EQUITY

Equity Financial Holdings Inc.

Management Discussion & Analysis

Year Ended December 31, 2015

ABOUT US

Equity Financial Holdings Inc. ("EQI" or the "Corporation"), is a Canadian company with its common shares listed and traded on the Toronto Stock Exchange under the stock symbol "EQI". Through its federally regulated and wholly-owned subsidiary, Equity Financial Trust Company ("EFT" or "Equity Trust"), the Corporation serves the Canadian alternative mortgage market by offering residential mortgage loans to non-prime and near-prime customers who do not meet the conventional underwriting standards of the major Canadian banks.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We have prepared this Management Discussion & Analysis (“MD&A”) with reference to National Instrument 51-102 “*Continuous Disclosure Obligations*” of the Canadian Securities Administrators, and it should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2015 (the “2015 Audited Financial Statements”). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and all dollar amounts are in thousands of Canadian dollars unless otherwise indicated. Except as otherwise indicated, the information in this MD&A is current to February 9, 2016.

The non-IFRS measures used in this MD&A are presented in the Non-IFRS Financial Measures section of this MD&A.

Forward-Looking Statements

Certain portions of this MD&A as well as other public statements by the Corporation contain “forward-looking information” within the meaning of applicable Canadian securities legislation, which is also referred to as “forward-looking statements”, which may not be based on historical fact. Wherever possible, words such as “will”, “plans”, “expects”, “targets”, continues”, “estimates”, “scheduled”, “anticipates”, “believes”, “intends”, “may”, “could”, “would” or “might”, and the negative of such expressions, statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved, have been used to identify forward-looking information. Such forward-looking statements include, without limitation, the Corporation’s expectations in respect of earnings, fee income, expense levels, future loans and origination, repayment by borrowers, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets activities, the Corporation’s expected need for equity or debt financing, business competition, technological change, changes in government regulations and regulatory guidelines, unexpected judicial or regulatory proceedings, catastrophic events, and the Corporation’s ability to complete strategic transactions and integrate acquisitions and other factors. Forward looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or which, such events, performance or results will be achieved, if achieved at all.

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 Corporation and the Canadian economy, retail mortgage markets, housing sales, and capital markets. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, factors and assumptions regarding interest rates, availability of key personnel, the effect of competition, government regulation of its business, computer failure or security breaches, future capital requirements, its ability to fund its mortgage business, the value of mortgage originations, the competitive nature of the alternative mortgage market, the expected margin between the interest earned on its mortgage portfolio and the interest to be paid on its deposits, the relative continued health of real estate markets, acceptance of its products in the marketplace, as well as its operating cost structure and the current tax regime.

Forward-looking statements reflect the Corporation's current views with respect to future events and are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. Readers should not place undue reliance on such forward-looking statements as they reflect the Corporation's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, regulatory, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including among others, a significant downturn in capital markets or the economy as a whole, errors or omissions by the Corporation in providing services to its customers, significant increases in the cost of complying with applicable regulatory requirements, civil unrest, economic recession, pandemics, war and acts of terrorism which may adversely impact the North American and global economic and financial markets, inability to raise funds through public or private financing, significant changes in interest rates, failure by the Corporation or its subsidiaries to meet ongoing regulatory obligations, the failure of borrowers or counterparties to honour their financial or contractual obligations to Equity Trust, failure by Equity Trust to adequately monitor and/or adjust its mortgage portfolio management practices for changing circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by Equity Trust to adequately monitor the services provided by third party service providers or to establish alternative arrangements if required, failure by Equity Trust to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from its mortgage broker network, a failure of the computer systems of the Corporation or one or more of its service providers or the risks detailed from time-to-time in the Corporation's quarterly filings, annual information forms, annual reports and annual filings with securities regulators. The preceding list is not exhaustive of possible factors. The Corporation disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates, future events or results, or otherwise, unless required to do so by applicable laws.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as otherwise indicated or as the context otherwise requires, the terms "we", "us" and "our" refer to the Corporation and its consolidated subsidiaries. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

THE BUSINESS

The Corporation operates through its wholly-owned subsidiary Equity Trust, which offers residential mortgage loans funded primarily through the issuance of retail deposits. Equity Trust is a deposit-taking institution regulated by the Office of the Superintendent of Financial Institutions of Canada (“OSFI”) and is a member of the Canada Deposit Insurance Corporation (“CDIC”).

Mortgage Lending

Equity Trust focuses on financing residential mortgages for non-prime and near-prime customers, a market segment commonly referred to as the alternative mortgage market. Alternative residential mortgage loans are loans to borrowers who do not meet major banks’ standards of credit worthiness. Such mortgages are often granted to self-employed business people, new-comers to Canada and borrowers with an imperfect credit history. Equity Trust’s lending activities are predominantly concentrated in urban and suburban areas of Ontario.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 30% of Canada’s residential mortgages. (Canadian Association of Accredited Mortgage Professionals: Annual State of the Residential Mortgage Market in Canada, December 2015)

We provide first mortgages primarily for owner occupied, single-family residential properties for purchases, refinances, equity take-outs and debt consolidation. Both open term and closed term mortgages to a maximum of five years are offered.

Deposits

Equity Trust sources its deposit funding through registered investment dealers across Canada, offering Guaranteed Investment Certificates (“GICs”) for amounts of five thousand dollars and more, for terms from 30 days up to five years. All qualifying Equity Trust deposits are insured by the CDIC.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2015

Table 1: Financial Highlights

	For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2015**	December 31, 2014	December 31, 2013
OPERATIONS			
Net interest income	**$ 10,340**	$ 12,855	$ 10,328
Provision for credit losses	**(165)**	281	(692)
Non-interest income	**1,694**	1,534	998
Net interest income and other income, including provision for credit losses	**11,869**	14,670	10,634
Net interest margin	**2.91 %**	3.24 %	3.18 %
Net loss from continuing operations	**$ (2,157)**	$ (2,919)	$ (327)
Loss per share from continuing operations - basic/diluted	**(0.23) / (0.23)**	(0.30) / (0.30)	(0.04) / (0.04)
ROE (annualized) [1]	**(2.5)%**	(3.1)%	(0.4)%
ADJUSTED (LOSS) INCOME AND EPS FROM CONTINUING OPERATIONS			
Adjusted (loss) income	**$ (1,290)**	$ 1,175	$ 518
Adjusted (loss) earnings per share - basic/diluted [2]	**(0.14) / (0.14)**	0.12 / 0.12	0.06 / 0.06

As at	**December 31, 2015**	December 31, 2014	December 31 2013
BALANCE SHEET			
Assets	**$ 431,429**	$ 334,953	$ 442,376
Mortgages receivable, net	**383,282**	297,375	394,812
Deposits	**332,197**	235,597	332,437
Shareholders' equity	**93,455**	94,851	96,110
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory capital (all-in basis)	**$ 84,200**	$ 85,332	$ 84,755
Leverage ratio	**19.1 %**	25.9 %	N/A
Assets-to-Capital Multiple	**N/A**	3.8 x	5.0 x
Common equity tier 1 ratio (all-in basis)	**49.8 %**	65.5 %	53.5 %
Share Information			
Book value per common share	**$ 9.80**	$ 9.98	$ 10.28
Common share price - close	**8.06**	10.35	12.35
Common shares outstanding	**9,539,508**	9,507,508	9,345,840
Market capitalization	**$ 76,888**	$ 98,403	$ 115,421

[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

[2] Adjusted net (loss) income, adjusted basic (loss) earnings per share, adjusted diluted (loss) earnings per share are defined in the Non-IFRS Financial Measures section of this MD&A.

[3] These figures relate to the Corporation's operating subsidiary, Equity Trust, and are calculated under Basel III (see Capital Management below).

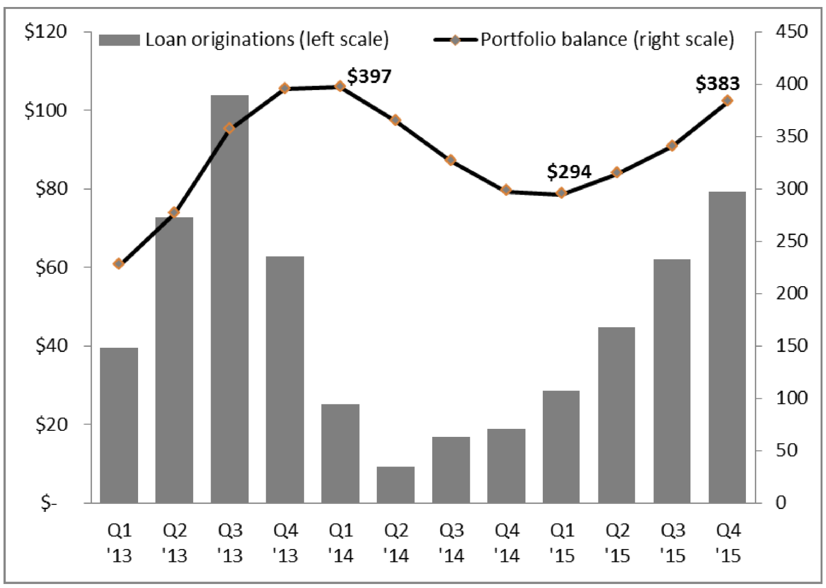
Financial Highlights

Mortgage Originations and Loan Book

Our mortgage loan book grew 29% year over year, ending at a balance of $383,282 as at December 31, 2015. The improvement in our new loan origination capacity compared to 2014 was clearly demonstrated in fiscal 2015 as we saw increased origination volumes with each successive quarter. In total, we originated new mortgages of $214,851 in 2015, an increase of $144,249 or 204% compared to the prior year.

Our mortgage portfolio balance at the end of 2015 was within 3% of its highest level reported at the end of the first quarter of 2014, which was followed by a decline in the size of our portfolio during a period of significant organizational change. Fiscal 2014 was a rebuilding year in which we experienced changes at the Board and CEO level, established a new senior management team and reorganized our underwriting and risk management and compliance infrastructure. Portfolio growth resumed in 2015, primarily because of increasing quarterly originations, culminating in a fourth quarter amount of nearly $80 million, our highest fourth quarter and second highest quarterly total in the company's mortgage lending history. The recent history of our new loan originations and overall mortgage portfolio size is seen in the figure below.

Figure 1: Quarterly Mortgage Loan Originations and Portfolio Balance 2013 to 2015 ($ millions)



Net Interest Income

Although our mortgage loan book increased in size during the year, net interest income for the year ended December 31, 2015 was down $2,515 or 20% compared to 2014. The decrease in net interest income resulted from two equally contributing factors. The first contributing factor was the lower average portfolio balance compared to the average balance in 2014. The second contributing factor was lower net interest margin earned on the portfolio, which for the year ended December 31, 2015 was 2.91%, down compared to 3.24% for the year ended December 31, 2014. The decrease in net interest margin earned on the portfolio primarily reflected our focus on higher credit quality for both renewals and new originations and we have also experienced a decrease in our loan arrears levels compared to the prior year.

Non-interest Income and Expenses

Non-interest income earned from mortgage servicing fees for the year ended December 31, 2015 was $1,244, a year over year decrease of 19%, reflecting the lower average portfolio balance compared to the average balance in 2014. In addition to income earned from mortgage servicing fees, we also earned other fee income of $450 in the year ended December 31, 2015, related to EFT's transitional status as trustee for client relationships managed by a third party (see 2013 Sale Transaction). As a result of this other fee income, total non-interest income for the year ended December 31, 2015 was $1,694, up 10% compared to the prior year.

Non-interest expenses for the year were $13,335, down 28% compared to the year ended December 31, 2014. The improvement year over year primarily reflected the absence of significant one-time costs that occurred in the first quarter of 2014 that totaled $5,570 ($4,094 after tax) for legal and other advisory fees in respect of resolving a shareholder action, executive severance payments and independent consultant costs for an internal controls review.

Charge for Contingent Consideration

During the year, we recognized a charge for contingent consideration of $1,000 ($867 after tax) related to the 2013 sale of our transfer agent and corporate trust business (see 2013 Sale Transaction). The total liability is recognized at the maximum potential of $1,000, reflecting Management's best estimate of the fair value of the contingent consideration. Management will continue to re-evaluate assumptions used to estimate the fair value of the contingent consideration on a periodic basis as new information becomes available.

Earnings

For the year ended December 31, 2015 we incurred a net loss of $2,157 or $0.23 per share, compared to a net loss of $2,919 or $0.30 per share for the year ended December 31, 2014. After removing the effect of the above noted charge for contingent consideration in 2015 and one-time costs in 2014, the adjusted net loss for the year ended December 31, 2015 was $1,290 or $0.14 per share compared to adjusted net income of $1,175 or $0.12 per share for the year ended December 31, 2014. The decline in adjusted earnings from 2014 to 2015 primarily reflected lower net interest income due to the decline in both our average mortgage loan balance and net interest margin earned compared to the prior year. Adjusted net (loss) income and adjusted net (loss) earnings per share are defined under the Non-IFRS Financial Measures section of this MD&A.

OUTLOOK

The primary focus of our management team in 2016 is to increase the size of our mortgage loan book while also preserving our average net interest margin, leading to profitable earnings levels in the near term. As we start the year we expect to continue building on the momentum established in 2015 with year over year growth in first quarter originations and continued growth in our loan book.

We begin 2016 with fully staffed and trained mortgage underwriting and servicing teams as well as a risk management and compliance infrastructure designed to meet the requirements of the current regulatory environment. We remain focused on the non-prime and near-prime residential mortgage market in Ontario and our sales and marketing team will continue to develop and build our key mortgage broker relationships. We also plan to leverage technology in 2016 to enhance efficiency and scalability in support of anticipated growth.

Equity Trust is a well-capitalized, federally regulated deposit-taking institution, with a management team and Board with many years of experience in the non-prime and near-prime residential mortgage business. As such we believe we are well positioned to take advantage of the profitable opportunities in our industry in 2016 and beyond.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

($000s, except per share and percentage amounts)	For the years ended **December 31, 2015**	December 31, 2014	% Change
Operating Results			
Net interest income	**$ 10,340**	$ 12,855	(20)%
(Provision for) recovery of credit losses	**(165)**	281	(159)%
Net interest income, including (provision for) recovery of credit losses	**10,175**	13,136	(23)%
Non-interest income	**1,694**	1,534	10 %
Net interest income and other income, including provision for credit losses	**11,869**	14,670	(19)%
Non-interest expenses	**13,335**	18,415	28 %
Charge for contingent consideration	**1,000**	-	(100)%
Loss before income taxes	**(2,466)**	(3,745)	34 %
Income tax recovery	**(309)**	(826)	(63)%
Total net loss and comprehensive loss	**$ (2,157)**	$ (2,919)	26 %
(Loss) earnings per share			
Total loss per share, basic	**(0.23)**	(0.30)	23 %
Total loss per share, diluted	**(0.23)**	(0.30)	23 %
ROE (annualized) [1]	**(2.5)%**	(3.1)%	

[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

Net interest Income

Table 3: Net Interest Income and Net Interest Margin[3]

($000s, except per share and percentage amounts)	**December 31, 2015** **Average balance**[1]	**Income / Expense**	**Average rate**[2]	December 31, 2014 Average balance[1]	Income / Expense	Average rate[2]
ASSETS						
Cash and cash equivalents	**$ 42,404**	**$ 441**	**1.04 %**	$ 46,692	$ 607	1.30 %
Mortgage receivable	**320,049**	**15,714**	**4.91 %**	359,661	19,126	5.31 %
Total interest bearing assets	**362,453**	**16,155**	**4.53 %**	406,353	19,733	4.86 %
LIABILITIES						
Deposits	**267,442**	**5,815**	**2.17 %**	311,434	6,878	2.20 %
Total interest bearing liabilities	**267,442**	**5,815**	**2.17 %**	311,434	6,878	2.20 %
Net interest income per financial statements		**10,340**			12,855	
Net interest margin for mortgage portfolio			**2.91 %**			3.24 %

[1] Average balance is calculated with reference to daily asset and liability balances.
[2] Average rate is equal to income/expense divided by the average balance on an annualized basis.
[3] See definition of net interest margin under Non IFRS Financial Measures section of this MD&A.

Net interest income for the year ended December 31, 2015 decreased by $2,515 or 20% reflecting both the lower average mortgage loan portfolio and the decline in net interest margin compared to the prior year. Our net interest margin earned on our mortgage portfolio for the year ended December 31, 2015 was 2.91%, down compared to 3.24% for the year ended December 31, 2014 primarily reflecting our focus on higher credit quality for both renewals and new originations while we completed the reorganization of underwriting, risk management and compliance infrastructure.

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

	For the years ended	
($000s)	**December 31, 2015**	December 31, 2014
(Reversal of) provision for collective credit losses	**$ 33**	$ (345)
Provision for individual credit losses	**132**	64
Total provision for (reversal of) credit losses	**$ 165**	$ (281)

For the year ended December 31, 2015 the provision for credit losses was an expense of $165 compared to a reversal of $281 in the prior year. The revresal of the collective provision in 2014 resulted from the decline in the size of our mortgage loan book during that fiscal year. In 2015, our provision for collective credit losses increased as a result of the growth of our loan portfolio.

Table 5: Allowance for Credit Losses

($000s except percentage amounts)	**December 31, 2015**	**% of Gross Loans**	December 31, 2014	% of Gross Loans
Collective allowance	**$ 1,074**	**0.28 %**	$ 1,041	0.35 %
Individual allowance	**93**	**0.02 %**	15	0.01 %
Total	**$ 1,167**	**0.30 %**	$ 1,056	0.36 %

We have established an allowance for credit losses of $1,167 as at December 31, 2015. The increase in our allowance for credit losses for 2015 compared to 2014 mainly reflected the increase in our individual allowance. Although our loan book grew 29% during 2015, our collective allowance increased only 3% due to an overall reduction in our collective allowance rate based on management's judgment of improved loan portfolio credit quality.

During the year ended December 31, 2015 we realized a loan loss of $54 on the impaired loan identified in the fourth quarter 2014. The one impaired loan identified during the year resulted in an individual allowance of $93.

Table 6: Past Due Loans

($000s except percentage amounts)		December 31, 2015	% of Net Loans		December 31, 2014	% of Net Loans
1-30 days	**$**	**10,376**	**2.71 %**	$	21,722	7.30 %
31-60 days		**1,714**	**0.45 %**		2,254	0.76 %
61-90 days		**317**	**0.08 %**		1,162	0.39 %
> 90 days		**1,866**	**0.49 %**		1,228	0.41 %
Total	**$**	**14,273**	**3.73 %**	$	26,366	8.86 %

A loan is considered past due when a borrower has not made a payment by the contractual due date. The table above presents the carrying value of mortgages that are past due but not classified as impaired either because collection efforts are reasonably expected to result in full repayment or they have been restored to current status in accordance with our collection policy since the balance sheet date. Our past due loans percentage as at December 31, 2015 improved compared to December 31, 2014, reflecting improvements in both our portfolio credit quality and loan collections process.

The Corporation classifies loans as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest.

Non-interest income

Non-interest income earned from mortgage servicing fees for the year ended December 31, 2015 was $1,244, a year over year decrease of 19%, reflecting the lower average portfolio balance compared to the average balance in 2014. In addition to income earned from mortgage servicing fees, we also earned other fee income of $450 in the year ended December 31, 2015, related to EFT's transitional status as trustee for client relationships managed by a third party (see 2013 Sale Transaction). As a result of this other fee income, total non-interest income for the year ended December 31, 2015 was $1,694, up 10% compared to the prior year.

Non-interest expenses

Table 7: Non-interest Expenses

	For the years ended				
($000s, except percentage amounts)		December 31, 2015		December 31, 2014	% Change
Staffing costs	**$**	**7,808**	$	7,955	(2)%
Rent		**452**		391	16 %
General and administration		**4,276**		9,331	(54)%
Amortization		**799**		738	8 %
Total non-interest expenses	**$**	**13,335**	$	18,415	(28)%

Staffing Costs – Staffing costs for the year ended December 31, 2015 decreased compared to the year ended December 31, 2014 by 2%. Higher staffing costs from current year headcount growth from fifty-two to sixty-five were offset by the absence of significant termination and retention costs incurred in 2014.

Rent – The Corporation maintained the same lease arrangements during both 2014 and 2015 and in both years benefitted from a cost recoveries related to a property tax reassessment and operating costs. These cost recoveries were higher in 2014.

General and Administration – The 54% decrease in general and administration costs in the year ended December 31, 2015 compared to the prior year primarily reflected the absence of one-time costs incurred in the first quarter of 2014 that totaled $5,570 ($4,094 after tax) for legal and other advisory fees in respect of resolving a shareholder action, executive severance payments and independent consultant costs for an internal controls review.

Amortization and depreciation – Amortization and depreciation costs increased in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to a change in the depreciation method for furniture and computer equipment assets that resulted in additional depreciation expense in 2015.

Net loss and loss per share

Table 8: Earnings Per Share

	For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2015**	December 31, 2014	Change
Net loss and total comprehensive loss	**$ (2,157)**	$ (2,919)	$ (762)
Basic loss per share	**(0.23)**	(0.30)	(0.07)
Diluted loss per share	**(0.23)**	(0.30)	(0.07)
ADJUSTED INCOME			
Adjusted net (loss) income [1]	**(1,290)**	1,175	(210)%
Adjusted (loss) earnings per share - basic [1]	**(0.14)**	0.12	(217)%
Adjusted (loss) earnings per share - diluted [1]	**$ (0.14)**	$ 0.12	(217)%

[1] Adjusted net (loss) income, adjusted basic (loss) earnings per share and adjusted diluted (loss) earnings per share are defined in the Non-IFRS Financial Measures section of this MD&A.

For the year ended December 31, 2015 we incurred a net loss of $2,157 or $0.23 per share, compared to a net loss of $2,919 or $0.30 per share for the year ended December 31, 2014. After removing the effect of the above noted charge for contingent consideration in 2015 and one-time costs in 2014, the adjusted net loss for the year ended December 31, 2015 was $1,290 or $0.14 per share compared to adjusted net income of $1,175 or $0.12 per share for the year ended December 31, 2014. The decline in adjusted earnings from 2014 to 2015 primarily reflected lower net interest income due to the decline in both our average mortgage loan balance and net interest margin earned compared to the prior year.

2013 SALE TRANSACTION

On April 5, 2013, the Corporation completed the sale of the assets of its transfer agent and corporate trust services business for a purchase price of $64,000 (the "Transaction"). In accordance with the terms of the sale agreement, the Corporation may be entitled to further proceeds or may have to pay up to $1,000 based on the future capital requirements of the transfer agent and corporate trust service business. Management's best estimate of the fair value of this contingent consideration as at December 31, 2015 is $1,000 (December 31, 2014 - $nil). Management will continue to re-evaluate assumptions used to estimate the fair value of the contingent consideration on a periodic basis as new information becomes available during the period covered by the sale agreement, which has a remaining term of up to 2.25 years.

Since the date of the sale, transfer agent and corporate trust business relationships have been managed by a third party for its economic benefit, including the administration of segregated funds. Beginning in the second quarter of 2015, the Corporation began earning other fee income related to EFT's transitional status as trustee for these client relationships. In the year ended December 31, 2015, other fee income amounted to $450 (2014 - $nil). As at December 31, 2015, EFT remains the trustee of segregated funds in the amount of $1,428,663 (December 31, 2014 - $196,272) which are reported off-balance sheet.

FINANCIAL POSITION REVIEW

Table 9: Balance Sheet Highlights

	As at		Change	
($000s, except percentage amounts)	**December 31, 2015**	December 31, 2014	$	%
ASSETS				
Cash and cash equivalents	**$ 44,326**	$ 33,231	$ 11,095	33 %
Mortgages receivable	**383,282**	297,375	85,907	29 %
Other assets	**3,821**	4,347	(526)	(12)%
Total Assets	**431,429**	334,953	96,476	29 %
LIABILITIES				
Customer deposits	**332,197**	235,597	96,600	41 %
Other liabilities	**5,777**	4,505	1,272	28 %
Total Liabilities	**337,974**	240,102	97,872	41 %
Shareholders' equity	**93,455**	94,851	(1,396)	(1)%
Total Liabilities and Shareholder's Equity	**$ 431,429**	$ 334,953	$ 96,476	29 %

Total assets as at December 31, 2015 were $431,429, an increase of 29% compared to the balance as at December 31, 2014 due to increases in mortgages receivable and cash and cash equivalents.

Total liabilities as at December 31, 2015 were $337,974, an increase of 41% compared to the balance as at December 31, 2014 primarily due to the increase in deposit liabilities corresponding to the increase in assets.

Liquidity Resources

Equity Trust is a member of CDIC and sources its deposit funding through registered investment dealers across Canada. We believe ample liquidity is available to Equity Trust to meet its requirements. Our deposit taking activities constitute our primary funding source and we also use a portion of our internal cash to fund mortgage loans. We manage our liquidity resources in accordance with our liquidity policy (see "Risk Management – Liquidity Risk"), which has been updated to include new OSFI issued liquidity adequacy requirements. Effective January 2015, institutions are required to maintain an adequate supply of unencumbered high quality liquid assets that can be converted into cash over a 30-day period. Short-term investments that qualify as high quality liquid assets are included in the cash and cash equivalents balance below.

Table 10: Cash and Cash Equivalents

	As at		Change	
($000s, except percentage amounts)	**December 31, 2015**	December 31, 2014	$	%
Deposits with regulated financial institutions	**$ 42,328**	$ 28,239	$ 14,089	50 %
Short-term investments	**1,998**	4,992	(2,994)	(60)%
Total Cash and Cash Equivalents	**$ 44,326**	$ 33,231	$ 11,095	33 %

Cash and cash equivalents as at December 31, 2015 increased by $11,095 compared to December 31, 2014, as a result of the inflows and outflows described below.

Table 11: Sources and Uses of Cash

	For the years ended		Change	
($000s, except percentage amounts)	**December 31, 2015**	December 31, 2014	$	%
Cash flows provided by (used in) operating activities	**$ 11,351**	$ (11,305)	$ 22,656	200 %
Cash flows provided by financing activities	**85**	1,251	(1,166)	(93)%
Cash flows used in investing activities	**$ (341)**	$ (91)	$ (250)	(275)%

Cash flows from operating activities

Cash flow from operating activities was $11,351 for the twelve months ended December 31, 2015, an increase of $22,656, or 200% compared to cash flows from operating activities for the same period in 2014. Increases to our deposit liability and mortgages receivable balances constitute the largest sources of operating inflows and outflows respectively. For the twelve months ended December 31, 2015 we had inflows of $96,600 from new deposits against net outflows of $86,018 to fund mortgages. For the twelve months ended December 31, 2014, the net cash outflow from operating activities included the payment of income taxes related to the sale of the discontinued operations and the payment of one-time costs incurred in the first quarter of 2014.

Cash flows from financing activities

Cash flows from financing activities for the twelve months ended December 31, 2015 decreased by $1,166 or 93%, to $85 compared to the same period in 2014. Cash flows from financing activities in both 2015 and 2014 represent proceeds from exercise of employee stock options.

Cash flows used in investing activities

Cash flows used in investing activities for the twelve months ended December 31, 2015 and 2014 were for maintenance and development of our information technology systems.

Mortgages receivable

Table 12: Mortgage Production & Portfolio Highlights

	For the years ended		
($000s, except percentage and year figures)	**December 31, 2015**	December 31, 2014	December 31, 2013
Mortgage originations	**$ 214,851**	$ 70,602	$ 279,057
Average loan-to-value ratio at origination	**73.8 %**	72.3 %	73.1 %
As at			
Mortgages receivable	**383,282**	297,375	394,812
Mortgages receivable due in one year	**244,757**	205,417	280,613
Weighted average term to maturity in years	**1.0**	1.0	0.9
Weighted average effective interest rate	**4.86 %**	5.10 %	5.31 %
Weighted average amortization period in years	**29.6**	31.3	33.0

Mortgages receivable consist of uninsured loans with terms up to five years for the purchase or refinancing of single-family homes predominantly in urban and suburban areas of Ontario.

For the year ended December 31, 2015 we originated mortgages of $214,851, an increase of $144,249 or 204% compared to the year ended December 31, 2014, demonstrating our improved capacity to originate new loans. Our mortgage receivable balance was $383,282 as at December 31, 2015, an increase of 29% compared to the balance as at December 31, 2014.

As at December 31, 2015, the amount of mortgages due within one year is $244,757, the weighted average term to maturity of the portfolio is 1.0 year with a weighted average amortization period of 29.6 years. The weighted average effective interest rate of the portfolio was 4.86% as at December 31, 2015, which declined compared to 5.10% as at December 31, 2014. The year over year decline in the weighted average effective interest rate of the portfolio reflected our focus on higher credit quality. As at December 31, 2015, the Corporation had outstanding commitments to make future advances on mortgages loans of $19.3 million for various dates through to May 2016.

Customer Deposits

Table 13: Customer Deposits

($000s, except percentage and year figures)	As at **December 31, 2015**	December 31, 2014	December 31, 2013
Deposits	**$ 332,197**	$ 235,597	$ 332,437
Customer deposits due in one year	**174,376**	162,177	247,666
Weighted average term to maturity in years	**1.3**	1.0	0.9
Weighted average effective interest rate	**2.13 %**	2.24 %	2.23 %

Customer deposits consist of GICs, which are sold through registered investment dealers, with fixed maturity dates and a weighted average term to maturity of 1.3 years, an increase compared to prior periods as a result of issuing a greater portion of longer term GICs. As at December 31, 2015, the portion of customer deposits due within one year is $174,376 and the weighted average effective interest rate paid on deposits was 2.13%.

For year ended December 31, 2015, our customer deposits balance increased by $96,600 or 41% compared to the balance as at December 31, 2014. The increase in the deposits balance over the year is a reflection of the growth of our mortgage loan book.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk and interest rate risk. A fuller discussion on our risk exposures and how we manage them can be found under the section “Risk Management”.

Mortgages receivable are carried at amortized cost and the disclosed fair value of mortgages receivable is determined by discounting the expected future cash flows of the mortgages at current market rates for mortgages with similar terms and credit risks.

Contingent consideration payable is carried at fair value and the disclosed fair value of the contingent consideration is determined by using management's best estimate based on a probability weighted range of future outcomes.

Customer deposits are carried at amortized cost and the disclosed fair value of customer deposits is determined by discounting the contractual cash flows using current market interest rates for deposits with similar terms and risks.

The following table presents the carrying value of each category of financial assets and liabilities and their estimated fair values as at December 31, 2015. The table does not include assets and liabilities that are not considered financial instruments.

Table 14: Financial Assets and Liabilities

December 31, 2015		**Carrying Value**		Fair Value		Fair Value Over Carrying Value
Financial Assets						
Mortgages receivable, net	**$**	**383,282**	$	384,855	$	1,573
Total Financial Assets	**$**	**383,282**	$	384,855	$	1,573
Financial Liabilities						
Deposits	**$**	**332,197**	$	334,755	$	2,558
Contingent consideration payable		**1,000**		1,000		-
Total Financial Liabilities	**$**	**333,197**	$	335,755	$	2,558

Contractual commitments and contingencies

The Corporation has entered into operating lease agreements to lease office space, expiring in 2017 for our Toronto office. The office space lease agreements provide for a five-year renewal at the expiry of the lease at occupancy rates equivalent to fair market value at the time of renewal. The Corporation has sublet part of its Toronto lease expiring in 2017 and the remainder of its Vancouver lease, which expired in November of 2015, for space previously occupied by our discontinued transfer agent and corporate trust services business (see 2013 Sale Transaction).

The Corporation has entered into various software license and maintenance agreements for transaction processing software related to its mortgage lending and deposit taking operations. The agreements expire between 2014 and 2021. The Corporation has also entered into a vendor service agreement expiring in 2019.

The future minimum payments for commitments are as follows:

Table 15: Commitments

	For the year ended December 31, 2015							
($000s)		Not later than one year		Later than one year and not later than five years		Later than five years		**Total**
Office space lease agreements	$	1,049	$	89	$	-	**$**	**1,138**
Sub-tenant recoveries		(484)		(57)		-		**(541)**
Software license and maintenance agreements		309		1,130		94		**1,533**
Vendor service agreement		128		383		-		**511**
Total commitments	$	1,002	$	1,545	$	94	**$**	**2,641**

QUARTERLY FINANCIAL HIGHLIGHTS

Table 16: Summary of Quarterly Results

	2015	2015	2015	2015	2014	2014	2014	2014
($000s, except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating Results								
Net interest income	**$ 2,857**	$ 2,553	$ 2,434	$ 2,496	$ 2,805	$ 3,213	$ 3,389	$ 3,448
Provision for (reversal of) credit losses	**101**	(106)	(128)	(32)	88	146	105	(58)
Non-interest income	**475**	465	457	297	340	407	409	378
Net interest income and other income, including reversal of (provision for) credit losses	**3,433**	2,912	2,763	2,761	3,233	3,766	3,903	3,768
Non-interest expenses	**3,758**	3,168	3,361	3,048	3,451	3,053	3,451	8,460
Charge for contingent consideration	**-**	400	600	-	-	-	-	-
Net loss from continuing operations	**(304)**	(601)	(992)	(260)	(229)	535	270	(3,495)
Total net (loss) income and total comprehensive income	**(304)**	(601)	(992)	(260)	(229)	535	270	(3,495)
Basic (loss) earnings per share	**(0.03)**	(0.06)	(0.10)	(0.03)	(0.02)	0.06	0.03	(0.37)
Diluted (loss) earnings per share	**(0.03)**	(0.06)	(0.10)	(0.03)	(0.02)	0.06	0.03	(0.37)
Dividends	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance Sheet Highlights								
Cash and cash equivalents	**$ 44,326**	$ 39,183	$ 48,334	$ 36,462	$ 33,231	$ 36,479	$ 39,151	$ 60,633
Mortgages receivable, net	**383,282**	340,119	314,086	294,398	297,375	326,393	364,563	397,036
Assets	**431,429**	383,366	366,394	334,876	334,953	367,590	409,043	463,137
Deposits	**332,197**	285,465	268,704	236,496	235,597	269,176	310,712	362,906
Liabilities	**337,974**	289,758	272,419	240,088	240,102	272,840	315,178	370,331
Shareholders' equity	**$ 93,455**	$ 93,608	$ 93,975	$ 94,788	$ 94,851	$ 94,750	$ 93,865	$ 92,806

Net interest income has increased or decreased each quarter in line with the change in the size of our average mortgage portfolio. The net loss in the first quarter of 2014 reflected significant one-time costs incurred in the settlement of a shareholder action and independent consultant costs for an internal controls review.

FOURTH QUARTER PERFORMANCE

OVERALL PERFORMANCE FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

Table 17: Financial Highlights for the fourth quarter

	For the three months ended		
($000s, except per share and percentage amounts)	**December 31, 2015**	September 30, 2015	December 31, 2014
OPERATIONS			
Net interest income	**$ 2,857**	$ 2,553	$ 2,805
Provision for credit losses	**101**	(106)	88
Non-interest income	**475**	465	340
Net interest income and other income, including provision for credit losses	**3,433**	2,912	3,233
Net interest margin	**2.88 %**	2.81 %	3.19 %
Net income (loss)	**$ (304)**	$ (601)	$ (229)
Loss per share - basic/diluted	**(0.03) / (0.03)**	(0.06) / (0.06)	(0.02) / (0.02)
ROE (annualized) [1]	**(2.1)%**	(2.5)%	(1.0)%
ADJUSTED (LOSS) INCOME AND EPS			
Adjusted (loss) income	**$ (304)**	$ (254)	$ (229)
Adjusted (loss) earnings per share - basic/diluted [2]	**(0.03) / (0.03)**	(0.03) / (0.03)	(0.02) / (0.02)

As at	**December 31, 2015**	September 30, 2015	December 31, 2014
BALANCE SHEET			
Assets	**$ 431,429**	$ 383,366	$ 334,953
Mortgages receivable, net	**383,282**	340,119	297,375
Deposits	**332,197**	285,465	235,597
Shareholders' equity	**93,455**	93,608	94,851
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory capital (all-in basis)	**$ 84,200**	$ 84,355	$ 85,332
Leverage ratio	**19.1 %**	21.4 %	25.9 %
Common equity tier 1 ratio (all-in basis)	**49.8 %**	55.5 %	65.5 %
Share Information			
Book value per common share	**$ 9.80**	$ 9.85	$ 9.98
Common share price - close	**8.06**	7.85	10.35
Common shares outstanding	**9,539,508**	9,539,508	9,507,508
Market capitalization	**$ 76,888**	$ 74,885	$ 98,403

[1] See definition of ROE ("return on equity") under Non IFRS Financial Measures section of this MD&A.

[2] Adjusted net (loss) income, adjusted basic (loss) earnings per share, adjusted diluted (loss) earnings per share are defined in the Non IFRS Financial Measures section of this MD&A.

[3] These figures relate to the Corporation's operating subsidiary, Equity Trust, and are calculated under Basel III (see Capital Management below).

Net interest Income

Table 18: Net Interest Income and Net Interest Margin[3] for the fourth quarter

	For the three months ended								
	December 31, 2015			September 30, 2015			December 31, 2014		
($000s, except per share and percentage amounts)	**Average balance[1]**	**Income / Expense**	**Average rate[2]**	Average balance[1]	Income / Expense	Average rate[2]	Average balance[1]	Income / Expense	Average rate[2]
ASSETS									
Cash and cash equivalents	**$ 38,792**	**$ 88**	**0.90 %**	$ 43,175	$ 111	1.02 %	$ 36,927	$ 121	1.30 %
Mortgage receivable	**359,266**	**4,378**	**4.83 %**	325,138	3,958	4.83 %	310,592	4,101	5.24 %
Total interest bearing assets	**398,058**	**4,466**	**4.45 %**	368,313	4,069	4.38 %	347,519	4,222	4.82 %
LIABILITIES									
Deposits	**306,017**	**1,609**	**2.09 %**	277,449	1,516	2.17 %	252,367	1,417	2.22 %
Total interest bearing liabilities	**306,017**	**1,609**	**2.09 %**	277,449	1,516	2.17 %	252,367	1,417	2.22 %
Net interest income per financial statements		**2,857**			2,553			2,805	
Net interest margin for mortgage portfolio[3]			**2.88 %**			2.81 %			3.19 %

[1] Average balance is calculated with reference to daily asset and liability balances.

[2] Average rate is equal to income/expense divided by the average balance on an annualized basis.

[3] See definition of net interest margin under Non IFRS Financial Measures section of this MD&A.

Net interest income for the fourth quarter of 2015 increased by $304 or 12% compared to the third quarter of 2015 and increased by $52 or 2% compared to the fourth quarter of 2014. The increase over the prior quarter reflected the growth in our average mortgage loan portfolio and an improvement in our net interest margin. The growth in the average mortgage loan portfolio compared to the fourth quarter of 2014 was largely offset by the decrease in net interest margin. The average net interest margin earned on our mortgage portfolio in the fourth quarter of 2015 was 2.88%, up compared to 2.81% in the third quarter of 2015 reflecting lower deposit funding costs during the quarter. Net interest margin for the quarter was down compared to 3.19% in the fourth quarter of 2014, primarily reflecting our focus on higher credit quality for both renewals and new originations while we completed the reorganization of underwriting, risk management and compliance infrastructure.

Provision for credit losses

Our provision for credit losses for the fourth quarter of 2015 was a reversal of $101 compared to an expense of $106 in the third quarter of 2015 and a reversal of $88 in the fourth quarter of 2014. The reversal in the fourth quarter of 2014 reflected the decline of our mortgage loan portfolio. The quarter over quarter change in our collective provision for credit losses reflected an overall reduction in our collective allowance rate based on management's judgment of improved loan portfolio credit quality. We also increased the individual provision for credit losses by $17 in the fourth quarter of 2015 based on our expected loss on an impaired mortgage loan identified in the second quarter of 2015.

Non-interest income

Non-interest income earned from mortgage servicing fees for the fourth quarter of 2015 was $325, up 4% compared to the third quarter of 2015, reflecting the growth in our average mortgage loan portfolio. Mortgage servicing fees were down 4% compared to the fourth quarter of 2014 primarily due to lower loan discharge and renewal fees, which reflected the growth of our portfolio from new loan originations in the fourth quarter. In addition to income earned from mortgage servicing fees, we also earned other fee income of $150 in the fourth quarter of 2015, related to EFT's transitional status as trustee for client relationships managed by a third party (see 2013 Sale Transaction).

Non-interest expenses for the fourth quarter

Table 19: Non-interest Expenses for the Fourth Quarter

	For the three months ended				
($000s, except percentage amounts)	**December 31, 2015**	September 30, 2015	% Change	December 31, 2014	% Change
Staffing costs	**$ 2,233**	$ 1,924	16 %	$ 1,699	31 %
Rent	**97**	108	(10)%	62	56 %
General and administration	**1,155**	960	20 %	1,461	(21)%
Amortization	**273**	176	55 %	229	19 %
Total non-interest expenses	**$ 3,758**	$ 3,168	19 %	$ 3,451	9 %

Staffing Costs – Fourth quarter 2015 staffing costs increased compared to the third quarter of 2015 by 16%, primarily due to the timing of the recognition of bonus compensation for the year. The year-over-year increase of 31% compared to the fourth quarter of 2014 is primarily due to an increase in headcount from fifty-two to sixty-five staff and the timing of the recognition of bonus compensation in 2015.

Rent – The Corporation maintained the same lease arrangements during the fourth quarter of 2015 and 2014 and in both years we benefitted from cost recoveries related to property tax reassessments, the amount of which was higher in the fourth quarter of 2014.

General and Administration – The 21% increase in general and administration costs in the fourth quarter of 2015 compared to the third quarter of 2015 was primarily due to increased sales and marketing events and performance management consulting fees. The year-over-year decrease of 21% compared to 2014 is the result of lower recruiting and training costs.

Amortization and depreciation – A change in the depreciation method for furniture and computer equipment assets resulted in additional depreciation expense in the fourth quarter of 2015 and as a result amortization and depreciation costs increased by 55% compared to the third quarter of 2015 and increased by 19% compared to the fourth quarter of 2014.

Net loss and loss per share for the fourth quarter

Table 20: Earnings Per Share

	For the three months ended				
($000s, except per share and percentage amounts)	**December 31, 2015**	September 30, 2015	Change	December 31, 2014	Change
Net loss and total comprehensive loss	**$ (304)**	$ (601)	$ 297	$ (229)	$ (75)
Basic loss per share	**(0.03)**	(0.06)	(0.03)	(0.02)	(0.01)
Diluted loss per share	**(0.03)**	(0.06)	(0.03)	(0.02)	(0.01)
ADJUSTED INCOME					
Adjusted net loss [1]	**(304)**	(254)	(20)%	(229)	33 %
Adjusted loss per share - basic [1]	**(0.03)**	(0.03)	- %	(0.02)	50 %
Adjusted loss per share - diluted [1]	**$ (0.03)**	$ (0.03)	- %	$ (0.02)	50 %

[1] Adjusted net loss, adjusted basic loss per share and adjusted diluted loss per share are defined in the Non-IFRS Financial Measures section of this MD&A.

For the fourth quarter of 2015 we generated a net loss of $304 or $0.03 per share compared to net loss of $601 or $0.06 per share in the third quarter of 2015 and net loss of $229 or $0.02 per share in the fourth quarter of 2014. After removing the effect of contingent consideration (see 2013 Sale Transaction) of $400 ($347 after tax), the adjusted net loss for the third quarter of 2015 was $254 or $0.03 per share. The adjusted net loss for the fourth quarter of 2015 was higher than in the third quarter of 2015 and the fourth quarter of 2014 as higher net interest income earned on our larger mortgage portfolio was offset by higher staffing costs.

Mortgages receivable and customer deposits

Table 21: Mortgage Production & Portfolio Highlights for the fourth quarter

	For the three months ended		
($000s, except percentage and year figures)	**December 31, 2015**	September 30, 2015	December 31, 2014
Mortgage originations	**$ 79,325**	$ 62,171	$ 19,061
Average loan-to-value ratio at origination	**73.8 %**	73.4 %	73.5 %
As at			
Mortgages receivable, net	**383,282**	340,119	297,374
Customer deposits	**$ 332,197**	$ 285,465	$ 235,596

During the fourth quarter of 2015 we originated mortgages of $79,325, an increase of $17,154 or 28% compared to the third quarter of 2015 and an increase of $60,264 or 316% compared to the fourth quarter of 2014, demonstrating our improved capacity to originate new loans. Our mortgage receivable balance was $383,282 as at December 31, 2015, an increase of 13% compared to the balance as at September 30, 2015 and an increase of 29% compared to the balance as at December 31, 2014.

For the fourth quarter of 2015, our customer deposits balance increased by $46,732 or 16% compared to September 30, 2015 and by $96,600 or 41% compared to the balance as at December 31, 2014. The increase in the deposits balance compared to these prior quarters reflected liquidity needs for upcoming deposit maturities and anticipated mortgage funding activity.

CAPITAL MANAGEMENT

Capital Requirements

Equity Trust's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory requirements, is consistent with our risk appetite framework, and supports our business plans. Our internal capital adequacy assessment process ("ICAAP") is integral to our capital planning activities and incorporates a stress testing program that evaluates the impact potential scenarios have on income and capital. Regulatory capital requirements addressed by our policy include the Leverage Ratio and risk based capital ratios (Common Equity Tier 1, Tier 1 and Total Capital).

Equity Trust calculates regulatory capital and capital ratios based on the Capital Adequacy Requirements ("CAR") Guidelines issued by OSFI in April 2014. The CAR Guidelines are based on "Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework" ("Basel III") issued by the Basel Committee on Banking Supervision ("BCBS"). Equity Trust's total regulatory capital is comprised entirely of shareholder's equity (the total of share capital, contributed surplus and retained earnings less adjustments for intangible assets net of deferred taxes) which qualifies as common equity tier 1 capital ("CET1"). Equity Trust derives its risk based CET1 ratio by dividing CET1 capital by the sum of credit and operational risk-weighted assets. Equity Trust calculates risk-weighted assets using the standardized approach for credit risk and the basic indicator approach for operational risk.

Under Basel III, capital is calculated two ways during a transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on an all-in basis, which includes all applicable deductions immediately. As at December 31, 2015, Equity Trust held CET1 on an all-in basis of $84,200 compared with $85,332 as at December 31, 2014.

Table 22: Regulatory Capital (Based on Equity Financial Trust)

		As at			
($000s, except percentage amounts)		**December 31, 2015**		December 31, 2014	
Common Equity Tier 1 capital: Instruments and reserves	**Line No.**	**All-in**	**Transitional**	All-in	Transitional
Directly issues qualifying common share capital plus related stock surpluses	1	**$ 33,912**	**$ 33,912**	$ 32,606	$ 32,606
Retained earnings	2	**51,697**	**51,697**	54,183	54,183
Common Equity Tier 1 capital before regulatory adjustments	6	**85,609**	**85,609**	86,789	86,789
Common Equity Tier 1 capital: Regulatory adjustments					
Total regulatory adjustments to Common Equity Tier 1	28	**(1,409)**	**(563)**	(1,457)	(291)
Common Equity Tier 1 capital (CET1)	29	**84,200**	**85,046**	85,332	86,498
Tier 1 capital	45	**84,200**	**85,046**	85,332	86,498
Total capital	59	**84,200**	**85,046**	85,332	86,498
Total risk-weighted assets	60	**169,246**	**170,091**	130,181	131,347
Capital ratios					
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	**49.8 %**	**50.0 %**	65.5 %	65.9 %
Tier 1 (as percentage of risk-weighted assets)	62	**49.8 %**	**50.0 %**	65.5 %	65.9 %
Total capital (as percentage of risk-weighted assets)	63	**49.8 %**	**50.0 %**	65.5 %	65.9 %
OSFI all-in target					
Common Equity Tier 1 capital all-in target ratio	69	**7.0 %**	**N/A**	7.0 %	N/A
Tier 1 capital all-in target ratio	70	**8.5 %**	**N/A**	8.5 %	N/A
Total capital all-in target ratio	71	**10.5 %**	**N/A**	10.5 %	N/A

Note: Line item numbers reference the Pillar III Modified Capital Disclosure Requirements issued by OSFI.

Leverage Requirements

In January 2014, the BCBS released the Basel III leverage ratio framework and disclosure requirements, which replaced the Leverage Ratio Section (Section V) of the Basel III Framework released in December 2010. On October 30, 2014 OSFI issued the final version of the Leverage Requirements Guideline ("LRG"), which transposed leverage requirements issued by the BCBS into OSFI guidance. Under the Basel III leverage ratio framework, public disclosure of the leverage ratio was required beginning in 2015. OSFI decided to replace the previously used Asset to Capital Multiple with the Basel III leverage ratio, thus preventing institutions from having to calculate and publicly disclose two measures of leverage.

Table 23: Leverage Ratio (Based on Equity Financial Trust)

($000s, except percentage amounts)	Line No.	As at December 31, 2015	December 31, 2014
On-balance sheet exposures			
On-balance sheet items	1	**$ 431,392**	$ 327,603
Asset amounts deducted in determining Basel III "all-in" Tier 1 capital	2	**(1,409)**	(1,457)
Total on-balance sheet exposure	3	**429,983**	326,146
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	17	**59,297**	17,499
Adjustment for conversion to credit equivalent amounts	18	**20 %**	20 %
Off-balance sheet items	19	**11,859**	3,500
Tier 1 capital	20	**84,200**	85,332
Total exposures	21	**441,842**	329,646
Basel III leverage ratio	22	**19.1 %**	25.9 %

Note: Line item numbers reference the Basel III Leverage Ratio Framework and Disclosure Requirements issued by OSFI.

Capital Resources

Equity Trust has a strong capital base to support its growth objectives in alternative mortgage lending. We may, however, require further capital from time to time to pursue strategic initiatives or to develop future related lines of business.

RISK MANAGEMENT

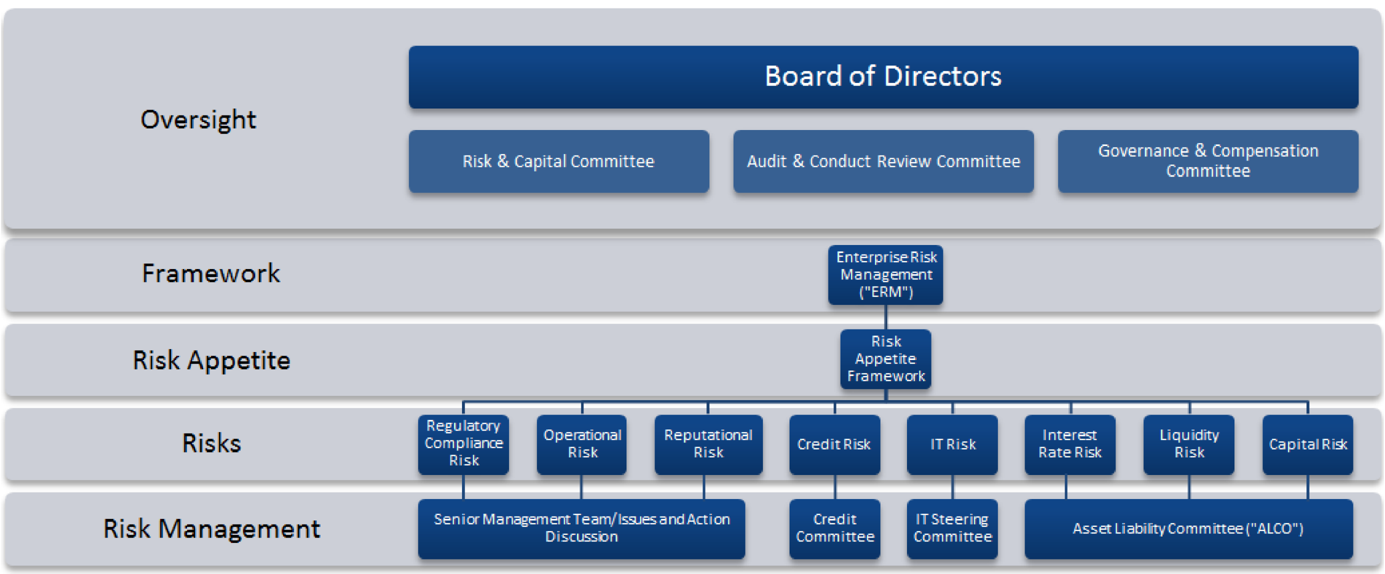
The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, liquidity and interest rate risks that are required under *IFRS 7 Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the audited consolidated financial statements for the year ended December 31, 2015.

The Corporation's activities in pursuit of its strategic goals and objectives expose the Corporation to a wide range of risks that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation's risk appetite framework provides a structured process to identity, quantify and limit the amount of risk that Equity Trust is willing to take. The types of risk to which the Corporation is exposed include but are not limited to credit, liquidity, interest rate, regulatory compliance, reputational, operational, and information technology.

Enterprise Risk Management Framework

The Corporation's strategies and risk management are supported by the Corporation's Enterprise Risk Management ("ERM") framework. The ERM framework is a Board approved, systematic and integrated process that enables senior management to effectively manage material risks impacting the operations of Equity Trust, the achievement of strategic and business objectives and the deployment of capital. The ERM framework is designed to foster a strong risk culture by identifying, measuring, mitigating, monitoring and reporting risk, including the establishment of roles, responsibilities, processes and tools which are used in relation to our risk appetite framework. It is an ongoing process involving the Board, senior management and other personnel.

The Board of Directors of Equity Trust, through its three Board Committees, namely the Risk and Capital Committee, Audit and Conduct Review Committee and Governance and Compensation Committee, establishes a strong risk and control culture utilizing a three lines of defense model comprised of operations, risk management and compliance, and internal audit.



Credit Risk

Credit risk is defined as the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of our mortgage lending operations creates an exposure to credit risk resulting from possible defaults in payment by our borrowers. Equity Trust oversees the management of credit risk through its Credit Committee, which is comprised of members of senior management. The Credit Committee meets regularly to review performance and risk factors in the mortgage portfolio and periodically considers and recommends adjustments to the credit risk and concentration limits in our Board approved credit lending policy.

There can be no absolute assurances that our monitoring of credit risk and our efforts to mitigate credit risk through appropriate underwriting policies, procedures and loss mitigation strategies will be sufficient to prevent an adverse effect on our profitability and financial condition. As part of the underwriting process, we rely heavily upon information supplied by both borrowers and third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected by internal controls and procedures before completing the transaction, the credit risk associated with the transaction may be increased.

Our mortgage portfolio consists of uninsured residential mortgages. As a result, our primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour their financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage. Our portfolio consists of residential mortgages originated under lending programs designed to serve non-prime and near-prime customers who have limited access to traditional mortgage financing. There is a higher risk of default associated with these customers than with traditional borrowers. The typical non or near prime borrower may have had previous financial difficulties or may not yet have established a sufficient credit history. Because we serve customers who are unable to meet the conventional underwriting standards of the major Canadian banks, we generally charge interest at higher rates than those charged by those lenders. The factors used in determining borrowers' creditworthiness may be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on our operating results and financial condition. We mitigate this risk primarily by conducting appropriate diligence on each borrower and by dealing with known and reputable mortgage brokers. In addition, as an uninsured residential mortgage lender, our credit risk also results from reliance on the stability of collateral values. We are therefore selective in the types of property we accept as collateral, the reliability of the appraisal of the property, and its geographic location.

Although subject to change with Board approval, we predominantly lend to borrowers in urban and suburban areas of Ontario. Although the areas we lend in are among Canada's largest housing markets, a significant economic shock to regional economies could have a disproportionately adverse impact on our mortgage portfolio, in light of the general economic conditions and credit risks discussed above, compared to the impact for a lender with a more regionally or nationally diversified mortgage portfolio. As an added precaution against loss, we lend only in neighbourhoods where we believe there is clear evidence that properties are highly marketable as evidenced by such indicators as days-on-market.

Other financial instruments potentially exposed to credit risk include cash and cash equivalents. We consider our exposure to credit risk over cash and cash equivalents to be remote as we only hold cash deposits at Canadian Schedule I banks and short-term investments issued by the Government of Canada or its Provinces.

Liquidity Risk

Liquidity risk is defined as the possibility we will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet our financial commitments as they become due.

Managing liquidity risk requires management to maintain sufficient liquid assets on hand at all times to pay our cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, accounts payables, accrued liabilities and other business obligations.

Equity Trust has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies Equity Trust's liquidity risk tolerance and minimum liquidity requirements;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for both short and long-term time horizons;
- Requirements for the diversification of funding sources;

- The maintenance of a liquidity reserve consisting of cash and highly-liquid assets;

- Daily reporting that measures compliance with Board-approved limits;

- Periodic stress testing of liquidity assumptions and forecasts which may include company-specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and

- A liquidity contingency plan that considers a number of scenarios according to which Equity Trust's liquidity operations could be disrupted and details what actions will be followed under each scenario.

Equity Trust's Asset-Liability Committee ("ALCO") is comprised of members of senior management and is charged with the monitoring of Equity Trust's liquidity exposures. ALCO periodically reviews Equity Trust's liquidity policies and procedures as considered appropriate to evolving business requirements and makes recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity strategy accordingly.

Equity Trust's Board has established minimum liquidity requirement limits using two measures required under Basel III and included in the Liquidity Adequacy Requirements Guideline ("LARG") issued by OSFI in May 2014:

- Liquidity Coverage Ratio ("LCR"): the ratio of the Equity Trust's cash reserve to net cash inflows and outflows for a specified time horizon, which became effective January 1, 2015; and

- Net Stable Funding Ratio ("NSFR"): the ratio of the Equity Trust's liabilities to assets adjusted by factors that represent their inherent stability or permanence, which will become effective in 2018.

These requirements are supplemented by additional supervisory monitoring metrics including the OSFI-designed Net Cumulative Cash Flow (NCCF).

The appropriateness of these limits is reviewed from time to time by ALCO and the Board in light of prevailing and anticipated business and economic conditions.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our profitability and financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not adversely affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results and financial condition.

We use simulated interest rate change sensitivity models to estimate the effect of various interest rate change scenarios on the economic value of shareholders' equity ("EVE") and on net interest income for the twelve months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the prepayment and renewal rates of mortgages, the volumes and maturity distributions of future mortgages and deposits, future interest rate margins earned on mortgages and paid on deposits, and the growth of other interest rate sensitive items such as cash. Equity Trust's ALCO is responsible for the oversight of interest rate risk, including the establishment of modelling assumptions, parameters and scenarios.

The following table illustrates the results of management's sensitivity modelling to immediate and sustained interest rate increase and decrease scenarios. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change, limited by the assumption that interest rates cannot fall below zero.

Table 24: Impact of Interest Rate Shifts

($000s, except percentage amounts)	Increase	Decrease
Change of 100 bps		
Impact on net interest income	$ 466	$ (229)
Impact on EVE	632	(796)
EVE impact as a % of common shareholders' equity	0.7 %	(0.9)%
Change of 200 bps		
Impact on net interest income	907	(122)
Impact on EVE	1,254	(853)
EVE impact as a % of common shareholders' equity	1.3 %	(0.9)%

Operational Risk

The services provided by us to our clients encompass a large volume of tasks and processes that demand a high degree of precision and timeliness. We may be responsible to our clients for any financial losses resulting from fraud, errors or omissions by us in providing these services. We continue to enhance our managerial and operational resources and controls including our data processing systems and software, to minimize the potential for fraud, errors or omissions, and have insurance coverage in place to mitigate the risk of loss should they occur. However, the impact of such losses, and of the resulting harm to our reputation, could have a material adverse effect on our business, operations and financial results.

Reliance on Third-Party Mortgage Brokers and Deposit Agents

We rely on independent securities dealers to distribute our GICs. Similarly, our mortgage originations depend on a network of independent mortgage brokers. Under adverse circumstances, we may find it difficult to attract sufficient new deposits from dealers or mortgage business from brokers to sustain our operating requirements. The failure by us to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from our mortgage broker network could negatively affect our financial condition and operating results. We mitigate these risks by establishing and maintaining good working and mutually beneficial relationships with a diverse group of third-party distributors so as not to become overly reliant on any single point of sale.

Reliance on Key Personnel

Our success will depend upon the continued service and effectiveness of our senior management team. Our senior employees may voluntarily terminate their employment with us at any time. The loss of services of key senior personnel could have a material adverse effect upon our business, financial condition and results of operations. We are also reliant upon technical personnel to anticipate and address issuer, investor, regulatory and market demands in the investment industry. There can be no assurance that qualified management or technical personnel will be available to us in the future. The success of our operations and activities will depend to a significant extent on the efforts and abilities of our management team and technical personnel.

Our operations are dependent on the abilities, experience and efforts of our management team and other key employees. Should any of these persons be unable or unwilling to continue in their employment with us, this could have a material adverse effect on our business, financial condition and results of operations. We may find it increasingly difficult to attract and to retain the necessary employees to meet our needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur.

Outsourcing Risk

We outsource some functions in order to control costs, reduce risk, and enhance service levels. Outsourcing any of the administrative functions to third parties runs the risk of failure or that the products or services obtained through third parties will be insufficient for our requirements or that of our customers. Should a provider of administrative services fail to perform in accordance with its agreement and/or our expectations, we could be required to find an alternative service provider or to take back that administrative function. If the service were taken in-house, extra costs in the form of additional staff and overhead might result. In addition, while we have arrangements in place to review the service levels and financial stability of these counterparties, a failure by us to adequately monitor this risk, or to establish alternative arrangements on a timely basis if required, could result in a material adverse effect on our operating results and financial condition.

Reputational Risk

Reputational risk is the potential that negative publicity - whether true or not - regarding an institution's business practices, actions or inactions, may cause a decline in the institution's market value, liquidity or customer base. An institution's reputation is a valuable business asset in its own right, essential to optimizing shareholder value, and as such is constantly at risk. Reputational risk cannot be managed in isolation from other forms of risk since all risks have a potential impact on reputation.

As a result of the Transaction, Equity Trust’s client relationships related to the discontinued operations are managed by a third-party, including the administration of segregated funds on behalf of Equity Trust’s clients. The impact of client dissatisfaction or mismanagement by the third-party may be damaging to Equity Trust’s continuing operations. Furthermore, if the third-party fails to meet its contractual or regulatory obligations, Equity Trust could be subject to legal liability.

Ultimate responsibility for our reputation lies with senior management and the Board of Directors and its committees, which examine reputational risk as part of their ongoing duties. In addition, every employee and representative of our company has a responsibility to contribute in a positive way to our reputation by ensuring that ethical practices are followed at all times. We also have specific policies and procedures in our Code of Conduct that consider the impact of reputational risk.

Capital Risk

Capital risk is defined as the risk that Equity Trust has insufficient capital to comply with regulatory limits and to support its strategic and business objectives, either because it cannot raise new capital or because of losses eroding existing capital. We may need to raise funds through public or private financing in the event that we incur operating losses or require substantial capital investment to finance growth in our mortgage business. There can be no assurance that additional financing will be available on terms favourable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to maintain our federal trust company charter, take advantage of market opportunities, respond to competitive pressures or continue to be viable. Such instability could have a material adverse effect on our business, financial condition and results of operations. If additional funds are raised through the issuance of shares from our treasury, shareholders may suffer dilution of their holdings. See Capital Management for Equity Trust's capital management policy.

Regulatory Compliance Risk

The financial services industry is highly regulated:

Equity Trust is regulated under the Trust and Loan Companies Act (Canada) ("TLCA") by OSFI. The TLCA and provincial legislation, together with related regulations and guidelines, require us to file annual and other reports on our financial condition, have the ability to impose restrictions on transactions with related parties and to set out requirements governing capital and other matters.

Changes to laws and regulations applicable to our deposit-taking or mortgage operations, including changes in the interpretation or application of such laws and regulations, could affect those operations, limiting the products or services we may provide and increasing the ability of competitors to compete with our products or services. OSFI prescribes capital ratio limits specific to each deposit-taking institution which govern how much leverage the institution is allowed to apply in its business. Failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact our income and damage our reputation.

Information Technology Risk

The Corporation is highly dependent upon its information technology ("IT") systems. Threats or disruptions to business critical applications, unauthorized data access or lack of systems sufficient to manage the business and its risks efficiently and effectively are examples of IT risk. Equity Trust oversees the management of IT risk through its IT Steering Committee, which is comprised of members of senior management. The IT Steering Committee meets regularly to review performance and risk factors related to IT systems, review IT policies and procedures and periodically review and update IT strategic plans with input from the Board of Directors. The Corporation maintains and tests business continuity plans, however, should the Corporation experience significant disruptions outside of its control, this would impair its ability to provide service to clients.

Other Risk Factors that May Affect Future Results

In addition to the risks described in this Risk Management section, there are numerous other risk factors which could cause the Corporation's results to differ significantly from the Corporation's strategic goals and objectives. Some of these external factors are discussed below.

Increasing Competition

The markets in which we continue to operate are competitive and can be influenced by the marketing and pricing decisions of larger industry participants. Our products and services will compete with those offered by banks, insurance companies, trust companies and other financial services companies. Many of these competitors are well capitalized, hold a larger percentage of the Canadian residential mortgage market, have significantly greater financial, technical, operational and marketing experience and resources than us and have greater name recognition than Equity Trust. We experience competition in all aspects of our business, including price competition. If price competition increases, we may not be able to raise interest rates that we are able to charge borrowers, which has the potential to reduce the market value of our mortgages. This could have a material adverse effect on our business, financial condition and results of operations. In addition, while there are a number of barriers to entry in the mortgage and deposit taking services business, we may face additional competition from new entrants into this market.

Stock Market Volatility

Broad stock market fluctuations may adversely affect the market price of our common shares. When the market price of a corporation's stock drops significantly, shareholders sometimes institute class action lawsuits against that corporation. A lawsuit against us, even if without merit, could cause us to incur substantial costs and could divert the time and attention of our management team and other resources.

Risk of Terrorist Attacks or Related Disasters

Civil unrest, economic recession and depression, pandemics, war and additional acts of terrorism may adversely impact the North American and global economies and financial markets.

SIGNIFICANT ACCOUNTING ESTIMATES

To prepare the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. The significant accounting estimates that require management to make significant judgments are outlined in Note 2 to the 2015 Audited Financial Statements. Key areas where management has made estimates and applied judgment include allowance for credit losses, intangible assets, and income taxes. Estimates and underlying assumptions are continually evaluated by management based on historical experience, other external factors, and for certain estimates, expectations of future events that are believed to be reasonable under the current circumstances. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions used. Actual results could differ from these estimates.

ACCOUNTING STANDARDS AND POLICIES

Our significant accounting policies are disclosed in Note 2 to our 2015 Audited Financial Statements.

Current & future changes in accounting policies

Certain new standards, interpretations and amendments to existing standards have been published by the IASB and the International Financial Reporting Interpretations Committees ("IFRIC") that will become effective for future periods and could have a potential implication on the accounting policies of the Corporation.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, which replaces the guidance in IAS 39. The standard includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

In September 2015 the IASB issued an amendment to the revenue standard formalizing the deferral of the effective date by one year to January 1, 2018. 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 Corporation is in the process of evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16 - Leases

In January 2016 the IASB issued IFRS 16 Leases, which replaces the previous lease standard and related interpretations. The new standard requires lessees to recognise assets and liabilities for most leases and will be effective for annual periods beginning on or after January 1, 2019. The Corporation has not yet determined the impact of IFRS 16 on its consolidated financial statements.

CONTROL REPORTING

Disclosure Controls and Procedures

Our Disclosure Controls and Procedures ("DCP") are designed to provide reasonable assurance that all relevant information is identified and communicated to our Disclosure Committee. The Disclosure Committee is comprised of members of senior management and is charged with ensuring that appropriate and timely decisions are made regarding public disclosure. Management has evaluated the effectiveness of our DCP and concluded they are effective. There were no material changes in our DCP during the year ended December 31, 2015.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed, based on the Internal Control - Integrated Framework (2013) issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projecting an evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in our ICFR that occurred during the year ended December 31, 2015 that materially affected or are reasonably likely to materially affect, the reliability of our financial reporting or the preparation of our financial statements for external purposes.

NON-IFRS FINANCIAL MEASURES

The Corporation employs certain financial measures to assess its performance that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. However, we believe the non-IFRS measures are useful supplemental measures that may assist financial analysts and investors in assessing certain aspects of our performance. These measures should not be considered as an alternative to any measures of performance presented in accordance with IFRS.

Adjusted net (loss) income and adjusted basic and diluted (loss) earnings per share

Our second and third quarter 2015 net loss was affected by a contingent consideration fair value adjustment of $600 ($520 after tax) and $400 ($347 after tax) respectively, related to the 2013 sale of our transfer agent and corporate trust operations (see 2013 Sale Transaction).

The net loss in 2014 was affected by one-time costs incurred related to both the shareholder action $4,270 ($3,138 after tax), and to independent consultant and external audit fees of $1,300 ($956 after tax) as a result of an internal controls review.

The table below provides a reconciliation of net (loss) income to adjusted net (loss) income.

Table 25: Reconciliation of Net loss to Adjusted net (loss) income

	For the three months ended					For the years ended		
($000s, except per share and percentage amounts)	**December 31, 2015**	September 30, 2015	% Change	December 31, 2014	% Change	**December 31, 2015**	December 31, 2014	% Change
Net loss	**$ (304)**	$ (597)	49 %	$ (226)	35 %	**$ (2,157)**	$ (2,919)	26 %
Adjustments for costs incurred in relation to:								
the shareholder action settlement (net of tax)	**-**	-	0 %	-	0 %	**-**	3,138	(100)%
the internal controls review and external audit (net of tax)	**-**	-	0 %	-	0 %	**-**	956	(100)%
charge for contingent consideration (net of tax)	**-**	347	(100)%	-	0 %	**867**	-	100 %
Adjusted net (loss) income	**$ (304)**	$ (250)	(22)%	$ (226)	35 %	**$ (1,290)**	$ 1,175	(210)%
Adjusted basic (loss) earnings per share	**(0.03)**	(0.03)	0 %	(0.02)	50 %	**(0.14)**	0.12	(217)%
Adjusted diluted (loss) earnings per share	**$ (0.03)**	$ (0.03)	0 %	$ (0.02)	50 %	**$ (0.14)**	$ 0.12	(217)%

Net interest margin

Net interest margin on our mortgage portfolio is calculated by taking net interest income earned divided by average total mortgage assets generating the interest income.

Return on equity ("ROE")

ROE is calculated as net income divided by the simple average of reported shareholders' equity at the beginning and end of the period, multiplied by the appropriate factor to arrive at an annualized figure. ROE is used as an indicator of whether we use our capital resources efficiently.

DISCLOSURE OF OUTSTANDING SHARE DATA

Our common shares trade on the TSX under the symbol "EQI". Our authorized share capital consists of an unlimited number of common shares without par value. As at February 9, 2016 we had 9,539,508 common shares outstanding and 586,194 stock options to purchase up to an aggregate of 586,194 common shares, with a weighted average exercise price of $9.78, expiring from March 2016 to February 2020.

ADDITIONAL INFORMATION

Additional information relating to EQI, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.