shareholders	$ 102,107	$ 89,905
Weighted average basic number of common shares outstanding	15,398,991	15,272,463
Adjustment to weighted average number of common shares outstanding:		
Stock options	248,506	178,982
Weighted average diluted number of common shares outstanding	$ 15,647,497	$ 15,451,445
Earnings per common share – diluted	$ 6.53	$ 5.82

For the year ended December 31, 2014, the calculation of the diluted earnings per share excluded 9,637 (2013 – 60,727) average options outstanding with a weighted average exercise price of $54.40 (2013 – $40.40) 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 48-50 of the MD&A.

Equitable Bank maintains capital management policies 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.

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

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

	2014	2013
Common Equity Tier 1 capital ("CET1"):		
Common shares	$ 143,141	$ 140,997
Contributed surplus	5,423	4,911
Retained earnings	490,774	398,493
Accumulated other comprehensive loss(1)	(2,453)	(4,574)
Less: Regulatory Adjustments	(1,723)	(1,188)
Common Equity Tier 1 capital:	635,162	538,639
Additional Tier 1 capital:		
Non-cumulative preferred shares(2)	67,603	45,000
Net Tier 1 capital:	702,765	583,639
Tier 2 capital:		
Collective allowance	29,510	28,097
Subordinated debentures	85,000	92,483
Tier 2 capital:	114,510	120,580
Total capital	$ 817,275	$ 704,219

(1) *As prescribed by OSFI (under Basel III rules), AOCI is part of CET1 in its entirety, however, the amount of cash flow hedge reserves in AOCI corresponding to the hedged items that are not recognized in the balance sheet are excluded.*
(2) *At December 31, 2014, 100% of Equitable Bank's non-cumulative preferred shares, adjusted for regulatory adjustments, qualified as additional Tier 1 Capital under Basel III guidelines.*

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:

	2014	2013
Less than 1 year	$ 1,222	$ 983
1-5 years	476	1,063
	$ 1,698	$ 2,046

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 2014 amounted to $2,123 (2013 – $1,844).

(b) Credit commitments:

As at December 31, 2014, the Company had outstanding commitments to fund $777,890 (2013 – $486,432) of mortgages in the ordinary course of business. Of these commitments, $521,345 (2013 – $302,065) are expected to be funded within one year and $256,545 (2013 – $184,367) remain open for various dates after one 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. Letters of credit in the amount of $5,992 were outstanding at December 31, 2014 (2013 – $2,714), none of which have been drawn upon at that date.

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

(c) Contingencies:

In August 2011, the Company reported an alleged fraud relating to four Condominium Corporation loans and the net outstanding receivable balance related to this fraud is $3.2 million (2013 – $3.2 million). 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:

	2014	2013
Short-term employee benefits	**$ 3,120**	$ 2,997
Post-employment benefits	**45**	44
Share-based payments	**1,861**	1,467
	$ 5,026	$ 4,508

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

As at December 31, 2014, key management personnel held 2,125,986 (2013 – 2,296,647) common shares and 23,000 (2013 – 1,700) preferred shares. These shareholdings include common shares of 2,006,356 (2013 – 2,157,496) that were beneficially owned by the Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management held 315,853 (2013 – 288,597) options to purchase common shares of the Company at prices ranging from $20.60 to $52.90.

(c) Other transactions:

As at December 31, 2014, there were no other transactions outstanding with the Company's key management personnel. As at December 31, 2013, deposits of $328 were held by key management personnel and related party entities whose controlling shareholders were 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.

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

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, 2014.

	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive	Total[1]
Assets:								
Cash and cash equivalents and restricted cash	**$ 297,010**	**$ 743**	**$ -**	**$ 297,753**	**$ -**	**$ -**	**$ -**	**$ 297,753**
Effective interest rate	*1.19%*	*0.89%*	*-*	*1.19%*	*-*	*-*	*-*	*1.19%*
Securities purchased under reverse repurchase agreements	**-**	**18,117**	**-**	**18,117**	**-**	**-**	**-**	**18,117**
Effective interest rate	*-*	*0.96%*	*-*	*0.96%*	*-*	*-*	*-*	*0.96%*
Investments	**5,730**	**18,534**	**22,947**	**47,211**	**107,569**	**27,368**	**5,516**	**187,664**
Effective interest rate	*4.15%*	*5.18%*	*5.47%*	*5.20%*	*6.01%*	*5.26%*	*0.00%*	*5.52%*
Mortgages receivable	**1,533,914**	**534,967**	**2,257,190**	**4,326,071**	**2,882,614**	**14,544**	**34,246**	**7,257,475**
Effective interest rate	*4.91%*	*4.94%*	*4.68%*	*4.80%*	*4.77%*	*5.94%*	*0.00%*	*4.77%*
Mortgage receivable – securitized	**93,216**	**245,009**	**675,127**	**1,013,352**	**2,409,605**	**1,551,558**	**37,955**	**5,012,470**
Effective interest rate	*2.46%*	*3.79%*	*3.75%*	*3.64%*	*3.17%*	*3.66%*	*0.00%*	*3.39%*
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**81,424**	**81,424**
Total assets	**$ 1,929,870**	**$ 817,370**	**$ 2,955,264**	**$ 5,702,504**	**$ 5,399,788**	**$ 1,593,470**	**$ 159,141**	**$ 12,854,903**
Liabilities:								
Deposits[2]	**$ 366,244**	**$ 759,419**	**$ 3,209,517**	**$ 4,335,180**	**$ 3,048,621**	**$ -**	**$ 105,617**	**$ 7,489,418**
Effective interest rate	*1.51%*	*1.89%*	*2.04%*	*1.97%*	*2.24%*	*0.00%*	*0.00%*	*2.05%*
Securitization liabilities	**-**	**199,136**	**491,616**	**690,752**	**2,103,728**	**1,567,463**	**(6,615)**	**4,355,328**
Effective interest rate	*-*	*2.84%*	*2.77%*	*2.79%*	*2.40%*	*3.29%*	*0.00%*	*2.78%*
Obligations under repurchase agreements	**-**	**52,413**	**-**	**52,413**	**-**	**-**	**-**	**52,413**
Effective interest rate	*-*	*1.15%*	*-*	*1.15%*	*-*	*-*	*-*	*1.15%*
Bank facilities	**-**	**92,236**	**-**	**92,236**	**-**	**-**	**-**	**92,236**
Effective interest rate	*-*	*1.93%*	*-*	*1.93%*	*-*	*-*	*-*	*1.93%*
Debentures[3]	**-**	**-**	**20,000**	**20,000**	**65,000**	**-**	**-**	**85,000**
Effective interest rate	*-*	*-*	*6.27%*	*6.27%*	*5.47%*	*-*	*-*	*5.66%*
Other liabilities and deferred taxes	**-**	**-**	**-**	**-**	**-**	**-**	**76,814**	**76,814**
Shareholders' equity	**-**	**-**	**-**	**-**	**75,000**	**-**	**628,694**	**703,694**
Total liabilities and shareholders' equity	**$ 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[4]	**$ -**	**$ (673,902)**	**$ 276,126**	**$ (397,776)**	**$ 492,544**	**$ (94,768)**	**$ -**	**$ -**
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	**$ 1,563,626**	**$ (959,736)**	**$ (489,743)**	**$ 114,147**	**$ 599,983**	**$ (68,761)**	**$ (645,369)**	**$ -**
Total assets – 2013	$ 1,658,732	$ 1,015,665	$ 2,854,589	$ 5,528,986	$ 4,915,738	$ 1,251,660	$ 120,069	$ 11,816,453
Total liabilities and shareholders' equity – 2013	$ 20,483	$ 1,360,199	$ 3,412,097	$ 4,792,779	$ 5,093,115	$ 1,237,075	$ 693,484	$ 11,816,453
Off-balance sheet items – 2013	$ -	$ (894,548)	$ 343,290	$ (551,258)	$ 626,240	$ (74,983)	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items – 2013	$ 1,638,249	$ (1,239,082)	$ (214,218)	$ 184,949	$ 448,863	$ (60,398)	$ (573,415)	$ -

(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.*

SHAREHOLDER AND CORPORATE INFORMATION

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

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

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

Stock Listings
TSX: EQB and EQB.PR.C

Website
www.equitablebank.ca

Investor Relations
Tim Wilson
Vice-President and Chief Financial
Officer of the Company and Equitable Bank
416.515.7000
investor@equitablegroupinc.com

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

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

OFFICERS

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

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

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

Dan Dickinson
Vice-President, Digital Banking of Equitable Bank

David Downie
Vice-President, Commercial Mortgage Origination of Equitable Bank

Vince Faustini[(1)]
Vice-President, Quebec

Aviva Braude[(1)]
Vice-President, Mortgage Services of Equitable Bank

Isabelle Farella
Vice-President, Internal Audit of Equitable Bank

Scott Fryer
Vice-President, Deposit Services of Equitable Bank

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

Brian Leland
Vice-President, Residential Credit of Equitable Bank

Tamara Malozewski
Vice-President, Finance of Equitable Bank

Dan Ruch
Vice-President and Chief Compliance Officer 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

Rajesh Raut
Vice-President and Controller of Equitable Bank

John Simoes
Vice-President, Financial Planning and Reporting of Equitable Bank

[(1)] *As of the date of printing*

HONOURARY CHAIRMAN

Austin Beutel

DIRECTORS

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

Johanne Brossard[(1)]
Corporate Director

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

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

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

Lynn McDonald
Corporate Director

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

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

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

Vincenza Sera
Corporate Director

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

[(1)] *As of the date of printing*

2015 BOARD OF DIRECTOR NOMINEES

Standing left to right:
Lynn McDonald, Michael Stramaglia, Eric Beutel, Michael Emory, Eric Kirzner, Rowan Saunders, Andrew Moor, Vincenza Sera

Sitting left to right:
Johanne Brossard, David LeGresley

EQUITABLE GROUP INC.™

equitablebank.ca