EQUITABLE

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TSX EQB / EQB.PR.C

First Quarter Report

For the three months ended March 31, 2016

2016

EQUITABLE GROUP INC.

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

For the three months ended March 31, 2016

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") ended March 31, 2016. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2016, together with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at May 12, 2016. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q1 2016 Highlights", "Business Outlook", "Income Taxes", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Derivative Financial Instruments", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total Assets Under Management[(1)] of approximately $18.6 billion. We serve retail and commercial customers across Canada with a range of savings solutions and mortgage lending products, offered under the Equitable Bank and *EQ Bank* brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

VISION AND STRATEGY

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

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

EQ BANK – A NEW WAY OF BANKING WITH EQUITABLE

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

In order to attract savers to the *EQ Bank* offering, we supported the launch with advertising across a full range of media, including conventional and specialty television, out of home, and digital. This advertising, combined with our highly competitive interest rate and innovative functionality, allowed us to attract over 17,000 accounts and gather almost $800 million of deposits by the end of the first quarter.

During Q1, we spent $2.6 million on advertising to support the launch. We also began to amortize the investments we had made in developing the platform and to expense (rather than capitalize) all of our digital team's compensation costs. Combined and compared with Q1 2015, those items accounted for $3.9 million of incremental expenses during the quarter and impacted quarterly EPS by $0.18. We expect to reduce our advertising activity beginning in Q2 and that marketing expenses will be only $1 million for the remainder of the year. Amortization, compensation, and other digital banking expenses should increase modestly from Q1 levels.

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

We have also been growing our digital banking team more quickly than expected starting in February, which will influence compensation expense growth rates slightly upward in Q2 and Q3. Equitable prides itself on industry leading customer service and, due to the surprisingly rapid growth in *EQ Bank* savings account, we did not deliver on that objective in the months immediately after our digital banking launch. By building our team, controlling the flow of new accounts (through our waiting list), and making some targeted technology investments, we were able to return our service to its customarily high levels by the end of March and are committed to keeping them at that level going forward.

In order to manage account growth and ensure we maintain these levels of service, we also reduced the interest rate on the *EQ Bank* savings account to 2.25% mid-April. We implemented this change earlier than we had expected, but felt the change was necessary given the operational challenges and costs associated with higher than expected account growth. At 2.25%, we still offer a very attractive interest rate to Canadian savers and are almost triple the rates generally offered by Canada's large banks. As such, we believe that we can continue to grow our customer base and account balances, albeit at a more reasonable pace.

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

For further information on Equitable's strategy, capabilities, Business Lines, and key performance indicators please refer to our 2015 annual Management's Discussion and Analysis.

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended				
	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
RESULTS OF OPERATIONS					
Net income	**$ 28,012**	$ 31,436	(11%)	$ 29,461	(5%)
Net income available to common shareholders	**26,821**	30,245	(11%)	28,270	(5%)
Net interest income	**63,594**	63,458	0%	56,337	13%
Total revenue[1]	**151,691**	151,495	0%	137,279	10%
EPS – basic	**$ 1.73**	$ 1.95	(11%)	$ 1.83	(5%)
EPS – diluted	**$ 1.71**	$ 1.93	(11%)	$ 1.81	(6%)
ROE[2]	**14.7%**	17.0%	(2.3%)	17.9%	(3.2%)
Return on average assets[2]	**0.7%**	0.8%	(0.1%)	0.9%	(0.2%)
NIM – TEB – total assets[2]	**1.63%**	1.70%	(0.07%)	1.73%	(0.10%)
Efficiency Ratio – TEB[2][3]	**43.2%**	35.7%	7.5%	32.4%	10.8%
BALANCE SHEET					
Total assets	**16,411,221**	15,527,584	6%	13,387,915	23%
Assets Under Management[2]	**18,616,018**	17,600,072	6%	15,075,279	23%
Mortgages receivable	**15,540,241**	14,700,806	6%	12,785,852	22%
Mortgages Under Management ("MUM")[2]	**17,668,821**	16,706,935	6%	14,437,643	22%
Shareholders' equity	**816,049**	796,116	3%	723,606	13%
CREDIT QUALITY					
Provision for credit losses	**227**	1,064	(79%)	814	(72%)
Net impaired mortgages as a % of total mortgage assets[4]	**0.22%**	0.22%	-%	0.28%	(0.06%)
Allowance for credit losses as a % of total mortgage assets	**0.21%**	0.23%	(0.02%)	0.26%	(0.05%)
COMMON SHARE INFORMATION					
Shares outstanding	**15,551,865**	15,538,605	-%	15,452,125	1%
Book value per share[2]	**$ 47.81**	$ 46.57	3%	$ 42.13	13%
Share price – close	**$ 50.76**	$ 51.50	(1%)	$ 56.51	(10%)
Market capitalization	**789,413**	800,238	(1%)	873,200	(10%)
EQUITABLE BANK CAPITAL RATIOS[2]					
CET1 Capital Ratio	**13.5%**	13.6%	(0.1%)	13.2%	0.3%
Total Capital Ratio	**16.7%**	16.8%	(0.1%)	17.0%	(0.3%)
Leverage Ratio	**5.0%**	5.2%	(0.2%)	5.5%	(0.5%)

(1) *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(3) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(4) *Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.*

Q1 2016 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

In the first quarter of 2016 we experienced a decline in our EPS, but most other financial and operating metrics point to continued strength in the fundamentals of our business and the benefits of our relentless focus on service excellence. Relative to Q1 2015, Mortgages Under Management[(1)] grew by 22%, origination activity was up by 26%, Net Interest Income[(1)] increased by 13%, and the credit quality of our assets was excellent.

EPS growth in Q1 was pressured by $2.6 million of marketing investments to support the launch of *EQ Bank* and a $1.2 million hedge loss. Together, these items reduced EPS by $0.18. We had previously expected to realize securitization gains on sale that would help to offset these marketing investments, but given our strong capital position and focus on maximizing long-term shareholder value, we chose to retain the mortgages on balance sheet instead of executing transactions to derecognize them. By retaining the mortgages on balance sheet, we realized less income in the current quarter but improved our earnings capacity in future periods.

Strategic Objectives	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	• Increased MUM[(1)] by 22% from Q1 2015 • Grew our portfolio of alternative Single Family assets by 19% and tripled the size of our Prime Single Family mortgage portfolio from last year • Originated a first quarter record $674 million of alternative Single Family Lending mortgages, 19% higher than the same quarter of last year
Build our capabilities and brand	• Successfully introduced the *EQ Bank Savings Plus Account* in January 2016, and grew balances to $794 million by the end of the quarter • Increased our brokered HISA balances by 118%, to $1.1 billion from $504 million a year ago
Consistently create shareholder value	• Grew book value per share by 13% from Q1 of last year • Declared a common share dividend of $0.20 per share in February, 11% higher than the declaration in February 2015
Maintain a low risk profile	• Maintained a loan-to-value ratio of 71% on our residential mortgage portfolio • Incurred a low level of credit losses, recording a provision of $0.2 million or 1 bp of average loan balances, 72% lower than the Q1 2015 provision • Reported a CET1 Ratio[(1)] of 13.5%, which was well ahead of regulatory minimums and most competitive benchmarks

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

ITEMS OF NOTE

Our Q1 2016 financial results were impacted by the following item:

- fair value losses of $1.2 million on derivative financial instruments related to securitization activities, resulting in a $0.06 reduction in our diluted EPS. Notwithstanding the accounting loss, the hedge was effective economically and we expect an equivalent benefit to flow through the income statement in future periods.

There were no items of note in our financial results for Q1 or Q4 2015.

Several other factors also affected our Q1 2016 results, including $2.6 million of advertising spending to support the launch of our *EQ Bank* platform and lower than normal prepayment income, each of which is discussed in the *"Non-Interest Expenses"* and *"Net Interest Income"* sections of this MD&A, respectively.

DIVIDENDS

On May 12, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of $0.21 per common share, payable on July 7, 2016, to common shareholders of record at the close of business on June 15, 2016. This dividend represents an 11% increase over dividends declared in May 2015.

In addition, on May 12, 2016, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on June 30, 2016, to preferred shareholders of record at the close of business on June 15, 2016.

BUSINESS OUTLOOK

We expect that our strategy, including our disciplined approach to capital allocation, will lead to EPS growth and high returns on our equity throughout the remaining quarters of the year.

Asset Growth

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

Core Lending

At the end of Q1 2016, our alternative Single Family lending portfolio climbed to a record level of $6.8 billion, an increase of $1.1 billion or 19% from Q1 of last year. Management believes that this growth is attributable to our consistently high and differentiated customer service levels, in addition to overall Canadian housing market strength. We expect that our alternative Single Family lending assets will grow at rates in the mid to high-teens range throughout 2016, but those expectations could shift if there is a change in competitive dynamics or national housing market conditions.

We expect our Commercial mortgage portfolio to be flat through 2016 but for originations to increase from Q1 levels. Equitable's business of lending to small and medium size enterprises – our Business Enterprise Solutions offering – has been recently rebranded and we are beginning to generate a sharper focus in the market. Our business of lending on larger properties – our Commercial Finance Group – is broadening the range of partners with which it works and expects to generate more lending opportunities, though the benefits of those initiatives will be largely offset by the reduced opportunity in Alberta and an elevated level of run-off as a significant number of shorter-term construction loans funded in prior years mature.

Securitization Financing

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

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

In addition, we plan to continue originating and securitizing a significant volume of Prime mortgages, as we successfully expand our broker relationships and geographic coverage. We expect to originate approximately half a billion dollars of Prime mortgages each quarter during 2016, through both our internal operations and our business partners, and as a result our Prime Single Family MUM will grow in excess of 50% from current levels.

In contrast to prior quarters, we now expect more modest derecognition activity during 2016 and therefore to keep a larger portion of the assets that we originate on our balance sheet. Given this level of derecognition, total Securitization Financing balance sheet assets will likely grow at rates in the high single digits in 2016, just below the rate of MUM growth. Management will continue to evaluate our approach quarter to quarter considering the specific economics of the mortgages we securitize and our long-term forecasts for the business.

Credit Quality

The Bank consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our arrears rates and credit loss provisions to be low throughout the remaining quarters of 2016, assuming that Canadian economic conditions stay within the range of broad market expectations. Loss and arrears rates may return to more normal levels from the exceptionally low rates experienced over the past several years, partly due to the deteriorating economic conditions in Alberta and Saskatchewan.

Given recent oil price declines and the expected economic impact thereof, we anticipate that our arrears rates in Alberta and Saskatchewan will continue to rise through the remaining quarters of the year. Due to our conservative underwriting approach, our focus on lending in larger urban centres such as Calgary and Edmonton, and our robust workout process, we expect losses to be manageable in the overall context of the Bank's financial position.

In order to arrive at our view on these potential losses, management conducts regular stress tests on our loan portfolio. The results of our most recent *residential housing market* stress tests for Alberta and Saskatchewan indicate that realized loan losses would be manageable under all scenarios tested. The scenarios were informed by economic forecasts published by seven major Canadian financial institutions, which indicate unemployment rates in the range of 7% and house price declines of approximately 2-3%. We have also developed several more stressed scenarios internally. In the most severe scenario tested (house prices fall by 30% and unemployment escalates to 10.5% by the end of 2016), we forecast that provisions for credit losses could be up to $1 million in 2016 and up to $2 million in 2017, equivalent to $0.05 and $0.10 of EPS respectively. These provision forecasts represent management estimates, based on our current mortgage portfolio and business conditions, and actual results may differ due to a variety of known and unknown factors. These forecasts do not reflect any increases to our Collective Allowance, which management may make if we deem that overall market conditions have deteriorated meaningfully.

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

- **Insurance:** 57% of our lending portfolio in Alberta and Saskatchewan is insured.
- **Secured Lending:** all of our lending in these provinces is secured by high-quality residential and commercial real estate. We have no unsecured exposure in either province.
- **Loan-to-Value Ratios:** the average loan-to-value ratio of our uninsured residential portfolio in Alberta and Saskatchewan is 69%, which provides us with substantial downside protection against a drop in real estate prices.
- **Market Positioning:** We maintain strict lending policies that govern our activity in the upper and lower ends of the house price spectrum because we view those segments of the market as inherently more risky. As such, we believe that our residential mortgage portfolio, which is weighted to the relatively more stable middle market, will be less impacted by any market instability.
- **Geographic Focus:** 92% of our Alberta and Saskatchewan uninsured portfolio is in the major urban centres of Calgary, Edmonton, Regina, and Saskatoon. Those cities have relatively diversified economies and liquid real estate markets, which allows Equitable to more quickly realize the value of any collateral.

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

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

Equitable extends its sympathies to the residents of Fort McMurray, whose lives and homes were devastated by the wildfires that spread through the region last week. Our company, and many of our individual employees, have given generous financial assistance to the relief efforts; and only wish that we could do more. With respect to our loan book, Equitable has only $33 million of exposure to the region. We require that all of our borrowers maintain insurance policies on their properties and, further, loans representing $14 million (42%) of the balances are covered by mortgage default insurance. As a result, management believes that any credit losses related to this disaster will be immaterial.

We have provided further details of our Alberta and Saskatchewan portfolios in Table 20 of our Q1 2016 Supplemental Information and Regulatory Disclosures Report found on the Company's website at www.equitablebank.ca. Our lending portfolios in other provinces potentially impacted by oil prices, such as Newfoundland, are immaterial.

Net Interest Margin

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

- Core Lending NIM will remain around Q1 levels. The higher costs associated with our growing level of *EQ Bank* deposits will be offset by increased prepayment income and lower costs on our brokered deposits. The sustained growth of our Single Family business will have a slight dampening effect on Core Lending NIM, as the portfolio mix shifts more toward these lower spread, but higher ROE Single Family assets.
- NIM of the Securitization Financing portfolio should increase slightly in future quarters from Q1 levels, as the spread on new and renewed mortgages will be above the average of the portfolio. Margins on Single Family Prime mortgages have widened again in recent months after having narrowed in the latter half of 2015. Our outlook assumes that Prime margins will be consistent with current levels through the end of the year.
- The growth rate of the Securitization Financing portfolio will outpace the growth rate of Core Lending in 2016. As a result of this mix shift towards the lower margin Securitization Financing portfolio, our overall weighted average NIM will decline slightly throughout the year from Q1 levels.

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

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

Gains from Asset Derecognition

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

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

In order to derecognize prepayable mortgages, we must execute transactions that transfer substantially all of the risks and rewards associated with these mortgages to third parties, for example sales of residual interests. Normally, the gain on sale margin associated with these prepayable mortgages is considerably lower than for non-prepayable mortgages because of the cost of transferring risks to third parties. Our intention is to execute such transactions regularly going forward, but only in the quantity needed to effectively manage our capital position over the long-term and if we are able to preserve value for our shareholders (even though our decisions may be at the expense of current period accounting gains). Management expects these derecognition volumes to be relatively modest in 2016.

Non-Interest Expenses

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

Management made marketing expenditures of approximately $2.6 million in Q1 2016 to support the rollout of *EQ Bank*, our digital banking platform. In light of our success attracting customers and their savings to EQ Bank in Q1, we reduced the scope of planned marketing activities for the remainder of the year and now expect to spend only an incremental $1 million (approximately $3.5 million total for the year). This marketing reduction will help to offset the interest expenses resulting from higher than expected balance growth. A portion of the marketing savings was also redeployed into our operations and has already made a meaningful impact on the level of service that we are able to provide to customers of *EQ Bank*.

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

We expect that our Efficiency Ratio will begin to decrease beginning in Q2, though will remain in the mid to high 30 percent range throughout the year. The Bank will continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model, and particularly taking into account the relative scale of our operations.

Strategic Initiatives

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

Equitable launched a Prime 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 two to three years. We closed $124 million of mortgages in Q1 – a seasonally low period in the mortgage business - and our pipeline continues to build well. Over the near term, as we further develop our capabilities and systems, we will supplement our internal originations with Prime mortgages sourced through business partners in order to optimize use of our available MBS capacity.

Over the past several years, we have placed an emphasis on diversifying our sources of funding. Since 2013, we have added seven new and cost-effective sources of funding. As part of this funding diversification initiative, we have broadened the range of products we offer to savers. *EQ Bank* – the platform for our direct-to-consumer deposit account – was launched in early 2016 and balances grew to almost $800 million in less than one quarter. Our *Equitable Bank High Interest Savings Account* (available through the FundSERV platform under the codes EQB100 and EQB200) has also been well received by Canadian savers and investment advisors since its launch two years ago. These savings products represent differentiated solutions for Canadian consumers that will strengthen our brands, reinforce our diversification strategy, and provide important risk management benefits. We intend to grow the balances in both accounts further, until together they represent approximately one-quarter to one-third of our total non-securitization funding.

Lastly, we have been exploring a migration to the Advanced Internal Ratings Based ("AIRB") approach for improving the sophistication of our capital and risk management, and made progress during the quarter. We believe that this approach could benefit Equitable in many respects, such as providing us with enhanced risk management models, matching appropriate levels of capital to our risks, and introducing a methodology that better allocates capital across a broader range of asset types. Recent proposals issued by the Bank of International Settlements ("Basel") – including a consultative document titled *"Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches"* – could impact the relative attractiveness of AIRB. Management is monitoring these developments and will advance our AIRB initiative cautiously until the Basel proposals have been finalized. Regardless of the outcome, we will continue to invest in our risk management modelling capabilities so that we manage our credit risks effectively as Equitable grows.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Mar 31, 2016**	Dec 31, 2015	% Change	Mar 31, 2015	% Change
				Three months ended	
Net income	**$ 28,012**	$ 31,436	(11%)	$ 29,461	(5%)
EPS – diluted	**$ 1.71**	1.93	(11%)	$ 1.81	(6%)
Net interest income[(1)]	**63,594**	63,458	0%	56,337	13%
Provision for credit losses	**227**	1,064	(79%)	814	(72%)
Non-interest expenses	**29,378**	24,429	20%	19,700	49%
Income taxes	**9,714**	10,840	(10%)	10,169	(4%)

(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 by product and business:

Table 3: Net interest income

						Three months ended
	Mar 31, 2016		Dec 31, 2015		Mar 31, 2015	
($ THOUSANDS)	**Revenue/ Expense**	**Average rate[(1)]**	Revenue/ Expense	Average rate[(1)]	Revenue/ Expense	Average rate[(1)]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 101,419**	**4.59%**	$ 101,848	4.74%	$ 93,333	4.80%
Liquidity investments	**1,161**	**1.04%**	1,318	1.07%	1,076	1.36%
Equity securities – TEB[(2)]	**2,159**	**6.66%**	2,285	6.88%	2,047	5.42%
	104,739	**4.45%**	105,451	4.58%	96,456	4.68%
Expenses related to:						
Deposits and bank facilities	**40,017**	**2.10%**	40,271	2.08%	40,351	2.23%
Debentures	**950**	**5.86%**	1,213	6.02%	1,277	6.09%
Securitization liabilities	**3,466**	**1.57%**	2,622	1.60%	784	2.40%
	44,433	**2.07%**	44,106	2.08%	42,412	2.28%
Net interest income – TEB[(2)(3)]	**60,306**	**2.55%**	61,345	2.68%	54,044	2.60%
Taxable Equivalent Basis – adjustment[(2)]	**(624)**		(609)		(624)	
Core Lending	**$ 59,682**		$ 60,736		$ 53,420	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 43,607**	**2.79%**	$ 41,978	2.90%	$ 37,296	3.20%
Liquidity investments	**232**	**1.20%**	364	0.97%	344	1.77%
	43,839	**2.77%**	42,342	2.85%	37,640	3.18%
Expenses related to:						
Securitization liabilities	**35,719**	**2.60%**	36,357	2.76%	32,218	3.08%
Deposits and secured funding facility	**4,208**	**2.13%**	3,263	2.05%	2,505	2.24%
	39,927	**2.54%**	39,620	2.68%	34,723	2.99%
Securitization Financing	**$ 3,912**	**0.25%**	$ 2,722	0.18%	$ 2,917	0.23%
Total assets – TEB[(2)]	**$ 64,218**	**1.63%**	$ 64,067	1.70%	$ 56,961	1.73%

(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.*

Q1 2016 v Q1 2015

NII was up 13% due to growth in our average interest earning asset balances of $2.7 billion or 21% and despite a 10 bps reduction in NIM. The decrease in our overall NIM was the result of a decline in Core Lending NIM and a shift in asset mix towards our lower yielding Securitization Financing portfolio.

NIM earned on Core Lending assets decreased by 5 bps, largely due to growth of our lower yielding liquidity portfolio. The rapid inflow of funds from our new *EQ Bank Savings Plus Account* caused us to maintain excess liquidity at times during the quarter. We have since successfully deployed those funds and our liquidity portfolio has returned to more normal levels. The higher interest rate on our *EQ Bank* deposits also contributed to the NIM compression, though that cost was partly offset by a reduction in the interest rate on our brokered HISA product.

Securitization Financing NIM improved 2 bps compared to a year ago, mainly driven by higher mortgage prepayment income during the quarter.

Q1 2016 v Q4 2015

NII in Q1 2016 was slightly higher than in the preceding quarter, as the effects of a 4% increase in average assets was partly offset by a 7 bps reduction in NIM. The decrease in our overall NIM was the result of a decline in Core Lending NIM and a shift in asset mix towards our lower yielding Securitization Financing portfolio.

Core Lending NIM was down 13 bps largely due to lower mortgage prepayment income. As discussed above, the high interest rate on our *EQ Bank* deposits and the reduction in our brokered deposit rates also impacted NIM relative to Q4. On the other hand, NIM benefitted from a sequential decline in the size of our liquidity portfolio. Despite our elevated liquidity position in Q1, we had held even more cash in the previous quarter in order to meet the demands of a seasonal peak in our mortgage fundings.

Securitization Financing NIM increased 7 bps from the previous quarter primarily due to a widening of margins in our Prime mortgage portfolio and a reduction in the size of our lower yielding liquidity investments.

Table 4: Factors affecting NIM

(IN BASIS POINTS)	Q1 2016 v Q4 2015	Q1 2016 v Q1 2015
Core Lending NIM:		
Mortgage prepayment income	(9)	(1)
Size and rate of liquidity investments	2	(5)
Size and rate of equity securities holdings	-	2
Size and rate of debentures	1	1
Other, including the impact of *EQ Bank* deposits[1]	(7)	(2)
Total change in NIM	(13)	(5)
Securitization Financing NIM:		
Mortgage prepayment income	-	3
Size and rate of liquidity investments	3	-
Size and rate of secured funding facility	(1)	-
Other[1]	5	(1)
Total change in NIM	7	2

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

PROVISION FOR CREDIT LOSSES

The credit quality of our mortgage portfolio is strong. Our provision for credit losses during the quarter was $0.2 million, $0.6 million lower than in the same quarter of last year and $0.9 million lower than in Q4 2015. The provision for credit losses as an annualized percentage of the average mortgage portfolio outstanding was 1 bp, down 2 bps from Q4 2015 and Q1 2015.

Based on our normal extensive review of mortgage assets and credit allowances, management determined that additions to our collective allowance were not necessary during the quarter. This decision reflects the more sophisticated data modeling capabilities we have developed as part of our AIRB exploration and also aligns our approach more with Canadian market standards. The provision for credit losses in Q4 2015 and Q1 2015 included $0.5 million and $0.6 million, respectively, of additions to the collective allowance.

OTHER INCOME

Table 5: Other income

	Three months ended				
($ THOUSANDS)	**Mar 31, 2016**	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Fees and other income	**$ 3,177**	$ 3,454	(8%)	$ 2,308	38%
Net loss on investments	**-**	(13)	100%	(203)	N/A
Securitization activities:					
Gains on securitization and income from retained interests	**1,793**	949	89%	1,805	(1%)
Fair value losses on derivative financial instruments	**(1,233)**	(79)	(1,461%)	(103)	(1,097%)
Total	**$ 3,737**	$ 4,311	(13%)	$ 3,807	(2%)

Q1 2016 v Q1 2015

Other income decreased marginally compared with Q1 2015, mainly due to:

- $1.1 million increase in fair value losses on derivative financial instruments related to securitization activities. We had been using bond forward contracts to hedge the cost of funds for mortgages that we had intended to securitize, and were required to recognize a $1.3 million accounting loss in Q1 because we did not execute the securitization as planned. The hedge was still effective economically and the offsetting benefit will flow into our earnings over time by way of a higher Net Interest Margin;

offset by:

- $0.9 million increase in Fees and other income driven by growth in our mortgage assets.

Q1 2016 v Q4 2015

Other income decreased compared with Q4 2015, mainly due to:

- $1.2 million increase in fair value losses on derivative financial instruments related to securitization activities;

Offset by:

- $0.8 million increase in gains on securitization and income from retained interests due to a higher volume of derecognition activity in the current quarter.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and Efficiency Ratio

				Three months ended	
($ THOUSANDS EXCEPT FTE)	**Mar 31, 2016**	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Growth of our franchise:					
Compensation and benefits	**$ 13,555**	$ 12,666	7%	$ 10,835	25%
Premises, equipment, and systems costs	**3,494**	3,141	11%	2,586	35%
Other	**2,347**	2,151	9%	2,017	15%
Licenses, regulatory fees and insurance	**1,337**	1,472	(9%)	1,010	32%
Amortization	**1,146**	930	23%	657	74%
Mortgage servicing	**980**	1,000	(2%)	999	(2%)
Marketing and travel	**780**	676	15%	503	55%
Non-interest expenses before strategic investments	**23,639**	22,036	7%	18,607	27%
Investments in our future:					
Compensation and benefits	**1,423**	906	57%	551	158%
Other	**4,316**	1,487	190%	542	696%
Total investments in our future[1]	**5,739**	2,393	140%	1,093	425%
Total non-interest expenses	**$ 29,378**	$ 24,429	20%	$ 19,700	49%
Efficiency Ratio – TEB[1]	**43.2%**	35.7%	7.5%	32.4%	10.8%
Full-time employee ("FTE") – period average	**507**	484	5%	412	23%

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

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, although our Efficiency Ratio increased to 43.2% from 32.4% a year ago and 35.7% last quarter. This increase is mainly the result of investments that we made in key strategic priorities. These strategic investments are expected to improve our future efficiency, enhance our competitive capabilities, and differentiate us from our competitors, thereby creating long-term value for our stakeholders. In total, other expenses grew at a rate in-line with the growth rate of our assets.

Without our strategic investments, our adjusted Efficiency Ratio and diluted EPS in Q1 2016 would have been 35.0% and $1.98, respectively (Q4 2015 – 32.2% and $2.04, Q1 2015 – 30.9% and $1.86).

Q1 2016 v Q1 2015

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

Growth of Our Franchise: $5.0 million or 52% of net increase

- Compensation and related costs (such as premises and equipment) increased $3.6 million largely because of growth in FTE to support our existing businesses, accompanied by an office expansion to accommodate our growing team; and
- $0.5 million in amortization expenses, which increased because we began to amortize the investments made to renovate and expand our office space.

Investments in Our Future: $4.6 million or 48% of net increase

These investments represent non-interest expenses recorded in the period in support of our most significant strategic initiatives.

- $2.6 million increase in marketing spending to support the public launch of *EQ bank*, a level of expense which we expect to be substantially lower in the remaining quarters of 2016;
- $0.9 million increase in compensation related to growth of our digital banking and prime lending teams. We also began to expense all digital banking related compensation in the quarter, whereas we had capitalized a portion in earlier quarters;

- $0.5 million increase for digital banking systems support costs; and
- $0.7 million of amortization expenses, as we began to amortize previously capitalized digital banking investments, mainly over a 10 year period.

Q1 2016 v Q4 2015

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

Growth of Our Franchise: $1.6 million or 33% of net increase

- $1.2 million increase in compensation and related costs (such as premises and equipment) which is primarily the result of the 5% growth in the FTE that support our existing businesses and annual inflationary salary adjustments that were effective in Q1.

Investments in Our Future: $3.3 million or 67% of net increase

- The increase was attributable to the factors cited above when comparing Q1 to the same quarter of last year.

INCOME TAXES

Our effective income tax rate for the quarter increased slightly to 25.7% from 25.6% a year ago and in the preceding quarter due to a 0.1% increase in our statutory tax rate.

FINANCIAL REVIEW – BALANCE SHEET

Table 7: Balance sheet highlights

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Total assets	**$ 16,411,221**	$ 15,527,584	6%	$ 13,387,915	23%
Mortgage principal – Core Lending	**9,064,350**	8,679,129	4%	8,020,116	13%
Mortgage principal – Securitization Financing	**6,399,674**	5,955,318	7%	4,730,163	35%
Deposit principal	**8,732,113**	8,115,483	8%	7,633,996	14%
Total liquid assets as a % of total assets[1]	**5.7%**	5.8%	(0.1%)	5.6%	0.1%

[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 both our Alternative and Prime Single Family Lending businesses. The following tables provide mortgage principal continuity schedules by lending portfolio for Q1 2016 and Q1 2015:

Table 8: Mortgage principal continuity schedule

	Three months ended March 31, 2016						
($ THOUSANDS)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[1]**	**Securitization Financing MUM[2]**
Q4 2015 closing balance	**$ 6,449,663**	**$ 2,229,466**	**$ 8,679,129**	**$ 5,955,318**	**$ 14,634,447**	**$ 2,072,488**	**$ 8,027,806**
Originations	**674,417**	**201,849**	**876,266**	**693,127**	**1,569,393**	**-**	**693,127**
Securitization derecognized	**-**	**-**	**-**	**(151,544)**	**(151,544)**	**151,544**	**-**
Net repayments	**(373,067)**	**(117,978)**	**(491,045)**	**(97,227)**	**(588,272)**	**(19,235)**	**(116,462)**
Q1 2016 closing balance	**$ 6,751,013**	**$ 2,313,337**	**$ 9,064,350**	**$ 6,399,674**	**$ 15,464,024**	**$ 2,204,797**	**$ 8,604,471**
% Change from Q4 2015	**5%**	**4%**	**4%**	**7%**	**6%**	**6%**	**7%**
% Change from Q1 2015	**19%**	**(1%)**	**13%**	**35%**	**21%**	**31%**	**34%**
Net repayments percentage[3]	**5.8%**	**5.3%**	**5.7%**	**1.6%**	**4.0%**	**0.9%**	**1.5%**

	Three months ended March 31, 2015						
($ THOUSANDS)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[1]	Securitization Financing MUM[2]
Q4 2014 closing balance	$ 5,385,848	$ 2,305,375	$ 7,691,223	$ 4,549,475	$ 12,240,698	$ 1,519,008	$ 6,068,483
Originations	568,278	207,767	776,045	468,722	1,244,767	-	468,722
Securitization derecognized	-	-	-	(180,753)	(180,753)	180,753	-
Net repayments	(262,661)	(184,491)	(447,152)	(107,281)	(554,433)	(12,397)	(119,678)
Q1 2015 closing balance	$ 5,691,465	$ 2,328,651	$ 8,020,116	$ 4,730,163	$ 12,750,279	$ 1,687,364	$ 6,417,527
% Change from Q4 2014	6%	1%	4%	4%	4%	11%	6%
Net repayments percentage[3]	4.9%	8.0%	5.8%	2.4%	4.5%	0.8%	2.0%

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

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

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

Q1 2016 v Q1 2015

Total MUM increased 22% from a year ago, driven by 13% growth in Core Lending balances and 35% growth in Securitization Financing MUM.

The increase in Core Lending was attributable to Alternative Single Family and the high level of originations in that business over the past four quarters. Commercial Lending balances were consistent with a year ago.

Securitization Financing MUM grew from Q1 2015 largely due to our Prime Single Family business, which reached $2.5 billion of assets at quarter end, almost three times the level of a year ago.

Q1 2016 v Q4 2015

Total MUM increased 6% from last quarter, driven by 4% growth in Core Lending balances and 7% growth in Securitization Financing MUM.

The Alternative Single Family Lending portfolio increased again in the quarter and was the main driver of Core Lending asset growth. The growth in Single Family mortgages was attributable to a high level of originations in the quarter. Commercial mortgages increased from the prior quarter, due to a combination of moderate origination levels and lower than normal attrition rates.

Securitization Financing was the largest contributor to our sequential MUM growth. Securitization Financing MUM increased primarily due to origination activity in Prime Single Family.

Please refer to the Supplemental Information and Regulatory Disclosures Report available on our website for additional quantitative disclosures related to our mortgage portfolio.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending Services, and as such we do not focus on sequential origination comparisons. The table below provides our mortgage originations for Q1 2016 and the comparable period in 2015:

Table 9: Mortgage originations – by lending business

						Three months ended
		Mar 31, 2016			Mar 31, 2015	
($ THOUSANDS)		**Mortgage principal funded**	**% of total**		Mortgage principal funded	% of total	% Change
Core Lending:							
Single Family Lending	**$**	**674,417**	**43%**	$	568,278	46%	19%
Commercial Lending		**201,849**	**13%**		207,767	17%	(3%)
		876,266	**56%**		776,045	62%	13%
Securitization Financing:							
Multi-unit residential		**248,773**	**16%**		277,308	22%	(10%)
Prime single family residential		**444,354**	**28%**		191,414	15%	132%
		693,127	**44%**		468,722	38%	48%
Total mortgage originations	**$**	**1,569,393**	**100%**	$	1,244,767	100%	26%

Q1 2016 v Q1 2015

We delivered record first quarter mortgage origination volumes in Q1 2016.

Core Lending origination volumes grew as a result of consistently strong performance in our Alternative Single Family Lending business, which was attributable to the strength of the Canadian real estate market and our consistently high levels of service quality. Commercial Lending originations were slightly below the levels achieved last year, as we continued to maintain our pricing and risk management discipline in a competitive market.

Securitization Financing originations were up in the quarter reflecting the success of our Prime Single Family mortgage business. Of the $444 million of Prime loans that we originated in Q1, $124 million was originated internally and the remaining $320 million was sourced through third-party partners. Multi origination volumes were down 10% compared to the same quarter of the prior year as a result of a 9% reduction in our CMB allocations. We aim to originate Multis such that we utilize the full amount of our CMB capacity each quarter, after considering our renewal volumes and inventory on-hand.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. If the securitized mortgages and the transaction structure meet specific criteria, the mortgages may qualify for full or partial balance sheet derecognition and an upfront gain on sale. In some cases, we retain residual interests in the mortgages, which are recorded as securitization retained interests and servicing liabilities on the Company's consolidated balance sheet.

The table below provides a summary of our securitization and derecognition activity in the reporting and comparative periods.

Table 10: Securitization and derecognition activity

	Three months ended				
($ THOUSANDS)	**Mar 31, 2016**	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Securitization derecognized – non-prepayable Multis	**$ 151,544**	$ 69,263	119%	$ 180,753	(16%)
Securitization derecognized – prepayable mortgages[(1)]	**-**	9,157	(100%)	-	N/A
Total principal derecognized	**151,544**	78,420	93%	180,753	(16%)
Gains on sale	**1,619**	755	114%	1,530	6%
Gain on sale margin[(2)]	**1.07%**	0.96%	0.11%	0.85%	0.22%

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

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

Q1 2016 v Q1 2015

Gains on sale increased from last year due to a higher gain on sale margin and despite a reduction in the volume of mortgages derecognized. Derecognition volumes were down this year because of lower demand for non-prepayable Multis products (the type which generally qualify for derecognition). The gain on sale margin was higher than in Q1 2015 largely due to lower cash flow discount rates used to calculate the gains. The spreads on the underlying mortgages have been relatively stable over the year.

Q1 2016 v Q4 2015

Gains on sale were up sequentially due to both higher derecognition volumes, driven by higher demand for non-prepayable mortgages, and an increased gain on sale margin.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

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

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

The highlights of our investments in Alberta and Saskatchewan at March 31, 2016 include:

- $2.8 billion or 18% of the Company's total mortgage principal is in these two provinces.
    - $1.6 billion or 57% of those assets are insured. $0.7 billion of the insured assets are single family residential, with the remainder being multi-unit residential.
    - $1.2 billion of the assets are uninsured, with $0.9 billion of that total being single family residential and $0.3 billion being commercial. These uninsured assets represent only 8% of our total mortgage principal.
- Of the uninsured mortgages in these two provinces, $1.0 billion or 84% are in the cities of greater Edmonton and Calgary. Similarly, $100 million or 8% are in Regina and Saskatoon. Those cities have relatively diversified economies and real estate markets that would be more resilient in the face of economic shocks.
- The average loan to value of our uninsured single family residential mortgages in these provinces is 69%.
- Impaired mortgages in Alberta and Saskatchewan were $9.1 million or only 0.05% of our total mortgage principal outstanding at quarter-end, compared to $7.1 million in the preceding quarter and $6.1 million in the prior year.
- Early stage delinquencies in Alberta and Saskatchewan increased to $15.3 million or 0.09% of our total mortgage principal outstanding at the end of Q1 2016, compared to $6.1 million in the preceding quarter and $7.1 million in the prior year. This increase indicates that impairments, and potentially credit losses, may increase in future quarters.

Details of our Alberta and Saskatchewan lending portfolios can be found in our Q1 2016 Supplemental Information and Regulatory Disclosures Report available on the Company's website at www.equitablebank.ca.

Table 11: Mortgage credit metrics

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	Mar 31, 2015
Provision for credit losses	$ 227	$ 1,064	$ 814
Provision for credit losses – rate[1]	0.01%	0.03%	0.03%
Gross impaired mortgage assets[2]	36,048	34,183	39,436
Net impaired mortgage assets[2][3]	34,783	32,857	35,742
Net impaired mortgage assets as a % of total mortgage assets[2][3]	0.22%	0.22%	0.28%
Allowance for credit losses	33,155	33,216	33,772
Allowance for credit losses as a % of total mortgage assets	0.21%	0.23%	0.26%
Allowances for credit losses as a % of gross impaired mortgage assets	92%	97%	86%

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *Conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.*
(3) *Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.*

Q1 2016 v Q1 2015

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q1 2016:

- Our provision for credit losses was only 1 bp of mortgage principal outstanding, down from 3 bps from Q1 2015. The provision was lower because our collective allowance is adequate and management did not add to it during the quarter.
- Net impaired mortgages decreased in both dollar terms and relative to total mortgage assets, largely because an $8.5 million commercial loan that was delinquent at the end of Q1 2015, and therefore classified as impaired, became current shortly thereafter. Impairment rates remained low by historical standards and they may return to more normalized levels in future quarters.
- The allowance for credit losses as a percentage of total assets remains sufficient in the opinion of management. The allowance declined relative to total assets as insured Prime Single Family mortgages grew to represent a greater proportion of our balance sheet than a year ago and we do not typically set-up an allowance against insured assets.

Q1 2016 v Q4 2015

Our key credit risk metrics remain well within historical norms and management expectations despite a slight increase in net impaired mortgages from the prior quarter. The increase in impaired mortgage balances is partly attributable to developments in the Alberta and Saskatchewan markets as discussed above.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

Table 12: Liquid assets[1]

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	Mar 31, 2015
Eligible deposits with regulated financial institutions[2]	**$ 427,580**	$ 423,157	$ 243,269
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**30,346**	19,918	10,535
Debt securities guaranteed by Government of Canada	**16,246**	16,295	20,881
Mortgages held in the form of debt securities guaranteed by Government of Canada[3]	**330,524**	301,453	552,739
Obligations under repurchase agreements	**-**	-	(225,698)
Liquid assets held for regulatory purposes	**804,696**	760,823	601,726
Other deposits with regulated financial institutions	**220**	209	364
Equity securities[4]	**134,775**	134,024	153,927
Total liquid assets[1]	**$ 939,691**	$ 895,056	$ 756,017
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**4.9%**	4.9%	4.5%
Total liquid assets as a % of total assets	**5.7%**	5.8%	5.6%

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

(2) *Eligible deposits with regulated financial institution represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $25.7 million (December 31, 2015 – $23.3 million, March 31, 2015 – $11.2 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $103.7 million (December 31, 2015 – $84.7 million, March 31, 2015 – $52.9 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

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

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

The size and composition of our liquidity portfolio is influenced by several factors, most notably by our expected cash needs over the subsequent eight week period. We always hold sufficient liquid assets to ensure that we can meet these obligations even through a disruption in the financial markets. In addition, we apply a more strategic approach to our liquidity management through rigorous asset-liability matching analysis and stress tests.

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

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio ("LCR")[1]. At March 31, 2016, our LCR was well in excess of the regulatory minimum of 100%.

Q1 2016 v Q1 2015

Liquid assets held for regulatory purposes were up as compared with Q1 2015 because expected cash outflows in the weeks subsequent to this quarter end were higher. These expected outflows were greater mainly due to outstanding mortgage commitments, which were approximately $265 million higher than a year ago.

Q1 2016 v Q4 2015

Liquid assets increased since Q4 2015 because projected cash outflows related to mortgage fundings and GIC maturities were higher in the weeks following quarter end. Mortgage funding activity tends to be seasonal and increases as we approach the summer months.

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

OTHER ASSETS

Please refer to Note 10 of our Q1 2016 interim consolidated financial statements for details of our Other Asset balances.

Q1 2016 v Q1 2015

Other assets grew 28% or $13.7 million from a year ago mainly due to the following items:

- $13.0 million of Capital asset investments, related mainly to an office expansion that we have undertaken in support of our growth and investment in computer systems; and
- $3.9 million of Intangible assets, largely due to the development of our digital banking platform, the majority of which is being amortized over a 10 year period beginning this past quarter;

Offset by:

- $4.9 million decrease in fair value of Derivative financial instruments.

Included in Prepaid expenses and other is a net receivable of $3.2 million (March, 31 and December 31, 2015 – $3.2 million) related to an alleged fraud that was identified in 2011. The Company continues to pursue a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

Q1 2016 v Q4 2015

Other assets increased $2.2 million or 4% from the prior quarter end primarily driven by the same reasons discussed above when comparing Q1 2016 with Q1 2015.

DEPOSITS

Our deposits, which are primarily in the form of GICs, HISAs, and deposit notes, provide a reliable and stable source of funding that can be matched against mortgage maturities. Total deposit principal balances were up $1.1 billion or 14% over Q1 2015, commensurate with the growth of our Core Lending portfolio.

Most of this growth was in our new savings product, the *EQ Bank Savings Plus Account,* and our brokered HISA product. *EQ Bank* deposits, those that we collected directly from consumers rather than through the broker channel, grew to $794 million at the end of the quarter after the launch of the *EQ Bank* platform in January. Brokered HISA balances increased by $593 million from last year and $149 million from last quarter, to $1.1 billion at the end of Q1 2016. The growth of these products has further diversified our funding sources and reduced our overall risk profile.

Brokered term deposit balances declined slightly to $6.6 billion at the end of March 31, 2016 (December 31, 2015 – $7.0 billion, March 31, 2015 – $7.0 billion. We did not raise funds actively in the term deposit market during Q1 as we absorbed the new EQ Bank deposits.

SECURITIZATION LIABILITIES

Securitization liability principal was up $462 million or 8% over Q4 2015 and $2.1 billion or 48% over Q1 2015. The increase from last year is largely due to the growth of our Prime Single Family business but also to a new funding program established in Q2 2015. This new program, which is sponsored by a major Canadian Schedule I Bank, provides Equitable with a source of matched funding for its uninsured single family mortgages. Once securitized, mortgages remain in the facility until they mature. Equitable bears no risk for the funding of the facility itself.

BANK FACILITIES AND DEBENTURES

The Bank has two revolving credit facilities with major Schedule I Canadian Banks to fund insured residential mortgages prior to securitization, with an aggregate capacity of $700 million. At March 31, 2016, there was no balance outstanding on these facilities (December 31, 2015 – $236 million, March 31, 2015 – $67.1 million), as we utilized the funds received through *EQ Bank* rather than drawing on these facilities.

There was no change to our debentures in the current quarter. Details related to the Company's debentures can be found in Note 17 to the audited consolidated financial statements in the Company's 2015 Annual Report.

CAPITAL MANAGEMENT – EQUITABLE BANK

We manage the Bank's capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process ("ICAAP"). There have been no material changes to our capital management framework from that described in our 2015 Annual Report.

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. Our capital ratios were relatively consistent with the prior quarter and Q1 of last year mainly reflecting our strategy of retaining the vast majority of our earnings. Our Total Capital Ratio was down slightly from Q1 of last year because we redeemed $20 million of Series 9 subordinated debentures in December.

As with last quarter, capital levels in Q1 were impacted by $28 million of after-tax mark-to-market losses on our preferred share portfolio and a $14 million capital deduction for intangible assets related to our new product initiatives. Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale investments and do not believe that the assets are impaired. The losses are a function of current market conditions, specifically lower expectations for future yields on rate-reset preferred shares. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a risk of credit loss on our holdings.

Effective January 1, 2015, Canadian Banks were required to report on OSFI's new Leverage Ratio, which is based on Basel III guidelines and replaced the Assets-to-Capital Multiple ("ACM") framework. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.0% at March 31, 2016 which makes the Bank fully compliant with all regulatory requirements. Our Leverage Ratio has been trending down in recent quarters due to the rapid growth of our insured Prime Single Family assets (which are almost zero risk weighted on average and therefore do not materially affect our other capital ratios). To the extent that our assets continue to grow more quickly than our capital in future quarters, we will manage our Leverage Ratio position by executing transactions that allow us to derecognize assets from our Balance Sheet.

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

Table 13: Capital measures of Equitable Bank[1]

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	Mar 31, 2015
Total risk-weighted assets ("RWA")	**$ 5,433,025**	$ 5,259,384	$ 4,867,218
Common Equity Tier 1 Capital:			
Common shares	**146,640**	145,836	143,728
Contributed surplus	**6,027**	6,126	5,596
Retained earnings	**623,756**	600,128	516,230
Accumulated other comprehensive (loss) income ("AOCI")[2]	**(26,605)**	(22,458)	(8,263)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(13,951)**	(14,574)	(11,396)
Common Equity Tier 1 Capital	**735, 867**	715,058	645,895
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Less: Regulatory adjustments to Tier 1 Capital	**-**	-	(4,735)
Tier 1 Capital	**808,421**	787,612	713,714
Tier 2 Capital:			
Collective allowance	**31,890**	31,890	29,082
Subordinated debentures	**65,000**	65,000	85,000
Tier 2 Capital	**96,890**	96,890	114,082
Total Capital	**$ 905,311**	$ 884,502	$ 827,796
Capital ratios:[1]			
CET1 Ratio	**13.5%**	13.6%	13.2%
Tier 1 Capital Ratio	**14.9%**	15.0%	14.6%
Total Capital Ratio	**16.7%**	16.8%	17.0%
Leverage Ratio	**5.0%**	5.2%	5.5%

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A. Capital Ratios are calculated on an "all-in" basis.*
(2) *As prescribed by OSFI (under Basel III rules), AOCI is part of the CET1 in its entirety, however, the amount of cash flow hedge reserves that relates to the hedging of items that are not fair valued are excluded.*

SUMMARY OF QUARTERLY RESULTS

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

Table 14: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
RESULTS OF OPERATIONS								
Net income	**$ 28,012**	$ 31,436	$ 31,448	$ 33,520	$ 29,461	$ 26,885	$ 27,764	$ 26,778
Net income available to common shareholders	**26,821**	30,245	30,257	32,330	28,270	24,993	26,857	25,872
EPS – basic	**$ 1.73**	$ 1.95	$ 1.96	$ 2.09	$ 1.83	$ 1.62	$ 1.74	$ 1.68
EPS – diluted	**$ 1.71**	$ 1.93	$ 1.93	$ 2.06	$ 1.81	$ 1.59	$ 1.71	$ 1.65
Net interest income(1)	**63,594**	63,458	61,437	60,995	56,337	54,220	51,716	49,902
NIM – TEB:(2)(3)								
Total Assets	**1.63%**	1.70%	1.73%	1.79%	1.73%	1.76%	1.76%	1.70%
Core Lending	**2.55%**	2.68%	2.59%	2.65%	2.60%	2.62%	2.66%	2.57%
Securitization Financing	**0.25%**	0.18%	0.28%	0.28%	0.23%	0.29%	0.27%	0.31%
Total revenues(1)	**151,691**	151,495	147,625	145,595	137,279	134,928	131,900	129,752
ROE(3)	**14.7%**	17.0%	17.5%	19.8%	17.9%	16.0%	17.8%	18.0%
Return on average assets(3)	**0.7%**	0.8%	0.9%	1.0%	0.9%	0.8%	0.9%	1.0%
Efficiency Ratio – TEB(3)	**43.2%**	35.7%	33.4%	32.8%	32.4%	35.4%	31.5%	31.3%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**674,417**	719,361	744,416	641,095	568,278	758,442	645,842	501,434
Commercial Lending Services	**201,849**	259,502	235,987	199,977	207,767	253,961	193,668	187,036
Core Lending	**876,266**	978,863	980,403	841,072	776,045	1,012,403	839,510	688,470
Securitization Financing	**693,127**	759,258	790,022	555,272	468,722	576,527	479,104	237,522
Total originations	**1,569,393**	1,738,121	1,770,425	1,396,344	1,244,767	1,588,930	1,318,614	925,992
BALANCE SHEET								
Total assets	**16,411,221**	15,527,584	14,827,610	14,329,824	13,387,915	12,854,903	12,193,335	11,785,388
Mortgages receivable	**15,540,241**	14,700,806	13,959,432	13,216,267	12,785,852	12,269,945	11,555,700	11,128,395
MUM(3)	**17,668,821**	16,706,935	15,917,079	15,059,846	14,437,643	13,759,706	12,897,244	12,287,267
Liquid assets(3)	**939,691**	895,056	849,349	1,251,692	756,017	676,559	664,663	707,631
Shareholders' equity	**816,049**	796,116	764,679	750,149	723,606	703,694	682,863	636,376
SHARE CAPITAL								
Dividends declared per:								
Common share	**$ 0.20**	$ 0.20	$ 0.19	$ 0.19	$ 0.18	$ 0.18	$ 0.17	$ 0.17
Preferred share	**$ 0.40**	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.63	$ 0.45	$ 0.45
Common shares outstanding:								
Weighted average basic	**15,543,952**	15,493,549	15,471,960	15,461,161	15,440,328	15,416,625	15,408,311	15,398,461
Weighted average diluted	**15,674,734**	15,677,954	15,661,842	15,687,647	15,660,067	15,683,821	15,672,253	15,644,288
Book value per common share	**$ 47.81**	$ 46.57	$ 44.72	$ 43.80	$ 42.13	$ 40.90	$ 39.61	$ 38.16

(1) *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.*
(3) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q1 2016 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 to the audited consolidated financial statements in the Company's 2015 Annual Report.

FUTURE ACCOUNTING POLICIES

IFRS 9 "*Financial Instruments*" and IFRS 15 "*Revenue from Contracts with Customers"* are mandatorily effective for annual periods beginning on or after January 1, 2018 and IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the Q1 2016 interim consolidated financial statements for further details.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions in the process of applying its accounting policies to measure or disclose its financial results. Management is prudent in determining such estimates and assumptions, and where possible, relies on external information and observable market conditions, supplemented by internal analysis as required. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods. Refer to Note 2(d) to the Q1 2016 interim consolidated financial statements for further discussion.

OFF-BALANCE SHEET ACTIVITIES

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

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $2.2 billion at March 31, 2016 (December 31, 2015 – $2.1 billion, March 31, 2015 – $1.7 billion). The securitization liabilities associated with these transferred assets is approximately $2.2 billion at March 31, 2016 (December 31, 2015 – $2.1 billion, March 31, 2015 – $1.7 billion). The securitization retained interests recorded with respect to certain securitization transactions were $66.7 million (December 31, 2015 – $61.7 million, March 31, 2015 – $53.0 million) and the associated servicing liability was $15.8 million at March 31, 2016 (December 31, 2015 – $14.6 million, March 31, 2015 – $12.4 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.1 billion of mortgages in the ordinary course of business at March 31, 2016 (December 31, 2015 – $1.0 billion, March 31, 2015 – $843 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 $8.4 million were outstanding at March 31, 2016 (December 31, 2015 – $8.6 million, March 31, 2015 – $7.0 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

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

RISK MANAGEMENT

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

The Company's business activities, including its use of financial instruments, exposes us to various risks, the most significant of which are credit risk, liquidity and funding risk, and market risk. For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management of the Company's 2015 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

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

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

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 49% or $66.2 million of the total equity securities portfolio at March 31, 2016, compared to 48% or $74.8 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 99% of the total equity securities portfolio at the end of Q1.

LIQUIDITY AND FUNDING RISK

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

We have a low tolerance for liquidity and funding risk and adhere to a Liquidity and Funding Risk Management policy that requires us to maintain a pool of high quality liquid assets. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations.

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at March 31, 2016, see Note 19 to the interim consolidated financial statements.

Management 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. 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 March 31, 2016. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 15: Net interest income shock

($ THOUSANDS)	**Increase in interest rates**	**Decrease in interest rates[1]**
100 basis point shift		
Impact on net interest income	**$ 4,383**	**$ (2,224)**
Impact on EVE	**(11,629)**	**12,605**
EVE impact as a % of common shareholders' equity	**(1.57%)**	**1.71%**
200 basis point shift		
Impact on net interest income	**$ 9,836**	**$ (2,224)**
Impact on EVE	**(21,923)**	**18,203**
EVE impact as a % of common shareholders' equity	**(2.97%)**	**2.46%**

[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 from an adverse movement in the value of the Company's securities portfolio due to volatility in financial markets. We mitigate this risk by investing only in high-quality, liquid shares and actively monitoring our investment portfolio.

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

UPDATED SHARE INFORMATION

At May 12, 2016, the Company had 15,552,165 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 661,730 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $28.5 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Total assets on the consolidated balance sheet	$ 16,411,221	$ 15,527,584	6%	$ 13,387,915	23%
Mortgage principal derecognized	2,204,797	2,072,488	6%	1,687,364	31%
Assets Under Management	$ 18,616,018	$ 17,600,072	6%	$ 15,075,279	23%

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

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Shareholders' equity	$ 816,049	$ 796,116	3%	$ 723,606	13%
Less: preferred shares	72,557	72,557	0%	72,557	0%
Common shareholders' equity	$ 743,492	$ 723,559	3%	$ 651,049	14%
Common shares outstanding	15,551,865	15,538,605	0%	15,452,125	1%
Book value per common share	$ 47.81	$ 46.57	3%	$ 42.13	13%

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

  The capital ratios are calculated on the "all-in" basis in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 13 of this MD&A.

- **Economic value of shareholders' equity ("EVE"):** is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than is in net interest income because it captures all interest rate mismatches across all terms.

- **Efficiency Ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower Efficiency Ratio reflects a more efficient cost structure.

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Non-interest expenses	$ 29,378	$ 24,429	20%	$ 19,700	49%
Net revenue	67,955	68,378	(1%)	60,768	12%
Efficiency Ratio	43.2%	35.7%	7.5%	32.4%	10.8%

- **Investments in our future:** is the portion of non-interest expenses spent on various strategic initiatives to enable future growth and maintain our superior level of service. In most cases, these investments are made ahead of associated benefits, and as such reduce our net income and elevate our Efficiency Ratio in the current year. A detailed calculation can be found in Tables 6 of this MD&A.

- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.

- **Liquidity Coverage Ratio ("LCR"):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Company's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It equals high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.

- **Mortgages Under Management ("MUM"):** is the sum of mortgage principal reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Mortgage principal reported on the consolidated balance sheet	$ 15,464,024	$ 14,634,447	6%	$ 12,750,279	21%
Mortgage principal derecognized	2,204,797	2,072,488	6%	1,687,364	31%
Mortgages Under Management	$ 17,668,821	$ 16,706,935	6%	$ 14,437,643	22%

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

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Net interest income	**$ 63,594**	$ 63,458	0%	$ 56,337	13%
Other income	**3,737**	4,311	(13%)	3,807	(2%)
TEB adjustment	**624**	609	2%	624	0%
Net revenue	**$ 67,955**	$ 68,378	(1%)	$ 60,768	12%

- **Provision for credit losses rate**: this credit quality metric is calculated on an annualized basis and is defined as the provision for credit losses as a percentage of average loan portfolio outstanding during the period.

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Provision for credit losses	**$ 227**	$ 1,064	(79%)	$ 814	(72%)
Divided by: average mortgage principal	**15,049,236**	14,269,937	5%	12,495,489	20%
Provision for credit losses rate	**0.01%**	0.03%	(0.02%)	0.03%	(0.02%)

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Net income	**$ 28,012**	$ 31,436	(11%)	$ 29,461	(5%)
Average total assets	**15,946,958**	15,293,133	4%	13,170,833	21%
Return on average assets	**0.7%**	0.8%	(0.1%)	0.9%	(0.2%)

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Net income available to common shareholders	**$ 26,821**	$ 30,245	(11%)	$ 28,270	(5%)
Weighted average common equity	**733,489**	707,503	4%	641,075	14%
Return on shareholders' equity	**14.7%**	17.0%	(2.3%)	17.9%	(3.2%)

- **Risk-weighted assets ("RWA"):** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.
- **Securitization Financing MUM:** is the sum of Securitization Financing mortgage principal reported on the consolidated balance sheet and Securitization Financing mortgage principal derecognized but still managed by the Company. A detailed calculation can be found in Table 8 of this MD&A.
- **Taxable equivalent basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and Efficiency Ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the three months ended March 31, 2016, December 31 and March 31, 2015, the TEB adjustments were all $0.6 million.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“GAAP”) FINANCIAL MEASURES

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

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Interest income	**$ 147,954**	$ 147,184	1%	$ 133,472	11%
Less: interest expense	**84,360**	83,726	1%	77,135	9%
Net interest income	**$ 63,594**	$ 63,458	0%	$ 56,337	13%

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

($ THOUSANDS)	Mar 31, 2016	Dec 31, 2015	% Change	Mar 31, 2015	% Change
Interest income	**$ 147,954**	$ 147,184	1%	$ 133,472	11%
Other income	**3,737**	4,311	(13%)	3,807	(2%)
Total revenue	**$ 151,691**	$ 151,495	0%	$ 137,279	10%

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2016

With comparative figures as at December 31, 2015 and March 31, 2015

($ THOUSANDS)

	Note	**March 31, 2016**	December 31, 2015	March 31, 2015
Assets:				
Cash and cash equivalents		**$ 427,800**	$ 423,366	$ 243,634
Restricted cash		**129,453**	107,988	64,117
Securities purchased under reverse repurchase agreements		**30,346**	19,918	10,535
Investments	*6*	**154,397**	153,714	182,221
Mortgages receivable – Core Lending	*7, 8*	**9,061,191**	8,674,599	8,014,573
Mortgages receivable – Securitization Financing	*7, 8*	**6,479,050**	6,026,207	4,771,279
Securitization retained interests	*8*	**66,665**	61,650	52,957
Other assets	*10*	**62,319**	60,142	48,599
		$ 16,411,221	$ 15,527,584	$ 13,387,915
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	*11*	**$ 8,845,184**	$ 8,211,265	$ 7,750,244
Securitization liabilities	*8*	**6,576,177**	6,109,436	4,457,760
Obligations under repurchase agreements	*8*	**-**	-	225,698
Deferred tax liabilities	*12*	**29,993**	28,698	18,507
Other liabilities	*13*	**78,818**	81,290	60,014
Bank facilities	*14*	**-**	235,779	67,086
Debentures		**65,000**	65,000	85,000
		15,595,172	14,731,468	12,664,309
Shareholders' equity:				
Preferred shares	*15*	**72,557**	72,557	72,557
Common shares	*15*	**144,159**	143,690	141,245
Contributed surplus	*16*	**4,935**	4,706	4,505
Retained earnings		**629,147**	605,436	521,587
Accumulated other comprehensive loss		**(34,749)**	(30,273)	(16,288)
		816,049	796,116	723,606
		$ 16,411,221	$ 15,527,584	$ 13,387,915

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2016

With comparative figures for the three month period ended March 31, 2015

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended	
		March 31, 2016	March 31, 2015
Interest income:			
Mortgages – Core Lending		**$ 101,419**	$ 93,333
Mortgages – Securitization Financing		**43,607**	37,296
Investments		**1,876**	1,578
Other		**1,052**	1,265
		147,954	133,472
Interest expense:			
Deposits		**43,659**	41,828
Securitization liabilities	*8*	**39,185**	33,002
Bank facilities		**566**	614
Debentures		**950**	1,277
Other		**-**	414
		84,360	77,135
Net interest income		**63,594**	56,337
Provision for credit losses	*7*	**227**	814
Net interest income after provision for credit losses		**63,367**	55,523
Other income:			
Fees and other income		**3,177**	2,308
Net loss on investments		**-**	(203)
Gains on securitization activities and income from securitization retained interests	*8*	**560**	1,702
		3,737	3,807
Net interest and other income		**67,104**	59,330
Non-interest expenses:			
Compensation and benefits		**14,978**	11,386
Other		**14,400**	8,314
		29,378	19,700
Income before income taxes		**37,726**	39,630
Income taxes :	*12*		
Current		**8,419**	6,609
Deferred		**1,295**	3,560
		9,714	10,169
Net income		**$ 28,012**	$ 29,461
Earnings per share :	*17*		
Basic		**$ 1.73**	$ 1.83
Diluted		**$ 1.71**	$ 1.81

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31,2016

With comparative figures for the three month period ended March 31, 2015

($ THOUSANDS)

		Three months ended	
	Note	**March 31, 2016**	March 31, 2015
Net income		**$ 28,012**	$ 29,461
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized losses from change in fair value		**(5,541)**	(6,302)
Reclassification of net (gains)/losses to income		**(106)**	375
		(5,647)	(5,927)
Income tax recovery		**1,499**	1,565
		(4,148)	(4,362)
Cash flow hedges *:*	*9*		
Net unrealized losses from change in fair value		**(1,424)**	(3,516)
Reclassification of net losses to income		**978**	632
		(446)	(2,884)
Income tax recovery		**118**	761
		(328)	(2,123)
Total other comprehensive loss		**(4,476)**	(6,485)
Total comprehensive income		**$ 23,536**	$ 22,976

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2016

With comparative figures for the three month period ended March 31, 2015

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
March 31, 2016	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 143,690**	**$ 4,706**	**$ 605,436**	**$ (7,815)**	**$ (22,458)**	**$ (30,273)**	**$ 796,116**
Net income	**-**	**-**	**-**	**28,012**	**-**	**-**	**-**	**28,012**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(328)**	**(4,148)**	**(4,476)**	**(4,476)**
Exercise of stock options	**-**	**379**	**-**	**-**	**-**	**-**	**-**	**379**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(3,110)**	**-**	**-**	**-**	**(3,110)**
Stock-based compensation	**-**	**-**	**319**	**-**	**-**	**-**	**-**	**319**
Transfer relating to the exercise of stock options	**-**	**90**	**(90)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 144,159**	**$ 4,935**	**$ 629,147**	**$ (8,143)**	**$ (26,606)**	**$ (34,749)**	**$ 816,049**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2016

With comparative figures for the three month period ended March 31, 2015

($ THOUSANDS)

	Three months ended	
	March 31, 2016	March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 28,012**	$ 29,461
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(918)**	(3,238)
Amortization of premiums/discount on investments	**142**	196
Amortization of capital assets and intangible costs	**1,877**	746
Provision for credit losses	**227**	814
Securitization gains	**(1,619)**	(1,530)
Net loss on sale or redemption of investments	**-**	203
Stock-based compensation	**319**	268
Income taxes	**9,714**	10,169
Changes in operating assets and liabilities:		
Restricted cash	**(21,465)**	3,573
Securities purchased under reverse repurchase agreements	**(10,428)**	7,582
Mortgages receivable, net of securitizations	**(846,245)**	(524,553)
Other assets	**316**	(658)
Deposits	**634,502**	256,701
Securitization liabilities	**466,741**	102,432
Obligations under repurchase agreements	**-**	173,284
Bank facilities	**(235,779)**	(25,150)
Other liabilities	**(2,264)**	(1,925)
Income taxes paid	**(6,820)**	(10,852)
Securitization retained interests	**3,314**	2,273
Cash flows from operating activities	**19,626**	19,796
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of preferred shares, net of issuance cost	**-**	145
Proceeds from issuance of common shares	**379**	494
Dividends paid on preferred shares	**(1,191)**	(1,191)
Dividends paid on common shares	**(3,106)**	-
Cash flows used in financing activities	**(3,918)**	(552)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(6,783)**	(12,844)
Proceeds on sale or redemption of investments	**71**	3,498
Net change in Canada Housing Trust re-investment accounts	**19**	7,841
Purchase of capital assets and system development costs	**(4,581)**	(4,168)
Cash flows used in investing activities	**(11,274)**	(5,673)
Net (decrease) increase in cash and cash equivalents	**(4,434)**	13,571
Cash and cash equivalents, beginning of period	**423,366**	230,063
Cash and cash equivalents, end of period	**$ 427,800**	$ 243,634
Cash flows from operating activities include:		
Interest received	**$ 145,965**	$ 131,538
Interest paid	**(58,021)**	(59,130)
Dividends received	**1,754**	1,765

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2015 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on May 12, 2016.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

(e) Consolidation:

The interim consolidated financial statements as at and for the three months ended March 31, 2016 and March 31, 2015 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

Accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2015. Refer to Note 3 of the audited consolidated financial statements in the Company's 2015 Annual Report.

Future accounting policies:

(a) Financial Instruments (IFRS 9)

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

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

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

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

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

(c) Leases (IFRS 16)

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

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

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A detailed discussion of the Company's risk exposures and how it manages those risks can be found on pages 51 to 61 of the Company's 2015 Annual Report.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

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

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Debentures

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

(vii) Derivatives

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

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at March 31, 2016 and December 31, 2015. The tables do not include assets and liabilities that are not considered financial instruments.

							March 31, 2016
	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	$ 427,800	$ -	$ -	$ -	$ -	$ 427,800	$ 427,800
Restricted cash	129,453	-	-	-	-	129,453	129,453
Securities purchased under reverse repurchase agreements	-	-	-	-	30,346	30,346	30,346
Investments	907	-	2,376	150,114	1,000	154,397	154,397
Mortgages receivable – Core Lending	-	47,333	-	-	9,013,858	9,061,191	9,163,091
Mortgages receivable – Securitization Financing	39,738	-	-	-	6,439,312	6,479,050	6,694,490
Securitization retained interests	-	-	-	66,665	-	66,665	66,665
Other assets:							
Derivative financial instruments – interest rate swaps	742	-	-	-	-	742	742
Mortgage commitments	11	-	-	-	-	11	11
Other	-	-	-	-	8,789	8,789	8,789
Total financial assets	$ 598,651	$ 47,333	$ 2,376	$ 216,779	$ 15,493,305	$ 16,358,444	$ 16,675,784
Financial liabilities:							
Deposits	$ -	$ 45,410	$ -	$ -	$ 8,799,774	$ 8,845,184	$ 8,867,997
Securitization liabilities	-	-	-	-	6,576,177	6,576,177	6,718,567
Other liabilities:							
Derivative financial instruments – bond forwards	1,187	-	-	-	-	1,187	1,187
Derivative financial instruments – total return swaps	1,073	-	-	-	-	1,073	1,073
Other	-	-	-	-	76,351	76,351	76,351
Debentures	-	-	-	-	65,000	65,000	65,787
Total financial liabilities	$ 2,260	$ 45,410	$ -	$ -	$ 15,517,302	$ 15,564,972	$ 15,730,962

	December 31, 2015						
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 423,366	$ -	$ -	$ -	$ -	$ 423,366	$ 423,366
Restricted cash	107,988	-	-	-	-	107,988	107,988
Securities purchased under reverse repurchase agreements	-	-	-	-	19,918	19,918	19,918
Investments	891	-	2,395	149,428	1,000	153,714	153,714
Mortgages receivable – Core Lending	-	47,707	-	-	8,626,892	8,674,599	8,706,580
Mortgages receivable – Securitization Financing	45,019	-	-	-	5,981,188	6,026,207	6,214,016
Securitization retained interests	-	-	-	61,650	-	61,650	61,650
Other assets:							
Derivative financial instruments – interest rate swaps	990	-	-	-	-	990	990
Mortgage commitments	2	-	-	-	-	2	2
Other	-	-	-	-	8,216	8,216	8,216
Total financial assets	$ 578,256	$ 47,707	$ 2,395	$ 211,078	$ 14,637,214	$ 15,476,650	$ 15,696,440
Financial liabilities:							
Deposits	$ -	$ 45,431	$ -	$ -	$ 8,165,834	$ 8,211,265	$ 8,240,920
Securitization liabilities	-	-	-	-	6,109,436	6,109,436	6,237,077
Other liabilities:							
Derivative financial instruments – bond forwards	1,592	-	-	-	-	1,592	1,592
Derivative financial instruments – total return swaps	879	-	-	-	-	879	879
Other	-	-	-	-	78,510	78,510	78,510
Bank Facilities	-	-	-	-	235,779	235,779	235,779
Debentures	-	-	-	-	65,000	65,000	65,987
Total financial liabilities	$ 2,471	$ 45,431	$ -	$ -	$ 14,654,559	$ 14,702,461	$ 14,860,744

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date

that would have been determined by market participants acting at arm's length. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments classified using the fair value hierarchy:

				March 31, 2016
	Level 1	**Level 2**	**Level 3**	**Total financial assets/ financial liabilities at fair value**
Financial assets:				
Investments	**$ 151,021**	**$ 2,376**	**$ 1,000**	**$ 154,397**
Mortgages receivable – Core Lending	**-**	**47,333**	**9,115,758**	**9,163,091**
Mortgages receivable – Securitization Financing	**-**	**39,738**	**6,654,752**	**6,694,490**
Securitization retained interests	**-**	**66,665**	**-**	**66,665**
Other assets:				
Derivative financial instruments – interest rate swaps	**-**	**742**	**-**	**742**
Mortgage commitments	**-**	**-**	**11**	**11**
Total financial assets	**$ 151,021**	**$ 156,854**	**$ 15,771,521**	**$ 16,079,396**
Financial liabilities:				
Deposits	**$ -**	**$ -**	**$ 8,867,997**	**$ 8,867,997**
Securitization liabilities	**-**	**1,618,359**	**5,100,208**	**6,718,567**
Other liabilities:				
Derivative financial instruments – bond forwards	**-**	**1,187**	**-**	**1,187**
Derivative financial instruments – total return swaps	**-**	**1,073**	**-**	**1,073**
Debentures	**-**	**65,787**	**-**	**65,787**
Total financial liabilities	**$ -**	**$ 1,686,406**	**$ 13,968,205**	**$ 15,654,611**

				December 31, 2015
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 150,319	$ 2,395	$ 1,000	$ 153,714
Mortgages receivable – Core Lending	-	47,707	8,658,873	8,706,580
Mortgages receivable – Securitization Financing	-	45,019	6,168,997	6,214,016
Securitization retained interests	-	61,650	-	61,650
Other assets:				
Derivative financial instruments – interest rate swaps	-	990	-	990
	-	-	2	2
	$ 150,319	$ 157,761	$ 14,828,872	$ 15,136,952
Financial liabilities:				
Deposits	$ -	$ -	$ 8,240,920	$ 8,240,920
Securitization liabilities	-	1,531,629	4,705,448	6,237,077
Other liabilities:				
Derivative financial instruments – bond forwards	-	1,592	-	1,592
Derivative financial instruments – total return swaps	-	879	-	879
Debentures	-	65,987	-	65,987
Total financial liabilities	$ -	$ 1,600,087	$ 12,946,368	$ 14,546,455

Note 6 – Investments

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

	March 31, 2016	December 31, 2015	March 31, 2015
Debt securities guaranteed by Government of Canada	$ 16,246	$ 16,295	$ 20,881
Debt securities – corporate debt	1,000	1,000	1,000
Equity securities – preferred shares	133,777	133,053	147,528
Equity securities – common shares	998	971	6,399
Canada Housing Trust re-investment accounts[1][2]	2,376	2,395	6,413
	$ 154,397	$ 153,714	$ 182,221

[1] *Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB program.*
[2] *Excludes reverse repurchase agreements of nil (December 31, 2015 – nil, March 31, 2015 – $10.5 million) which are included under Securities purchased under reverse repurchase agreements.*

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

	March 31, 2016	December 31, 2015	March 31, 2015
Debt securities guaranteed by Government of Canada	$ 1,162	$ 1,127	$ 1,567
Equity securities – preferred shares	(39,041)	(33,111)	(14,513)
Equity securities – common shares	36	25	-
	$ (37,843)	$ (31,959)	$ (12,946)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

March 31, 2016	Gross amount	Allowance for credit losses: Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 9,063,847	$ 283	$ 31,890	$ 32,173	$ 9,031,674
Mortgages – Securitization Financing	6,466,721	-	-	-	6,466,721
Accrued interest	42,828	982	-	982	41,846
	$ 15,573,396	$ 1,265	$ 31,890	$ 33,155	$ 15,540,241

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

March 31, 2015	Gross amount	Allowance for credit losses: Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 8,019,539	$ 2,375	$ 30,078	$ 32,453	$ 7,987,086
Mortgages – Securitization Financing	4,759,867	-	-	-	4,759,867
Accrued interest	40,218	1,319	-	1,319	38,899
	$ 12,819,624	$ 3,694	$ 30,078	$ 33,772	$ 12,785,852

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale but not yet sold of $622,160 (December 31, 2015 – $484,233, March 31, 2015 − $319,890) of which $39,738 (December 31, 2015 – $45,019, March 31, 2015 – $81,079) are classified as held for trading and are carried at fair value, with changes in fair value included in Gains on securitization activities and income from securitization retained interests. The fair value adjustment as at March 31, 2016 is ($97) (December 31, 2015 – ($206), March 31, 2015 – $18).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at March 31, 2016, mortgage principal outstanding for these mortgages was $45,846 (December 31, 2015 – $46,120, March 31, 2015 – $46,921) and the fair value adjustment was $1,487 (December 31, 2015 – $1,587, March 31, 2015 – $2,211).

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

	March 31, 2016	March 31, 2015
Net loss in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	$ (109)	$ (200)
Net (loss)/gain in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	(100)	269

At March 31, 2016, the Company had commitments to fund a total of $1,107,827 (December 31, 2015 − $1,009,763, March 31, 2015 – $842,991) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

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

As at March 31, 2016, accrued interest on impaired mortgages amounted to $1,112 (December 31, 2015 – $902, March 31, 2015 – $2,032).

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

			March 31, 2016	December 31, 2015	March 31, 2015
	Gross	Individual allowance	Net	Net	Net
Mortgages – Core Lending	$ 36,048	$ 1,265	$ 34,783	$ 32,760	$ 35,451
Mortgages – Core Lending – Insured	-	-	-	97	-
Mortgages – Securitization Financing – Insured	-	-	-	-	291
	$ 36,048	$ 1,265	$ 34,783	$ 32,857	$ 35,742

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

				March 31, 2016
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 57,350	$ 9,998	$ -	$ 67,348
Mortgages – Core Lending – Insured	2,009	1,542	1,033	4,584
Mortgages – Securitization Financing – Insured	4,594	1,225	294	6,113
	$ 63,953	$ 12,765	$ 1,327	$ 78,045

				December 31, 2015
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 28,656	$ 8,012	$ -	$ 36,668
Mortgages – Core Lending – Insured	1,200	820	2,255	4,275
Mortgages – Securitization Financing – Insured	3,503	628	313	4,444
	$ 33,359	$ 9,460	$ 2,568	$ 45,387

(c) Allowance for credit losses:

			March 31, 2016
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 1,326	$ 31,890	$ 33,216
Provision for credit losses	227	-	227
Realized losses	(307)	-	(307)
Recoveries	19	-	19
Balance, end of period	$ 1,265	$ 31,890	$ 33,155

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

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2015 Annual Report.

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

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

	March 31, 2016		December 31, 2015		March 31, 2015	
	Securitized assets	**Obligations under repurchase agreements**	Securitized assets	Obligations under repurchase agreements	Securitized assets	Obligations under repurchase agreements
Carrying amount of assets	**$ 6,958,795**	**$ -**	$ 6,469,248	$ -	$ 5,026,231	$ 225,698
Carrying amount of associated liability	**6,576,177**	**-**	6,109,436	-	4,457,760	225,698
Carrying amount, net position	**$ 382,618**	**$ -**	$ 359,812	$ -	$ 568,471	$ -
Fair value of assets	**$ 7,176,887**	**$ -**	$ 6,659,389	$ -	$ 5,246,867	$ 225,698
Fair value of associated liability	**6,718,567**	**-**	6,237,077	-	4,680,861	225,698
Fair value, net position	**$ 458,320**	**$ -**	$ 422,312	$ -	$ 566,006	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $327,273 (December 31, 2015 – $290,434, March 31, 2015 – $546,571). The fair value of these assets are $329,071 (December 31, 2015 – $291,826, March 31, 2015 – $550,180).

The carrying amount of assets exclude mortgages held for securitization of $622,715 (December 31, 2015 – $484,778, March 31, 2015 – $320,359).

The Company's outstanding securitization liabilities are as follows:

	March 31, 2016	December 31, 2015	March 31, 2015
Securitization principal	**$ 6,599,943**	$ 6,137,734	$ 4,466,151
Deferred net discount and issuance costs	**(40,825)**	(40,974)	(25,847)
Accrued interest	**17,059**	12,676	17,456
Total	**$ 6,576,177**	$ 6,109,436	$ 4,457,760

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

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

	March 31, 2016	March 31, 2015
Mortgages securitized and sold	**$ 151,544**	$ 180,753
Carrying value of Securitization retained interests	**8,093**	9,631
Carrying value of Securitized mortgage servicing liability	**2,086**	1,743
Gains on mortgages securitized and sold	**1,619**	1,530
Income from securitization activities and retained interests	**(1,059)**	172

Note 9 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

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

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

The Company hedges the risk of changes in future cash flows related to its Restricted share unit plan by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in the Company's share price.

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

Fair value hedges

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

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

(b) Financial impact of derivatives:

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

				March 31, 2016
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	$ 236,900	$ -	$ (790)	$ (790)
Interest rate swaps – hedge accounting				
1 to 5	175,667	-	(256)	(256)
Total return swaps – hedge accounting				
1 or less	1,104	-	(245)	(245)
1 to 5	3,431	-	(404)	(404)
Total return swaps – non-hedge accounting				
1 or less	1,951	-	(423)	(423)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 to 5	100,000	742	-	742
Bond forwards – non-hedge accounting				
1 or less	47,500	-	(142)	(142)
	$ 566,553	$ 742	$ (2,260)	$ (1,518)

				December 31, 2015
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forwards – hedge accounting				
1 or less	$ 210,125	$ -	$ (1,287)	$ (1,287)
Total return swaps – hedge accounting				
1 or less	1,379	-	(33)	(33)
1 to 5	2,725	-	(469)	(469)
Total return swaps – non-hedge accounting				
1 or less	1,941	-	(377)	(377)
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 to 5	100,000	990	-	990
Bond forwards – non-hedge accounting				
1 or less	52,040	-	(305)	(305)
	$ 368,210	$ 990	$ (2,471)	$ (1,481)

				March 31, 2015
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Hedging bond forwards				
1 or less	$ 108,533	$ -	$ (392)	$ (392)
Fair value hedges:				
Interest rate swaps - hedge accounting				
1 or less	185,000	232	-	232
1 to 5	322,000	5,420	-	5,420
Bond forwards				
1 or less	73,850		(30)	(30)
	$ 689,383	$ 5,652	$ (422)	$ 5,230

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

Cash flow hedges:

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

	March 31, 2016	March 31, 2015
Fair value changes recorded in Other comprehensive income	**$ (446)**	$ (2,844)
Fair value changes recorded in Income	**(1,232)**	(103)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	**(864)**	(632)
Amounts reclassified from Other comprehensive income to Non-interest expenses – compensation and benefits	**(111)**	-
Amounts reclassified from Other comprehensive income to Interest expense – deposits	**(3)**	-

Fair value hedges:

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

	March 31, 2016	March 31, 2015
Interest rate swaps – hedge accounting	**$ (247)**	$ 3,743
Interest rate swaps – non-hedge accounting	**-**	(6)
Bond forwards	**96**	217
Changes in fair value recognized in income	**$ (151)**	$ 3,954

Note 10 – Other Assets

	March 31, 2016	December 31, 2015	March 31, 2015
Intangible assets	$ 18,967	$ 18,836	$ 15,073
Capital assets	16,989	14,369	3,983
Real estate owned	8,585	8,200	7,779
Prepaid expenses and other	6,878	8,223	5,314
Receivables relating to securitization activities	6,019	5,524	6,217
Income taxes recoverable	3,613	3,578	4,302
Derivative financial instruments – interest rate swaps	742	990	5,652
Accrued interest and dividends on non-mortgage assets	515	420	276
Mortgage commitments	11	2	3
	$ 62,319	$ 60,142	$ 48,599

Note 11 – Deposits

	March 31, 2016	December 31, 2015	March 31, 2015
Term and other deposits	$ 8,732,113	$ 8,115,483	$ 7,633,996
Accrued interest	127,971	113,563	133,418
Deferred deposit agent commissions	(14,900)	(17,781)	(17,170)
	$ 8,845,184	$ 8,211,265	$ 7,750,244

Term and other deposits also include $45,093 (December 31, 2015 – $45,193, March 31, 2015 – $46,640) of deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at March 31, 2016 is $317 (December 31, 2015 – $238, March 31, 2015 – $348).

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

	March 31, 2016	March 31, 2015
Fair value loss recognized in income	$ (79)	$ (457)

Term and other deposits also include $100,000 (December 31, 2015 – $100,000, March 31, 2015 – $501,507) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at March 31, 2016 is $702 (December 31, 2015 – $946, March 31, 2015 – $5,431).

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

	March 31, 2016	March 31, 2015
Fair value gain/(loss) recognized in income	$ 244	$ (3,667)

Note 12 – Income Taxes

(a) Income tax provision:

	March 31, 2016	March 31, 2015
Current tax expense:		
Current period	$ **8,419**	$ 6,609
	8,419	6,609
Deferred tax expense:		
Reversal of temporary differences	**1,295**	3,560
	1,295	3,560
Total income tax expense	$ **9,714**	$ 10,169

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

	March 31, 2016	March 31, 2015
Canadian statutory income tax rate	**26.5%**	26.4%
Increase (decrease) resulting from:		
Tax-exempt income	**(1.1%)**	(1.1%)
Non-deductible expenses and other	**0.3%**	0.3%
Effective income tax rate	**25.7%**	25.6%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	March 31, 2016	December 31, 2015	March 31, 2015
Deferred income tax assets:			
Allowance for credit losses	$ **8,501**	$ 8,502	$ 8,039
Share issue expenses	**923**	1,011	1,239
Other	**1,324**	1,248	1,049
	10,748	10,761	10,327
Deferred income tax liabilities:			
Securitization activities	**20,325**	19,310	15,700
Deposit agent commissions	**3,892**	4,638	4,397
Net mortgage fees	**11,126**	10,264	5,284
Intangible costs	**4,176**	3,645	-
Other	**1,222**	1,602	3,453
	40,741	39,459	28,834
Net deferred income tax liabilities	$ **29,993**	$ 28,698	$ 18,507

Note 13 – Other Liabilities

	March 31, 2016	December 31, 2015	March 31, 2015
Mortgagor realty taxes	$ 32,863	$ 39,268	$ 27,034
Accounts payable and accrued liabilities	27,886	24,999	20,204
Securitized mortgage servicing liability	15,809	14,552	12,354
Derivative financial instruments – bond forwards	1,187	1,592	422
Derivative financial instruments – total return swaps	1,073	879	-
	$ 78,818	$ 81,290	$ 60,014

Note 14 – Bank Facilities

The Company has credit facilities totaling $700K with two major Schedule I Canadian Banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at March 31, 2016 is nil (December 31, 2015 – $235,779, March 31, 2015 – $67,086). For further details on bank facilities, refer to Note 16 to the audited consolidated financial statements in the Company's 2015 Annual Report.

Note 15 – Shareholders' Equity

Capital stock:

Authorized:

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

Issued and outstanding shares:

	March 31, 2016			March 31, 2015		
	Number of shares	Amount	Dividends per share(1)	Number of shares	Amount	Dividends per share(1)
Preferred Shares, Series 3:	3,000,000	$ 72,557	$ 0.40	3,000,000	$ 72,557	$ 0.40

	March 31, 2016			March 31, 2015		
	Number of shares	Amount	Dividends per share(1)	Number of shares	Amount	Dividends per share(1)
Common shares:						
Balance, beginning of period	15,538,605	$ 143,690		15,435,356	$ 140,657	
Contributions from exercise of stock options	13,260	379		16,769	494	
Transferred from contributed surplus relating to the exercise of stock options	-	90		-	94	
Balance, end of period	15,551,865	$ 144,159	$ 0.20	15,452,125	$ 141,245	$ 0.18

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

Note 16 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of six to seven years and vest over a four or five-year period. As at March 31, 2016, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2023. A summary of the Company's stock option activity and related information for the periods ended March 31, 2016 and March 31, 2015 is as follows:

	March 31, 2016		March 31, 2015	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**540,236**	**$ 40.12**	544,449	$ 33.52
Granted	**136,239**	**53.15**	101,695	59.98
Exercised	**(13,260)**	**28.59**	(16,769)	29.40
Forfeited/cancelled	**(1,185)**	**52.90**	(6,000)	64.36
Outstanding, end of period	**662,030**	**$ 43.01**	623,375	$ 37.65
Exercisable, end of period	**360,831**	**$ 34.77**	313,876	$ 29.42

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $319 (2015 – $268) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended March 31, 2016 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2016	March 31, 2015
Risk-free rate	**0.5%**	0.7%
Expected option life (years)	**4.8**	4.8
Expected volatility	**25.9%**	22.4%
Expected dividends	**1.3%**	1.1%
Weighted average fair value of each option granted	**$ 9.0**	$ 10.56

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

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

During the period ended March 31, 2016, the Company expensed $175 (March 31, 2015 – $139) under this plan.

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

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. For further details, refer to Note 19 to the audited consolidated financial statements in the Company's 2015 Annual Report.

A summary of the Company's DSU activity for the periods ended March 31, 2016 and March 31, 2015 is as follows:

	March 31, 2016	March 31, 2015
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**30,133**	24,709
Granted	**-**	107
Dividends reinvested	**103**	69
Outstanding, end of period	**30,236**	24,885

The liability associated with DSUs outstanding as at March 31, 2016 was $1,518 (March 31, 2015 – $1,413). Compensation recovery recorded relating to DSUs outstanding during the three months ended March 31, 2016 amounted to ($47) (March 31, 2015 – ($173)).

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

The Company has a RSU plan for eligible employees. Under the plan, RSUs or PSU's are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the plan, each RSU or PSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs or PSUs when cash dividends are paid on the Company's common shares. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employees in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to, and including the vesting date. The value of PSUs can be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada. Please refer to the Company's 2015 Management Information Circular for further details on its compensation plan structure.

The Company hedges the risk of change in future cash flows related to the RSU plan. Please refer to Note 9 – Derivative Financial Instruments for further details.

A summary of the Company's RSU and PSU activity for the periods ended March 31, 2016 and March 31, 2015 is as follows:

	March 31, 2016	March 31, 2015
	Number of RSUs	Number of RSUs
Outstanding, beginning of period	**42,861**	39,794
Granted	**33,888**	25,908
Dividends reinvested	**169**	44
Forfeited/cancelled	**(339)**	(984)
Outstanding, end of period	**76,579**	64,762

The liability associated with RSUs and PSUs outstanding as at March 31, 2016 was $1,240 (March 31, 2015 – $1,361). Compensation expense recorded relating to RSUs and PSUs outstanding during the three months ended March 31, 2016 amounted to $196 (March 31, 2015 – $67).

Note 17 – Earnings Per Share

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

	March 31, 2016	March 31, 2015
Earnings per common share – basic:		
Net income	**$ 28,012**	$ 29,461
Dividends on preferred shares	**1,191**	1,191
Net income available to common shareholders	**$ 26,821**	$ 28,270
Weighted average basic number of common shares outstanding	**15,543,952**	15,440,328
Earnings per common share – basic	**$ 1.73**	$ 1.83
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 26,821**	$ 28,270
Weighted average basic number of common shares outstanding	**15,543,952**	15,440,328
Adjustment to weighted average number of common shares outstanding:		
Stock options	**130,782**	219,739
Weighted average diluted number of common shares outstanding	**15,674,734**	15,660,067
Earnings per common share – diluted	**$ 1.71**	$ 1.81

For the period ended March 31, 2016, the calculation of the diluted earnings per share excluded 234,269 (March 31, 2015 – 34,179) average options outstanding with a weighted average exercise price of $56.00 (March 31, 2015 – $60.60) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 18 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 27-28 of the MD&A.

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

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

	March 31, 2016	December 31, 2015	March 31, 2015
Common Equity Tier 1 Capital ("CET1"):			
Common shares	$ 146,640	$ 145,836	$ 143,728
Contributed surplus	6,027	6,126	5,596
Retained earnings	623,756	600,128	516,230
Accumulated other comprehensive loss[1]	(26,605)	(22,458)	(8,263)
Less: Regulatory adjustments	(13,951)	(14,574)	(11,396)
Common Equity Tier 1 Capital	735,867	715,058	645,895
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Less: Regulatory adjustments	-	-	(4,735)
Tier 1 Capital	808,421	787,612	713,714
Tier 2 Capital:			
Collective allowance	31,890	31,890	29,082
Subordinated debentures	65,000	65,000	85,000
Tier 2 Capital	96,890	96,890	114,082
Total Capital	$ 905,311	$ 884,502	$ 827,796

[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 that relates to the hedging of items that are not fair valued are excluded.*

Note 19 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at March 31, 2016.

								March 31, 2016
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive[1]**	**Total[1]**
Total assets	**$ 3,044,007**	**$ 1,145,838**	**$ 3,867,147**	**$ 8,056,992**	**$ 6,758,759**	**$ 1,414,542**	**$ 180,928**	**$ 16,411,221**
Total liabilities and equity[2][3]	**(221)**	**(3,745,411)**	**(4,184,083)**	**(7,929,715)**	**(6,193,516)**	**(1,322,730)**	**(965,260)**	**(16,411,221)**
Off-balance sheet items[4]	**-**	**(118,460)**	**42,458**	**(76,002)**	**154,093**	**(78,091)**	**-**	**-**
Interest rate sensitive gap	**$ 3,043,786**	**$ (2,718,033)**	**$ (274,478)**	**$ 51,275**	**$ 719,336**	**$ 13,721**	**$ (784,332)**	**$ -**
Cumulative gap[2]	**$ 3,043,786**	**$ 325,753**	**$ 51,275**	**$ 51,275**	**$ 770,611**	**$ 784,332**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**18.55%**	**1.98%**	**0.31%**	**0.31%**	**4.70%**	**4.78%**	**-%**	**-%**

								December 31, 2015
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3][4]	$ 2,923,598	$ 935,722	$ 493,838	$ 493,838	$ 767,039	$ 758,247	$ -	$ -
Cumulative gap as a percentage of total assets	18.83%	6.03%	3.18%	3.18%	4.94%	4.88%	-%	-%

								March 31, 2015
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3][4]	$ 1,595,208	$ 226,688	$ 15,642	$ 15,642	$ 656,771	$ 687,288	$ -	$ -
Cumulative gap as a percentage of total assets	11.92%	1.69%	0.12%	0.12%	4.91%	5.13%	-%	-%

[1] *Accrued interest is included in "Non- interest sensitive" assets and liabilities.*
[2] *Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.*
[3] *Any prepayments of debentures, contractual or otherwise, have not been estimated as these would require Equitable Bank to receive regulatory pre-approval.*
[4] *Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.*

DIRECTORS

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Johanne Brossard
Corporate Director

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

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

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer

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

Vincenza Sera
Corporate Director

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

OFFICERS

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Vice-President and Chief Risk Officer

Tim Wilson
Vice-President and Chief Financial Officer

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Vice-President, Mortgage Services

Dan Dickinson
Vice-President, Digital Banking

David Downie
Vice-President, Commercial Mortgage Origination

Isabelle Farella
Vice-President, Internal Audit

Vince Faustini
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Darren Lorimer
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Tamara Malozewski
Vice-President, Finance

Rajesh Raut
Vice-President and Controller

Dan Ruch
Vice-President and Chief Compliance Officer

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
Vice-President, Risk Policy

Jody Sperling
Vice-President, Human Resources

Nicholas Strube
Vice-President and Treasurer

David Yu
Vice-President, Information Technology

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Annual Meeting of Shareholders
Tuesday, May 17, 2016, 10:00 a.m. EST
TMX Broadcast Centre
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