CHALLENGER

MANAGEMENT'S DISCUSSION AND ANALYSIS 2018

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

EQUITABLE TSX.EQB EQB.PR.C

EQUITABLE GROUP INC.

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

1 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
1 CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS
2 BUSINESS PROFILE AND OBJECTIVES
3 FINANCIAL OVERVIEW
4 Q2 2018 HIGHLIGHTS
5 BUSINESS OUTLOOK
11 FINANCIAL REVIEW – EARNINGS
18 FINANCIAL REVIEW – BALANCE SHEET
26 SUMMARY OF QUARTERLY RESULTS
27 ACCOUNTING POLICY CHANGES
27 CRITICAL ACCOUNTING ESTIMATES
28 OFF-BALANCE SHEET ACTIVITIES
28 RELATED PARTY TRANSACTIONS
28 RISK MANAGEMENT
31 UPDATED SHARE INFORMATION
31 RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS
31 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING
31 NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

36 **CORPORATE DIRECTORY AND SHAREHOLDER & CORPORATE INFORMATION**

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

For the three and six months ended June 30, 2018

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the unaudited financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and six months ended June 30, 2018. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2018, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at August 9, 2018. 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.

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments ("IFRS 9") issued by the International Accounting Standards Board ("IASB"), which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). Please refer to Notes 3 and 4 to the interim consolidated financial statements for a summary of the Company's accounting policies as it relates to IFRS 9 and the transitional impact of IFRS 9 on January 1, 2018. We restated the opening retained earnings balance on January 1, 2018 to reflect the impact of the new requirements but did not restate the comparative periods, as permitted by the standard. Therefore, the provision and allowance for credit losses and related ratios for 2018 periods versus the prior year periods are not directly comparable.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q2 2018 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "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 over $26 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.

Equitable Bank provides mortgage loans to a wide range of customers including business-for-self borrowers, newcomers to Canada and commercial real estate investors. In 2018, as part of its ongoing growth and diversification plan, the Bank introduced a reverse mortgage product for Canadian seniors. The Bank also provides Canadians with various saving options that offer security and attractive interest rates, including Guaranteed Investment Certificates ("GIC"s), High Interest Savings Accounts ("HISA"s), and deposit notes. Equitable operates with a branchless banking model, which allows us to be more efficient and to pass on these savings to our customers. We generally serve the market through extensive partnerships with Canada's mortgage brokers, mortgage bankers, deposit agents, investment dealers, and financial planners who provide independent professional advice to their clients. In 2016, Equitable broadened its distribution by launching *EQ Bank*, a digital bank providing attractive deposit products directly to Canadian savers. We intend to continue expanding the range of savings products and services offered through *EQ Bank*, while at the same time maintaining a strong commitment to our broker partners.

VISION AND STRATEGY – *Canada's Challenger Bank™*

Equitable has become *Canada's Challenger Bank™* by providing exceptional service and clear value to select segments of Canadian consumers. Although a new concept to Canada, the challenger bank model is entrenched and well understood in many other markets such as the United Kingdom. Challenger banks deliver high returns on equity by driving innovation and improving customer service levels to profitable market segments. As a challenger bank, we rethink conventional approaches to banking, go above and beyond to serve our customers, stay nimble so that we can act on new opportunities, and maintain a focused, efficient approach to service delivery. We concentrate on segments of the market in which we can improve the banking experience or achieve a sustainable competitive advantage.

For further information on Equitable's vision and strategy, culture and values, capabilities, business lines, and key performance indicators please refer to our 2017 annual Management's Discussion and Analysis.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	Three months ended					Six months ended		
	Jun 30, 2018[(1)]	Mar 31, 2018[(1)]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[(1)]**	Jun 30, 2017	% Change
RESULTS OF OPERATIONS								
Net income	**$ 37,537**	$ 40,167	(7%)	$ 38,909	(4%)	**$ 77,704**	$ 82,302	(6%)
Net income available to common shareholders	**36,346**	38,976	(7%)	37,718	(4%)	**75,322**	79,920	(6%)
Net interest income	**79,496**	81,270	(2%)	78,349	1%	**160,766**	156,701	3%
Total revenue	**214,958**	200,786	7%	183,025	17%	**415,744**	364,550	14%
EPS – basic	**$ 2.20**	$ 2.36	(7%)	$ 2.29	(4%)	**$ 4.56**	$ 4.85	(6%)
EPS – diluted	**$ 2.19**	$ 2.34	(6%)	$ 2.28	(4%)	**$ 4.53**	$ 4.82	(6%)
ROE[(2)]	**13.0%**	14.5%	(1.5%)	15.6%	(2.6%)	**13.7%**	17.0%	(3.3%)
Return on average assets[(2)]	**0.7%**	0.8%	(0.1%)	0.8%	(0.1%)	**0.7%**	0.9%	(0.2%)
NIM – TEB – total assets[(2)]	**1.51%**	1.58%	(0.07%)	1.63%	(0.12%)	**1.54%**	1.64%	(0.10%)
Efficiency Ratio – TEB[(2)(3)]	**42.9%**	37.7%	5.2%	39.2%	3.7%	**40.3%**	36.1%	4.2%
BALANCE SHEET								
Total assets	**21,944,721**	21,054,763	4%	19,795,986	11%			
Assets Under Management	**26,142,735**	25,259,152	3%	23,641,546	11%			
Mortgages receivable	**20,455,377**	19,676,690	4%	18,263,623	12%			
Mortgages Under Management ("MUM")[(2)]	**24,568,457**	23,794,216	3%	22,013,453	12%			
Shareholders' equity	**1,212,952**	1,181,472	3%	1,060,852	14%			
CREDIT QUALITY								
Provision for credit losses	**168**	770	(78%)	378	(56%)	**938**	1,116	(16%)
Provision for credit losses – rate	**0.003%**	0.02%	(0.02%)	0.01%	(0.01%)	**0.01%**	0.01%	-%
Net impaired mortgages as a % of total mortgage assets[(4)]	**0.13%**	0.13%	-%	0.16%	(0.03%)			
Allowance for credit losses as a % of total mortgage assets	**0.12%**	0.13%	(0.01%)	0.19%	(0.07%)			
SHARE CAPITAL								
Common shares outstanding	**16,520,618**	16,515,238	0%	16,477,654	0%			
Book value per common share[(2)(5)]	**$ 69.03**	$ 67.14	3%	$ 59.98	15%			
Common share price – close	**$ 59.56**	$ 53.68	11%	$ 59.48	0%			
Common share market capitalization	**983,968**	886,538	11%	980,091	0%			
EQUITABLE BANK CAPITAL RATIOS[(2)]								
CET1 Ratio	**14.3%**	14.7%	(0.4%)	14.8%	(0.5%)			
Tier 1 Capital Ratio	**15.3%**	15.7%	(0.4%)	15.9%	(0.6%)			
Total Capital Ratio	**15.6%**	16.0%	(0.4%)	17.4%	(1.8%)			
Leverage Ratio	**5.4%**	5.5%	(0.1%)	5.3%	0.1%			

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

(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) *Effective January 1, 2018, as a result of the adoption of IFRS 9, net impaired mortgages have been revised to include all mortgages that are in arrears 90 days or more and reflect gross impaired mortgage assets less stage 3 allowances. Prior year period net impaired mortgages are presented under IAS 39 and do not include insured mortgages that are less than 365 days in arrears. Prior year period net impaired mortgages equals gross impaired mortgage assets less individual allowances.*

(5) *The adoption of IFRS 9 resulted in a $0.42 increase in book value per common share as at January 1, 2018.*

Q2 2018 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable continued to demonstrate strong performance in Q2 2018, establishing a good foundation for the remainder of 2018. The growth of our assets and the credit quality of our mortgage book exceeded our expectations in Q2 and we are cautiously optimistic about the last half of the year. Adjusted EPS for the quarter was $2.45, 5% higher than last quarter and 8% above Q2 2017. Reported EPS was $2.19 and included a write-down of unamortized upfront costs associated with our secured backstop funding facility.

We chose to reduce the size of our secured backstop funding facility from $2.0 billion to $850 million in late June. This decision was supported by successful measures that we have undertaken over the past year to enhance our liquidity position and favourable funding market conditions. These actions included increasing the size of our liquid asset portfolio, extending the average term of our GICs, enhancing the functionality and brand of our *EQ Bank* platform, and reducing our exposure to more volatile brokered HISAs. As a result of this $1.15 billion downsizing, we wrote-down $5.9 million of unamortized up-front costs associated with the facility. The write-down reduced Net interest income by $5.9 million, EPS by $0.26, and ROE by 1.5 percentage points.

In addition to this write-down, Equitable's results continued to be impacted by the liquidity actions we took last year. These liquidity management costs, net of the associated funding cost benefits, further reduced EPS and ROE in Q2 2018 by approximately $0.25 and 1.4 percentage points, respectively (Q1 2018 – $0.27 and 1.6 percentage points, Q2 2017 – $0.26 and 1.7 percentage points). Going forward, the impact of these actions will diminish. The downsizing of the facility will save Equitable approximately $1.4 million or $0.06 of EPS of standby fees each quarter through to the maturity of the facility in June 2019. The write-down will also reduce pre-tax amortization expenses by $1.4 million through the end of Q2 2019, relative to what was recorded in Q2 2018. The $2.8 million per quarter of total cost reductions will be reflected in the Company's Net interest income.

Our key financial and operating metrics point to continued strength in business fundamentals and the credit quality of our assets. We also continued to deliver on our key strategic objectives:

Strategic Objectives for 2018	Accomplishments
Grow our existing businesses through superior service	• Grew our Alternative Single Family assets by 15% over Q2 2017 • Grew our Commercial Lending portfolio by 15% with originations that were more than double those in Q2 of last year • Increased brokered GIC principal by $1.7 billion or 22% from a year ago
Build *EQ Bank* into Canada's leading digital banking platform	• Grew *EQ Bank* deposit balances to almost $2.0 billion, an increase of 51% from last year and 14% from last quarter • Increased the Bank's share of the direct-to-consumer GIC market with a full consumer launch of *EQ Bank GICs* and enhancements to the *EQ Bank* digital platform, further broadening the Bank's access to a diversified range of funding sources

Strategic Objectives for 2018	Accomplishments
Leverage our capabilities and balance sheet to diversify into adjacent markets	• Continued to build mortgage broker awareness of the *PATH Home Plan™* reverse mortgage product and refined our offering in response to market feedback • Broadened the Bank's suite of commercial mortgage products to address market opportunities in underserved segments
Maintain a disciplined approach to capital management and a low risk profile	• Reduced the size of our secured backstop funding facility to $850 million from $2.0 billion in late June, as a result of reinforcing our liquidity position • Maintained an average loan-to-value ratio of 64% on our uninsured residential mortgage portfolio, compared to 65% in Q1 2018 and 60% in Q2 2017 • Recorded a provision for credit losses of $0.2 million or less than 1 bp of average loan balances(1) • Reported a CET1 Ratio of 14.3%, which was well ahead of the regulatory minimum and most competitive benchmarks • Declared a common share dividend of $0.27 per share in August, which was 13% higher than the declaration in August 2017
Strengthen our key capabilities	• Enhanced *Equitable Bank's EQB Evolution Suite™*, making it easier for borrowers to switch their Prime mortgages from other lenders to Equitable • Introduced a creditor life insurance option through a partnership with a major insurance company to add even more value to our mortgage customers

(1) *Provision for credit losses and related ratio for Q2 2018 were prepared in accordance with IFRS 9.*

ITEMS OF NOTE

Q2 2018 financial results were impacted by the following item:

- $5.9 million write-down of unamortized up-front costs associated with the reduction of our secured backstop funding facility.

There were no items of note in our financial results for Q1 2018 and Q2 2017.

DIVIDENDS

On August 9, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.27 per common share, payable on October 4, 2018, to common shareholders of record at the close of business on September 14, 2018. This dividend represents a 13% increase over dividends declared in August 2017.

In addition, on August 9, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on September 28, 2018, to preferred shareholders of record at the close of business on September 14, 2018.

BUSINESS OUTLOOK

Equitable expects that our strategy, including our disciplined approach to capital allocation, will continue to deliver value to shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our diversified business model continues to present profitable growth opportunities. We expect earnings to continue increasing in the second half of 2018 due to growth in our loan portfolio and the recent reduction in the size of our secured backstop liquidity facility. Our ROE will be below the Bank's 5-year average of 17.2% due to the costs associated with successfully navigating through funding market disruptions that occurred in 2017 (see the Company's Q1 and Q2 2017 MD&As) as well as our high level of common equity capital.

We believe that Equitable is currently holding excess capital. To the extent that we do not identify more significant organic or inorganic asset growth opportunities, and as a result maintain excess capital in the future, we will take actions to adjust our equity base. These actions could include a stock buyback program, a more significant dividend increase, or both and would result in a distribution of capital to our investors. Management and the Board will determine the appropriate course of action as our opportunities and the impacts of recent regulatory changes become clearer over the course of the next several quarters.

Asset Growth

The Bank operates lending businesses 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.

As a result of our continued emphasis on service quality and despite recent regulatory changes, we expect that year-over-year growth of our Mortgages under Management ("MUM")[(1)] and balance sheet mortgage assets will be in the range of 9% to 11% in 2018, with growth of individual asset categories described in detail below.

Our outlook on Alternative Single Family portfolio growth has improved over the past several months. Retention levels have remained high and Equitable's Q2 single family mortgage originations were up 51% from Q1 as our team successfully adjusted its implementation of *OSFI's Guideline B-20, Residential Mortgage Underwriting Practices and Procedures* ("B-20") and refined pricing, thereby regaining some of the competitive edge that we lost last quarter. Q2 originations were still slightly below last year's levels, a function of lower activity in real estate markets and constraints on lending activity caused by changes to B-20. Given recent market dynamics and regulatory changes, there is some uncertainty to the above growth outlook and our views could evolve over time.

As the growth rate of Single Family moderates, we intend to deploy more capital into Commercial Lending and other opportunities such as our recently launched reverse mortgage business. We have deep expertise in secured lending and believe we can grow these portfolios within our current risk appetite.

(1) When discussing performance of our businesses, we generally refer to Mortgages Under Management 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.

Summary of Expectations for Mortgage Portfolio Growth

Portfolio	Q3/Q4 2018 Expectations[1]	Rationale and Assumptions[1]
Forecasting asset growth remains challenging given the magnitude of the recent regulatory changes and competitive shifts. The outlook and comments below reflect management's current views and are subject to change over time.		
Core Lending: Alternative Single Family	• Assets grow at year-over-year rates of between 8% and 10%	• Overall housing market activity and prices will be stable in most markets, notwithstanding the effects of normal seasonality • Originations will be lower than in 2017 due to market activity and new B-20 standards • Portfolio growth is helped by higher renewal rates and lower prepayments, which result partly from the changes to B-20 • Employment is stable and overall economic growth remains positive • Our current sources of funding continue to deliver sufficient volumes to profitably support this level of growth
Core Lending: Commercial	• Assets grow at rates between 18% and 20%	• The market continues to present quality opportunities and the competitive environment remains stable • Q3 and Q4 originations are more than 20% higher than last year after being deliberately tempered in 2017 due to funding constraints • Attrition rates are lower than the levels experienced in 2017
Securitization Financing: Prime Single Family	• MUM and balance sheet assets grow at 10% to 12%	• The economy and housing market perform as indicated above for Alternative Single Family • Market-wide insured prime mortgage origination activity will be consistent with recent levels • We will source approximately $300 to $350 million of newly originated Prime Single Family mortgages through a leading originator • The above purchase aside, origination volumes will otherwise equal the expected attrition in the portfolio
Securitization Financing: CMHC Multi-Unit Residential ("Multi")	• Balance sheet assets grow at rates in the low teens, while MUM grows at rates in the high-single digits	• We will fully utilize our fixed rate CMB capacity (approximately $350 million to $400 million per quarter) for Multi renewals and originations • We will derecognize in the range of $150 million to $200 million of securitized Multis each quarter

(1) *All growth rates listed in this table are with reference to the prior year unless noted otherwise*

The Company may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, funding availability, the regulatory environment, the housing market, or general economic conditions change, or if any of the other assumptions outlined in the table do not materialize in the amount or within the timeframes specified.

Revenue

Management believes that Net Interest Income ("NII") for the full-year 2018 will increase at year-over-year rates in the 8% to 10% range along with average asset balances. The growth rate in Q3 will be higher than the full-year rate, likely in the high-teens, due to the reduction in the size of our backstop facility and the high level of other liquidity costs occurred in Q3 of last year. Quarterly NIM may also fluctuate and differ from our expectations due to mortgage prepayment income volatility and other factors such as seasonal variations in our liquidity holdings.

Summary of Expectations for Key Revenue Drivers

Driver	Q3/Q4 2018 Expectations	Rationale and Assumptions
NIM: **Core Lending**	• Will be in the range of 2.30% to 2.35%	• We will save $2.8 million per quarter from reducing the size of our backstop liquidity facility, which will increase NIM by 8 bps • Our remaining $850 million backstop facility will cost us $2.2 million per quarter and have a negative 6 bps effect on NIM through to June 2019 • Margins on renewals and originations are consistent with the NIM of the existing portfolio • NIMs experience some downward pressure because of lower prepayment income as a result of fewer discharges • The portfolio mix shifts more towards higher spread commercial assets • The term structure of our GIC portfolio lengthens and as a result our weighted average funding costs increase slightly
NIM: **Securitization Financing**	• Will be in the range of 18 bps to 20 bps	• CMHC Multi margins are consistent with recent levels • Prime margins will remain low for the remainder of 2018 • Prepayment income is lower than in prior years due to lower discharge activity
NIM: **Total**	• Will be in the range of 1.55% to 1.60%	• NIM benefits from the shift in asset mix towards our higher margin Core Lending portfolio
Income from NHA-MBS Successor Issuer Rights	• Will be in the range of $0.9 million to $1.3 million per quarter	• The assets underlying this revenue stream continue to amortize as expected through 2020
Securitization Gains on Sale	• Will be in the range of $1.4 million to $1.6 million per quarter	• Securitization and derecognition activity is between $150 million and $200 million each quarter • Overall gain on sale margins will be consistent with the levels realized in Q2 2018

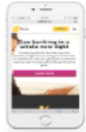
Non-Interest Expenses

We anticipate that, in the last two quarters of 2018 non-interest expenses will increase at year-over-year rates slightly higher than the growth rate of our assets, as we continue to make investments that build the Bank's franchise and reinforce our high level of customer service. If growth in any of our lending markets slows beyond current expectations in 2018, we will manage our expenses accordingly. Expenses may exhibit some volatility quarter to quarter due to the timing of *EQ Bank* marketing campaigns.

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. We expect that our Efficiency Ratio in Q3 and Q4 will be in the high 30 percent range.

Strategic Initiatives

As *Canada's Challenger Bank*™, we will continue to pursue several important strategic initiatives throughout 2018. These initiatives may reduce earnings in the near-term but are intended to build a foundation for growth and productivity that will benefit our shareholders over a longer horizon. We are focused on growing our core business by enhancing our service levels, building our digital banking platform, improving the sophistication of our capital management framework, and diversifying our business.



We aim to grow in our Core Lending businesses by providing the best service in our chosen markets and will invest to deliver on that objective. For example, we recently added a creditor life insurance option to our mortgage products that increases value for our single family customers. In addition, we broadened our suite of Commercial mortgage products to address underserved market niches.

We plan to continually enhance the functionality of the *EQ Bank* platform and will pursue opportunities to launch new products and services over time, furthering our Challenger Bank position. We recently introduced GICs on the *EQ Bank* platform so that we can offer a broader range of savings products to our customers and extend the average term of our deposits. Growth of these direct-to-consumer retail accounts will be an enabler of our asset growth and a critical tool in managing our liquidity risk.

We continue to advance our AIRB initiative with the objective of operationalizing the program by the end of 2020. Although we will likely benefit from recently announced revisions to the standardized approach, we intend to pursue AIRB as it will improve the sophistication of our risk management tools and make us more competitive across a broader range of asset classes.

We continually assess opportunities to diversify our business, and solidify our position as *Canada's Challenger Bank*™. Our intention is to enter new businesses gradually and grow organically in order to minimize operational risk, thereby building scale over a period of several years. We will also continue to collaborate with partners, including many well-known Fintech companies, to accelerate this growth where required.

We launched our reverse mortgage business in January under the *PATH Home Plan*™ brand and it is the latest example of the asset diversification involved in our Challenger Bank strategy. Reverse mortgages are widely used in other countries and serve the growing Canadian demographic of seniors who want to continue living in their homes while accessing some of the underlying equity value. This business is not expected to make a material contribution to our earnings in 2018 or 2019 but should create meaningful shareholder value and diversification benefits over time.

Funding

We believe that our current sources of funding – most notably brokered term deposits and *EQ Bank* – will be adequate to support our asset growth in 2018. Our deposit balances have grown steadily since the middle of 2017 and we believe this trend will continue for the foreseeable future. Over that period, we have also taken actions to strengthen our liquidity position such as increasing the size of our liquidity portfolio, reducing our exposure to brokered demand deposits, and extending the duration of our deposit base.

During and beyond 2018 management will continue to look for opportunities to diversify the bank's funding profile for risk management purposes. For example, we have applied to OSFI seeking approval to incorporate a new trust company subsidiary. This initiative would further the Company's ability to pursue its business diversification strategy and would also

create a new issuer of deposits that are eligible for insurance through the Canada Deposit Insurance Corporation. These and other new funding sources may eventually be required to deliver on the Company's longer-term growth aspirations.

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 for the remainder of 2018, assuming that Canadian economic conditions stay within the range of broad market expectations. Arrears rates have been unusually low in recent quarters and we believe that they are likely to increase from those levels. If actual economic conditions are worse than market expectations, losses and arrears may increase beyond the rates experienced over the past several years, but should still remain within our risk tolerance.

The new IFRS 9 framework became effective for us in Q1 2018. IFRS 9 is based on an expected loss concept – as opposed to the incurred loss approach under IAS 39 – and incorporates forward looking economic forecasts. Our analysis, supported by extensive backtesting, suggests that IFRS 9 will not have a material impact on our average Provision for Credit Losses ("PCL") over a long-term horizon. As forward looking economic forecasts vary from period to period, however, we may experience greater volatility in our PCLs going forward.

Equitable is aware that there is heightened risk and uncertainty in certain parts of the Canadian residential real estate market and we are actively monitoring these developments. We continue to believe that our prudent risk appetite and approach to lending will allow us to effectively manage through any negative changes in market conditions. For example, Equitable's low loan-to-value ratios ("LTVs") on its uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults. To reinforce that approach, we lend at lower LTVs to borrowers considered to be at higher risk of default. The LTV of 64% on our uninsured residential mortgage portfolio offers us protection against a significant decrease in house prices.

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 AMOUNT)	Three months ended					Six months ended		
	Jun 30, 2018[(1)]	Mar 31, 2018[(1)]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[(1)]**	Jun 30, 2017	% Change
Net income	**$ 37,537**	$ 40,167	(7%)	$ 38,909	(4%)	**$ 77,704**	$ 82,302	(6%)
EPS – diluted	**$ 2.19**	$ 2.34	(6%)	$ 2.28	(4%)	**$ 4.53**	$ 4.82	(6%)
Net interest income	**79,496**	81,270	(2%)	78,349	1%	**160,766**	156,701	3%
Provision for credit losses	**168**	770	(78%)	378	(56%)	**938**	1,116	(16%)
Non-interest expenses	**38,523**	33,810	14%	34,495	12%	**72,333**	64,315	12%

(1) *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

NET INTEREST INCOME

NII is the main driver of profitability for the Company. Table 3 details the Company's NII by product and portfolio. Total NIM for the quarter was negatively impacted by 11 bps and Core Lending NIM by 17 bps, due to the $5.9 million backstop funding facility write-down.

Table 3: Net interest income

($ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Six months ended			
	Jun 30, 2018		Mar 31, 2018		Jun 30, 2017		**Jun 30, 2018**		Jun 30, 2017	
	Revenue/ Expense	**Average rate[(1)]**	Revenue/ Expense	Average rate[(1)]	Revenue/ Expense	Average rate[(1)]	**Revenue/ Expense**	**Average rate[(1)]**	Revenue/ Expense	Average rate[(1)]
Core Lending:										
Revenues derived from:										
Mortgages	**$ 153,523**	**4.78%**	$ 143,115	4.66%	$ 125,670	4.46%	**$ 296,638**	**4.72%**	$ 247,562	4.50%
Liquidity investments	**2,660**	**1.17%**	2,536	1.12%	1,397	0.74%	**5,195**	**1.15%**	3,001	0.79%
Equity securities – TEB[(2)]	**2,052**	**5.80%**	1,419	5.52%	1,430	5.86%	**3,472**	**5.69%**	3,258	6.17%
	158,235	**4.56%**	147,070	4.42%	128,497	4.24%	**305,305**	**4.49%**	253,821	4.28%
Expenses related to:										
Deposits and bank facilities	**62,479**	**2.24%**	56,338	2.15%	46,246	1.98%	**118,817**	**2.19%**	89,347	1.98%
Secured backstop funding facility[(3)]	**10,999**	**N/A**	5,293	N/A	1,378	N/A	**16,292**	**N/A**	1,378	N/A
Debentures	**-**	**N/A**	-	N/A	950	5.86%	**-**	**N/A**	1,900	5.90%
Securitization liabilities	**7,807**	**2.16%**	7,934	2.07%	6,604	1.65%	**15,741**	**2.11%**	13,220	1.62%
	81,285	**2.58%**	69,565	2.31%	55,178	2.00%	**150,850**	**2.45%**	105,845	1.97%
Net interest income – TEB	**76,950**	**2.21%**	77,505	2.31%	73,319	2.41%	**154,455**	**2.26%**	147,976	2.48%
Taxable Equivalent Basis – adjustment	**(553)**		(373)		(397)		**(926)**		(882)	
Core Lending	**$ 76,397**		$ 77,132		$ 72,922		**$ 153,529**		$ 147,094	
Securitization Financing:										
Revenues derived from:										
Mortgages	**$ 46,063**	**2.60%**	$ 44,876	2.58%	$ 44,957	2.60%	**$ 90,939**	**2.59%**	$ 90,112	2.57%
Liquidity investments	**1,504**	**2.35%**	1,269	2.26%	655	0.95%	**2,773**	**2.31%**	1,164	1.04%
	47,567	**2.59%**	46,145	2.57%	45,612	2.54%	**93,712**	**2.58%**	91,276	2.52%
Expenses related to:										
Securitization liabilities	**37,018**	**2.45%**	35,628	2.41%	35,775	2.36%	**72,646**	**2.43%**	73,092	2.40%
Deposits and secured funding facility	**7,450**	**2.63%**	6,379	2.36%	4,410	1.76%	**13,829**	**2.50%**	8,577	1.69%
	44,468	**2.48%**	42,007	2.41%	40,185	2.27%	**86,475**	**2.44%**	81,669	2.29%
Securitization Financing	**$ 3,099**	**0.17%**	$ 4,138	0.22%	$ 5,427	0.30%	**$ 7,237**	**0.19%**	$ 9,607	0.26%
Total interest earning assets – TEB	**$ 80,049**	**1.51%**	$ 81,643	1.58%	$ 78,746	1.63%	**$ 161,692**	**1.54%**	$ 157,583	1.64%

(1) *Average rates are calculated based on the daily average balances outstanding during the period.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(3) *Since its establishment in June 2017, there have been no draws on the secured backstop funding facility.*

Q2 2018 v Q2 2017

NII was relatively consistent with the same quarter of last year as the effect of growth in our total average asset balances of 10% was largely offset by a 12 bp decrease in overall NIM. The decrease in overall NIM was mainly a result of the write-down of upfront costs associated with the reduction of the secured backstop funding facility and lower levels of prepayment income.

Table 4(a): Factors affecting Q2 2018 v Q2 2017 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Backstop funding facility write-down	(17)	• The $5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility
Rates/spread[1]	9	• Higher spreads within both our Single Family and Commercial portfolios
Asset mix	(3)	• Increase in the relative level of our low yielding liquidity investments • Shift towards our lower yielding but higher ROE Single Family business, offset by • Increase in the relative size of our higher yielding equity securities
Funding mix	(3)	• Growth of our *EQ Bank* deposit product • Decrease in our low rate brokered HISA, offset by • Redemption of our higher rate Series 10 debentures last October
Liquidity actions initiated in Q2 2017	3	• Lower net insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017, offset by • Fees associated with our secured backstop funding facility
Mortgage prepayment income	(9)	• Reduced levels of early discharges in Single Family Lending
Change in Core Lending NIM	(20)	
Securitization Financing NIM:		
Asset mix	1	• Reduction in the relative size of our lower yielding liquidity investments
Funding mix	(7)	• Greater volume of mortgages funded with higher cost deposits prior to securitization
Mortgage prepayment income	(7)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Change in Securitization NIM	(13)	
Change in Total NIM[2]	(12)	

[1] *The rate effect is calculated after adjusting for the impact of asset and funding mix changes.*
[2] *Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons, including asset mix shifts between the two mortgage portfolios.*

Q2 2018 v Q1 2018

NII decreased 2% from last quarter as a result of a 7 bp decrease in overall NIM and despite a 3% increase in average assets. The decrease in NIM was primarily driven by the write-down of upfront costs associated with the reduction of our secured backstop funding facility.

Table 4(b): Factors affecting Q2 2018 v Q1 2018 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Backstop funding facility write-down	(17)	• The $5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility
Rates/spreads[1]	(1)	• Slightly lower spread in the Single Family portfolio
Asset mix	1	• Shift towards our higher yielding equity securities portfolio
Funding mix	(1)	• Growth of our *EQ Bank* deposit product • Decrease in our low rate brokered HISA balances
Liquidity actions initiated in Q2 2017	3	• Lower net insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017
Mortgage prepayment income	3	• Higher levels of early discharges in Single Family Lending, which historically reach seasonal highs in Q2
Other	2	
Change in Core Lending NIM	(10)	
Securitization Financing NIM:		
Asset mix	(1)	• Increase in the relative size of our lower yielding liquidity investments
Funding mix	(4)	• Greater volume of mortgages funded with higher cost deposits prior to securitization
Mortgage prepayment income	(1)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Other	1	
Change in Securitization NIM	(5)	
Change in Total NIM[2]	(7)	

(1) The rate effect is calculated after adjusting for the impact of asset and funding mix changes.

(2) Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons, including asset mix shifts between the two mortgage portfolios.

YTD 2018 v YTD 2017

NII grew by 3% from the same period of last year mainly because of the growth in average assets and despite a 10 bp decrease in overall NIM.

Table 4(c): Factors affecting YTD 2018 v YTD 2017 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Backstop funding facility reduction	(9)	• The $5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility
Rates/spreads[1]	9	• Higher spreads within both our Single Family and Commercial portfolios
Asset mix	(3)	• Increase in the relative level of our low yielding liquidity investments • Shift towards our lower yielding but higher ROE Single Family business
Funding mix	(6)	• Growth of our *EQ Bank* deposit product • Decrease in our low rate brokered HISA, offset by • Redemption of our higher rate Series 10 debentures last October
Liquidity actions initiated in Q2 2017	(7)	• Fees associated with our secured backstop funding facility, offset by • Lower net insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017, net of the associated funding cost benefits
Mortgage prepayment income	(7)	• Reduced levels of early discharges in Single Family Lending
Other	1	
Change in Core Lending NIM	(22)	
Securitization Financing NIM:		
Asset mix	(1)	• Increase in the relative size of our lower yielding liquidity investments
Funding mix	(4)	• Greater volume of mortgages funded with higher cost deposits prior to securitization
Mortgage prepayment income	(2)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Change in Securitization NIM	(7)	
Change in Total NIM[2]	(10)	

[1] The rate effect is calculated after adjusting for the impact of asset and funding mix changes.
[2] Change in total NIM does not necessarily equal the sum of change in Core Lending and Securitization Financing NIMs for several reasons, including asset mix shifts between the two mortgage portfolios.

PROVISION FOR CREDIT LOSSES

Table 5: Provision for credit losses

	Three months ended					Six months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Stage 3 provision (individual provision under IAS 39)	**$ 695**	$ 351	98%	$ 378	84%	**$ 1,046**	$ 1,116	(6%)
Stage 1 and 2 provision (collective provision under IAS 39)	**(527)**	419	(226%)	-	N/A	**(108)**	-	N/A
Provision for credit losses	**$ 168**	$ 770	(78%)	$ 378	(56%)	**$ 938**	$ 1,116	(16%)
Provision for credit losses – rate	**0.003%**	0.02%	(0.02%)	0.01%	(0.01%)	**0.01%**	0.01%	-%
Allowance for credit losses	**$ 24,684**	$ 24,815	(1%)	$ 34,369	(28%)			

[1] Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.

The credit quality of our mortgage portfolio remained strong in Q2 2018. Our provision for credit losses during the second quarter was $0.2 million, $0.6 million below the prior quarter and $0.2 million lower than the same quarter of 2017. During the quarter, we recorded a $0.5 million reversal of Stage 1 and 2 allowances compared to a provision of $0.4 million in Q1 2018. The reversal reflected, in part, the impact of improved forward-looking macroeconomic assumptions provided by an independent 3rd party.

Relative to average mortgage principal outstanding during the period, the provision for credit losses was less than 1 bp, compared to 2 bps in Q1 2018 and 1 bp in Q2 2017, which is below historical averages. Based on our normal extensive review of mortgage assets and credit allowances, management concluded that this level of provision would maintain allowances at an appropriate level.

The provision for credit losses represents management's best estimate of changes in required allowance during the period. The amount of provision may vary from period to period based on impaired loan balances, the credit quality of our unimpaired loans, estimates of the likely credit losses on all loans, and economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: the aggregate amount is represented by the allowance for credit losses on our consolidated interim balance sheet. The allowance was $24.7 million or 12 bps of our total mortgage assets as at June 30, 2018, which is in excess of our 10-year average annual loss rate of 4 bps.

OTHER INCOME

Table 6: Other income

	Three months ended					Six months ended		
($ THOUSANDS)	**Jun 30, 2018[(1)]**	Mar 31, 2018[(1)]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[(1)]**	Jun 30, 2017	% Change
Fees and other income:								
Fees and other income	**$ 5,071**	$ 4,080	24%	$ 4,671	9%	**$ 9,151**	$ 9,888	(7%)
Income from successor issuer activities	**1,476**	1,297	14%	2,182	(32%)	**2,773**	4,769	(42%)
Net gain (loss) on investments	**138**	(370)	137%	(788)	118%	**(232)**	(788)	71%
Securitization activities:								
Gains on securitization and income from retained interests	**2,685**	2,437	10%	3,212	(16%)	**5,122**	7,173	(29%)
Fair value gains (losses) on derivative financial instruments	**339**	500	(32%)	36	842%	**839**	(707)	219%
Total	**$ 9,709**	$ 7,944	22%	$ 9,313	4%	**$ 17,653**	$ 20,335	(13%)

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

Q2 2018 v Q2 2017

Other income was up compared with Q2 2017, mainly due to:

- An unrealized fair value gain on certain preferred shares investments compared to a net investment loss realized on the sale of certain preferred shares in the same period of last year; and
- Higher Fees and other income, mainly as a result of growth in our mortgage portfolio;

Offset by:

- Reduced Income from successor issuer activities, representing income earned from certain Maple Assets and which is expected to be recurring on a diminishing basis through 2020; and
- A decrease in Gains on securitization and income from retained interests, driven by a lower volume of securitization transactions that qualify for derecognition and a lower gain on sale margin.

Q2 2018 v Q1 2018

Other income increased compared to the preceding quarter primarily because of:

- An increase in Fees and other income, the majority of which resulted from higher standby fee charges and an elevated level of renewal activity; and
- An unrealized fair value gain on our preferred share portfolio compared to a loss in the prior quarter.

YTD Q2 2018 v YTD Q2 2017

Other income decreased from a year ago, largely due to:

- Lower Gains on securitization and income from retained interests as a result of reduced derecognition activities and lower gain on sale margin;
- Reduced Income from successor issuer activities; and
- Lower Fees and other income as a result of reduced gains on investments acquired from Maple Bank;

Offset by:

- A fair value gain on derivative financial instruments compared with a loss last year; and
- A lesser investment loss on certain preferred shares investments.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

	Three months ended					Six months ended		
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Compensation and benefits	**$ 19,032**	$ 18,603	2%	$ 16,467	16%	**$ 37,635**	$ 32,890	14%
Technology and system costs	**5,751**	4,901	17%	5,764	(0%)	**10,652**	10,573	1%
Marketing and corporate expenses	**5,696**	2,962	92%	5,178	10%	**8,658**	7,100	22%
Product costs	**3,377**	3,055	11%	3,020	12%	**6,432**	6,048	6%
Regulatory, legal and professional fees	**3,117**	2,749	13%	2,580	21%	**5,866**	4,554	29%
Premises	**1,550**	1,540	1%	1,486	4%	**3,090**	3,150	(2%)
Total non-interest expenses	**$ 38,523**	$ 33,810	14%	$ 34,495	12%	**$ 72,333**	$ 64,315	12%
Efficiency Ratio – TEB	**42.9%**	37.7%	5.2%	39.2%	3.7%	**40.3%**	36.1%	4.2%
Full-time employee ("FTE") – period average	**613**	604	1%	569	8%	**609**	567	7%

[1] *Effective January 1, 2018, the Efficiency Ratio has been prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, fiscal periods of 2018 disclosures are not directly comparable to prior periods.*

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our Efficiency Ratio for the quarter increased to 42.9% from 37.7% in the preceding quarter and 39.2% a year ago. The Efficiency Ratio was adversely impacted by the write-down of $5.9 million of unamortized deferred costs associated with the reduction of our secured backstop funding facility (see discussion in Section "Q2 2018 Highlights") which hindered the growth of our Net interest income, higher Marketing expenditures to promote our *EQ Bank* brand and the launch of our new *EQ Bank GIC* product, and the write-off of certain system development costs. Excluding the impact of the deferred cost write-down and write-off of certain system development costs, our Efficiency Ratio would have improved by 3.3 percentage points in the quarter.

Q2 2018 v Q2 2017

Total non-interest expenses increased primarily because of:

- Higher Compensation and benefits costs which resulted from several factors including 8% growth in our FTE and annual inflationary salary adjustments;
- An increase in Regulatory, legal and professional fees mainly because of an increase in CDIC's standard premium rates, higher deposit balances, and business growth; and
- An increase in Corporate expenses, which resulted primarily from the timing of annual Deferred Share Units ("DSU") grants (last year the annual grant occurred in Q3 instead of Q2).

Q2 2018 v Q1 2018

Non-interest expenses grew mainly because of:

- Higher Marketing expenditures to promote the launch of *EQ Bank GICs*;
- An increase in Technology and system expenses, mainly due a write-off of certain system development costs during the quarter; and
- An increase in Corporate expenses resulting from the grant of DSUs mentioned above.

YTD 2018 v YTD 2017

Total non-interest expenses on a year-to-date basis increased largely due to the same reasons cited above when comparing Q2 2018 to the same quarter of 2017. Higher marketing expenses in the first half of this year also contributed to expense growth.

INCOME TAXES

Q2 2018 v Q2 2017

Our effective income tax rate for the quarter decreased to 25.6% from 26.2% a year ago mainly due to higher tax-exempt dividend income earned from our preferred share investments and other adjustments.

Q2 2018 v Q1 2018

Our effective income tax rate for the quarter decreased to 25.6% compared to 26.5% in the first quarter mainly due to higher tax exempt dividend income.

YTD 2018 v YTD 2017

Our year-to-date effective income tax rate decreased slightly to 26.1% from 26.2% in the same period of 2017.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2018[(1)]	Mar 31, 2018[(1)]	% Change	Dec 31, 2017	% Change	Jun 30, 2017	% Change
Total assets	$ 21,944,721	$ 21,054,763	4%	$ 20,634,250	6%	$ 19,795,986	11%
Mortgage principal – Core Lending	13,079,619	12,626,902	4%	12,291,564	6%	11,376,297	15%
Mortgage principal – Securitization Financing	7,290,824	6,962,925	5%	6,923,137	5%	6,791,596	7%
Deposit principal	12,366,734	11,880,742	4%	11,024,720	12%	10,006,735	24%
Total liquid assets as a % of total assets[(2)]	8.1%	8.4%	(0.3%)	7.2%	0.9%	7.9%	0.2%

(1) Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.

(2) 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. The following table provides mortgage principal continuity schedules by lending portfolio for Q2 2018 and Q2 2017:

Table 9: Mortgage principal continuity schedule

	Three months ended June 30, 2018[(3)]						
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[(1)]	Securitization Financing MUM[(2)]
Q1 2018 closing balance	$ 9,497,537	$ 3,129,365	$ 12,626,902	$ 6,962,925	$ 19,589,827	$ 4,204,389	$ 11,167,314
Originations	921,889	471,531	1,393,420	631,800	2,025,220	-	631,800
Derecognition	-	-	-	(242,234)	(242,234)	242,234	-
Net repayments	(592,130)	(348,573)	(940,703)	(61,667)	(1,002,370)	(248,609)	(310,276)
Q2 2018 closing balance	$ 9,827,296	$ 3,252,323	$ 13,079,619	$ 7,290,824	$ 20,370,443	$ 4,198,014	$ 11,488,838
% Change from Q1 2018	3%	4%	4%	5%	4%	(0%)	3%
% Change from Q2 2017	15%	15%	15%	7%	12%	9%	8%
Net repayments percentage[(4)]	6.2%	11.1%	7.4%	0.9%	5.1%	5.9%	2.8%

	Three months ended June 30, 2017						
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[(1)]	Securitization Financing MUM[(2)]
Q1 2017 closing balance	$ 8,208,733	$ 3,007,474	$ 11,216,207	$ 6,868,562	$ 18,084,769	$ 3,658,662	$ 10,527,224
Originations	938,591	201,789	1,140,380	486,621	1,627,001	-	486,621
Derecognition	-	-	-	(273,070)	(273,070)	273,070	-
Net repayments	(606,320)	(373,970)	(980,290)	(290,517)	(1,270,807)	(86,172)	(376,689)
Q2 2017 closing balance	$ 8,541,004	$ 2,835,293	$ 11,376,297	$ 6,791,596	$ 18,167,893	$ 3,845,560	$ 10,637,156
% Change from Q1 2017	4%	(6%)	1%	(1%)	0%	5%	1%
Net repayments percentage[(4)]	7.4%	12.4%	8.7%	4.2%	7.0%	2.4%	3.6%

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

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

(3) Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.

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

Q2 2018 v Q2 2017

Total MUM increased by $2.6 billion or 12%, driven by growth in both our Core Lending and Securitization Financing businesses.

Within Core Lending, both the Commercial Lending and Alternative Single Family portfolios grew due to strong origination levels and low attrition over the past four quarters. Commercial Lending originations demonstrated our continued success in growing the breadth and depth of our relationships with brokers and business partners and our focus on deploying additional capital into this business. The Single Family Lending portfolio growth has benefited from 2018 renewal rates that are almost 10 percentage points higher than in 2017.

Securitization Financing MUM increased primarily because of strong Multi originations and relatively high Multi retention rates. The elevated Multi originations were partly a result of an increase in our CMB capacity and continued strength in the multi-family apartment market.

Q2 2018 v Q1 2018

Total MUM increased 3% as a result of growth in both Core Lending and Securitization Financing MUM.

Core Lending growth was driven by high origination volumes in both our Commercial lending and Alternative Single Family portfolios. During Q2 2018, we achieved a record level of Commercial Lending originations while Alternative Single Family Lending originations were down marginally relative to Q2 2017, primarily due to lower activity in the Canadian housing market and the likely impact of recent B-20 revisions.

Securitization Financing MUM increased in large part due to high originations and low attrition levels in both our Multi and Prime Single Family businesses.

SECURITIZATION

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

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					Six months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018**	Mar 31, 2018	% Change	Jun 30, 2017	% Change	**Jun 30, 2018**	Jun 30, 2017	% Change
Securitization derecognized – non-prepayable Multis	**$ 242,234**	$ 236,297	3%	$ 273,070	(11%)	**$ 478,531**	$ 515,612	(7%)
Securitization derecognized – prepayable mortgages[(1)]	**-**	-	N/A	-	N/A	**-**	149,049	(100%)
Total principal derecognized	**$ 242,234**	$ 236,297	3%	$ 273,070	(11%)	**$ 478,531**	$ 664,661	(28%)
Gains on sale	**$ 2,202**	$ 1,889	17%	$ 2,717	(19%)	**$ 4,091**	$ 6,287	(35%)
Gains on sale margin[(2)]	**0.91%**	0.80%	0.11%	0.99%	(0.08%)	**0.85%**	0.95%	(0.10%)

(1) In order to derecognize prepayable mortgages, Equitable needs to securitize the mortgages through CMHC's CMB or NHA-MBS programs and 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.

Q2 2018 v Q2 2017

Gains on sale decreased from the prior year due to lower volumes and margins. Overall derecognition levels declined year over year mainly due to lower demand for non-prepayable Multis (which generally qualify for derecognition). Gain on sale margins slightly decreased primarily due to higher cash flow discount rates used to calculate the gains.

Q2 2018 v Q1 2018

Gains on sale were up sequentially as a result of increased derecognition activity and a higher gain on sale margin in the quarter. Derecognition volume grew due to higher demand for non-prepayable Multis than in the preceding quarter and the increase in margin due the fact that the mortgages were originated at wider spreads.

YTD 2018 v YTD 2017

Gains on sale decreased on a year-to-date basis mainly because of lower derecognition levels and margins. The derecognition volumes decreased largely as a result of our high Leverage Ratio position and management's decision not to execute transactions that effect the derecognition of prepayable mortgages, as well as generally lower demand for non-prepayable Multis in 2018. The decrease in gain on sale margin was mainly driven by higher cash flow discount rates.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management regularly evaluates the profile of Equitable's loan portfolio and our lending practices, taking into account borrower behaviours and external variables, including market values and employment conditions that prevail in the 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.

Management is monitoring the Toronto and Vancouver markets carefully given the volatility in prices and activity over the past year. We made some adjustments to our underwriting criteria for Toronto early in 2017 in order to reduce our risk in certain segments of the market and will make further adjustments if warranted.

The Company's active management of credit risk and our workout efforts continue to yield positive results as highlighted in the metrics in the following table. 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.

Table 11: Mortgage credit metrics[(1)]

($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[(1)]**	Mar 31, 2018[(1)]	Jun 30, 2017
Gross impaired mortgage assets[(2)]	**$ 28,394**	$ 27,033	$ 31,740
Net impaired mortgage assets[(3)]	**27,159**	26,194	29,261
Net impaired mortgage assets as a % of total mortgage assets	**0.13%**	0.13%	0.16%
Allowance for credit losses	**24,684**	24,815	34,369
Allowance for credit losses as a % of total mortgage assets	**0.12%**	0.13%	0.19%
Allowances for credit losses as a % of gross impaired mortgage assets	**87%**	92%	108%

(1) Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.

(2) Under IFRS 9, mortgages are reassessed and 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 or more. Under IAS 39, uninsured mortgages were deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears over 90 days; Insured mortgages were deemed to be impaired when payment is contractually past due 365 days. Impaired mortgages at June 30, 2018 includes $4.9 million (March 31, 2018 - $4.6 million) of insured mortgages that were between 90 and 365 days past due which would have been deemed not impaired under IAS 39.

(3) Net impaired mortgage assets reflect gross impaired mortgages less stage 3 allowances under IFRS 9 and were reported as gross impaired mortgages less individual allowances under IAS 39.

Q2 2018 v Q2 2017

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q2 2018:

- Impaired loans decreased in dollar terms compared to the same period of last year. The decrease was attributable to our Alternative Single Family portfolio (the majority of which related to Alberta and Saskatchewan) and to the discharge of two large commercial loans that were impaired at the end of Q2 2017. These decreases were partly offset by the addition of $4.9 million of insured mortgages that were between 90 and 365 days past due, a change necessitated by the adoption of IFRS 9. Under IAS 39, insured mortgages were only deemed to be impaired when payment was 365 days contractually past due.
- The allowance for credit losses decreased in dollar terms and as a percentage of total mortgage assets, primarily because of an $8.5 million transitional adjustment as a result of the adoption of IFRS 9 that was processed on January 1, 2018. The allowance for credit losses remains sufficient in the opinion of management.

Q2 2018 v Q1 2018

Our key credit risk metrics remained relatively stable compared to the prior quarter.

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.

Management believes that funding markets are currently stable and that the Company's liquid assets are sufficient. We hold enough liquid assets to ensure that we can meet our upcoming obligations even through a disruption in the financial markets. The size and composition of our liquidity portfolio at any point in time is influenced by several factors, such as our expected future cash needs and the availability of our various funding sources. Further, we apply a strategic approach to our liquidity management through rigorous asset-liability matching analysis and stress tests. We will continue to take actions to maintain a strong liquidity profile. Despite our liquidity risk management framework, a significant or protracted disruption to funding markets could require the Company to take further liquidity protection measures, as we did in Q2 2017. Please refer to the Risk Management section of this document and our 2017 Annual Report for more detail on the Company's Liquidity Risk.

In addition to assets that are held for the purpose of providing liquidity protection, we also maintain a portfolio of equity securities (the majority of which is investment grade preferred shares) to yield tax-preferred dividend income. This portfolio could be liquidated in the event of financial stress.

Table 12: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)		Jun 30, 2018[4]		Mar 31, 2018[4]		Jun 30, 2017
Eligible deposits with regulated financial institutions[1]	$	793,513	$	698,208	$	811,365
Debt securities issued by regulated financial institutions		2,441		-		-
Government issued or guaranteed debt instruments:						
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]		1,046,914		1,045,432		1,094,880
Obligations under repurchase agreements		(202,928)		(104,652)		(428,985)
Liquid assets held for regulatory purposes		1,639,940		1,638,988		1,477,260
Other deposits with regulated financial institutions		175		151		100
Equity securities[3]		142,790		136,320		93,172
Total liquid assets	$	1,782,905	$	1,775,459	$	1,570,532
Total assets held for regulatory purposes as a % of total Equitable Bank assets		7.5%		7.8%		7.5%
Total liquid assets as a % of total assets		8.1%		8.4%		7.9%

(1) Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $12.5 million (March 31, 2018 – $20.5 million, June 30, 2017 – $22.8 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and $335 million (March 31, 2018 – $313 million, June 30, 2017 – $389 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

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

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

(4) Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior periods.

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 June 30, 2018, our LCR was well in excess of the regulatory minimum of 100%.

Q2 2018 v Q2 2017

Liquid asset balances were $1.8 billion at Q2 2018, up $212 million from the prior year. The increase was mainly driven by higher liquid assets held for regulatory purposes, the growth of which is primary a result of business growth and our decision to hold more liquidity after the funding market disruptions experienced in Q2 2017.

Q2 2018 v Q1 2018

Liquid asset balances have remained relatively consistent with Q1 2018.

OTHER ASSETS

Q2 2018 v Q2 2017

Other assets decreased by 14% or $13.7 million to $84.1 million from a year ago mainly due to:

- $16.4 million decrease in Deferred costs – Contingent liquidity facility as a result of amortization recorded during the past four quarters and the $5.9 million write-down of these deferred costs in Q2;
- $7.8 million decrease in Real estate owned due to the sale of foreclosed assets;
- $1.6 million decrease in Prepaid expenses and other as a result of timing of payments; and
- $1.2 million decrease in Property and equipment, largely a result of amortization over the past twelve months;

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

Offset by:

- $7.7 million increase in Intangible assets, mainly due to project-related investments that we made over the last year; and
- $4.3 million increase in the fair value of outstanding derivative financial instruments.

Q2 2018 v Q1 2018

Other assets decreased by 9% or $8.3 million from the prior quarter primarily because of:

- $8.6 million decrease in Deferred costs – Contingent liquidity facility, $5.9 million of which was due to the write-down discussed above; and
- $1.3 million decrease in Real estate owned because of the disposition of foreclosed assets;

Offset by:

- $2.1 million increase in Intangible assets, primarily related to our investments in various projects that occurred since March 2018.

DEPOSITS

Table 13: Deposit principal

($ THOUSANDS)	Jun 30, 2018[1]	Mar 31, 2018[1]	Jun 30, 2017
Brokered term deposits (GICs)	**$ 9,402,210**	$ 9,104,613	$ 7,713,588
EQ Bank deposits[2]	**1,973,986**	1,734,294	1,305,901
Other deposits[3]	**840,538**	891,834	837,246
Deposit notes	**150,000**	150,000	150,000
	$ 12,366,734	$ 11,880,741	$ 10,006,735

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*
(2) *EQ Bank deposits include both demand and term deposits offered through our digital banking platform under the EQ Bank brand.*
(3) *Other deposits include demand deposits sourced through brokers, as well as other distribution partners with whom we have strategic relationships.*

Equitable Bank is a federally regulated deposit taking institution and offers deposits eligible for CDIC insurance to savers across Canada. We source deposits through a national distribution network of third party deposit agents and financial advisors and through our direct-to-consumer digital platform, *EQ Bank*. Our deposit product suite, which include GICs, HISAs, and Deposit notes, provides a reliable and diversified base of funding that can be effectively matched against mortgage maturities.

Total deposit principal was up $2.4 billion or 24% over Q2 2017, as we raised the funding needed to support the growth in our Core Lending portfolio and liquid assets. A significant portion of this growth was in brokered term deposits, a market which is deep and continues to provide significant funding for our business strategy. Our growth has been aided by both a higher level of purchase volumes in the brokered GIC market and our higher share of that volume. We continue to have strong relationships with our deposit agents and brokers, and our distribution network remains as broad as that of any non-Big 6 bank.

Also contributing to the growth of our deposits was the *EQ Bank* platform, which grew its deposits to almost $2.0 billion as at June 30, 2018. *EQ Bank* deposit principal was $668 million above Q2 of last year and up $240 million from Q1 2018, reflecting our efforts to enhance the platform, maintain a highly competitive rate, provide superior service, and grow our customer base. Also contributing to *EQ Bank*'s growth has been the successful launch of *EQ Bank GICs* in early March. *EQ Bank* is a key strategic pillar for us as we fulfil our vision of being *Canada's Challenger Bank*™ and we expect these deposits to represent a growing share of our overall funding base in future periods.

As part of strengthening the stability of our funding position, the Bank has entered into strategic partnerships such as the one we have with Wealthsimple. The deposits obtained through these partnerships are reported as Other deposits, which also includes demand deposits sourced through the traditional broker channel. We will continue to offer brokered demand products, with a competitive rate, but have taken steps aimed at reducing overall balances and encouraging account stability, such as lowering the interest rate and the maximum allowable account balance.

SECURITIZATION LIABILITIES

Securitization liability principal decreased $165 million or 2% from Q2 2017 and increased by $32.8 million compared to Q1 2018. The decrease from last year is mainly due to the repayment of $95 million of liabilities associated with a funding program sponsored by a major Canadian Schedule I bank to fund uninsured single family mortgages.

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 $600 million. At Q2 2018, the balance outstanding on these facilities was $251 million (March 31, 2018 – nil, June 30, 2017 – $142 million).

In Q2 2017, the Company obtained a two-year, $2.0 billion secured backstop funding facility from a syndicate of the Big-6 Canadian banks. The terms of the facility included a 0.75% commitment fee, a 0.50% standby charge on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to the Banks' cost of funds plus 1.25%. As a result of successful measures taken to enhance Equitable's liquidity position and favourable funding market conditions, management elected to reduce the size of this facility to $850 million, effective June 25, 2018. The terms and conditions of the facilities are otherwise unchanged. No advances have been made on this facility.

During the fourth quarter of 2017, we redeemed $65 million of our 5.40% Series 10 debentures at par. As a result, we did not have any debentures outstanding as at June 30, 2018 (March 31, 2018 – nil, June 30, 2017 – $65 million).

Details related to the Company's bank facilities and debentures can be found in Note 16 and Note 17 to the audited consolidated financial statements in the Company's 2017 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 based on the Bank's 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 2017 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. Equitable Bank's Capital Ratios at Q2 2018 exceeded regulatory minimums. Our CET1, Tier 1 Capital and Total Capital Ratios declined from last year and the prior quarter primarily due to an increase in the risk weight density of our assets, and despite our strategy of retaining the vast majority of our earnings. Risk weight density increased largely because of mortgage asset growth, particularly in our Commercial Lending business and growth of our mortgage commitment pipeline. Our Total Capital Ratio was also impacted by our redemption of $65 million of debentures during Q4 2017 which qualified as Tier 2 Capital. At current levels, Capital Ratios are above management's target levels, and we plan to either deploy the excess to achieve profitable asset growth or return a portion to shareholders within the next year.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.4% at Q2 2018 and the Bank remains fully compliant with our regulatory requirements. Our Leverage Ratio has remained relatively stable compared to March 31, 2018 and June 30, 2017.

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 these 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 14: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	Jun 30, 2017
Total risk-weighted assets ("RWA")	**$ 7,790,674**	$ 7,396,553	$ 6,561,813
Common Equity Tier 1 Capital:			
Common shares	**$ 201,784**	$ 201,602	$ 199,918
Contributed surplus	**7,704**	7,401	6,686
Retained earnings	**933,922**	902,092	793,587
Accumulated other comprehensive loss ("AOCI")[2]	**(7,147)**	(6,308)	(12,874)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(18,744)**	(17,592)	(15,325)
Common Equity Tier 1 Capital	**1,117,519**	1,087,195	971,992
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,190,073**	1,159,749	1,044,546
Tier 2 Capital:			
Eligible stage 1 and 2 allowance (collective allowance under IAS 39)	**23,449**	23,976	31,890
Subordinated debentures	**-**	-	62,891
Tier 2 Capital	**23,449**	23,976	94,781
Total Capital	**$ 1,213,522**	$ 1,183,725	$ 1,139,327
Capital Ratios:			
CET1 Ratio	**14.3%**	14.7%	14.8%
Tier 1 Capital Ratio	**15.3%**	15.7%	15.9%
Total Capital Ratio	**15.6%**	16.0%	17.4%
Leverage Ratio	**5.4%**	5.5%	5.3%

(1) Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.

(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 is excluded.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in mortgage prepayment income and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 15: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	**2018**		2017				2016	
	Q2[(1)]	Q1[(1)]	Q4	Q3	Q2	Q1	Q4	Q3
RESULTS OF OPERATIONS								
Net income	**$ 37,537**	$ 40,167	$ 40,446	$ 37,869	$ 38,909	$ 43,393	$ 41,678	$ 35,230
Net income available to common shareholders	**36,346**	38,976	39,256	36,678	37,718	42,202	40,488	34,039
Net interest income	**79,496**	81,270	79,697	71,964	78,349	78,352	77,926	70,827
Total revenue	**214,958**	200,786	197,648	189,290	183,025	181,525	179,939	169,432
EPS – basic[(2)]	**$ 2.20**	$ 2.36	$ 2.38	$ 2.23	$ 2.29	$ 2.56	$ 2.58	$ 2.19
EPS – diluted[(2)]	**$ 2.19**	$ 2.34	$ 2.36	$ 2.21	$ 2.28	$ 2.54	$ 2.56	$ 2.16
ROE	**13.0%**	14.5%	14.9%	14.4%	15.6%	18.4%	19.3%	17.2%
Return on average assets	**0.7%**	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%
NIM – TEB:								
Total Assets	**1.51%**	1.58%	1.59%	1.47%	1.63%	1.66%	1.70%	1.64%
Core Lending	**2.21%**	2.31%	2.33%	2.17%	2.41%	2.55%	2.64%	2.60%
Securitization Financing	**0.17%**	0.22%	0.24%	0.25%	0.30%	0.22%	0.24%	0.19%
Efficiency Ratio – TEB	**42.9%**	37.7%	37.3%	37.4%	39.2%	33.2%	33.9%	37.0%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**921,889**	609,434	850,617	1,098,725	938,591	835,780	930,449	1,050,366
Commercial Lending Services	**471,531**	424,468	359,479	380,442	201,789	379,996	377,578	367,197
Core Lending	**1,393,420**	1,033,902	1,210,096	1,479,167	1,140,380	1,215,776	1,308,027	1,417,563
Securitization Financing	**631,800**	429,270	457,702	492,905	486,621	409,264	871,391	739,352
Total originations	**2,025,220**	1,463,172	1,667,798	1,972,072	1,627,001	1,625,040	2,179,418	2,156,915
BALANCE SHEET								
Total assets	**21,944,721**	21,054,763	20,634,250	20,221,205	19,795,986	19,300,418	18,973,588	18,062,846
Assets Under Management	**26,142,735**	25,259,152	24,652,969	24,274,172	23,641,546	22,959,080	22,277,769	21,024,401
Mortgages receivable	**20,455,377**	19,676,690	19,298,548	18,787,348	18,263,623	18,164,958	17,783,803	17,049,744
MUM	**24,568,457**	23,794,216	23,233,420	22,753,938	22,013,453	21,743,431	21,004,013	19,922,211
Shareholders' equity	**1,212,952**	1,181,472	1,138,117	1,098,325	1,060,852	1,023,702	977,150	879,367
Liquid assets	**1,782,905**	1,775,459	1,479,429	1,459,711	1,570,532	1,153,174	1,280,591	1,037,259
CREDIT QUALITY								
Provision for credit losses	**168**	770	387	40	378	738	870	1,243
Provision for credit losses − rate	**0.003%**	0.02%	0.01%	0.001%	0.01%	0.02%	0.02%	0.03%
Net impaired mortgages as a % of total mortgage assets	**0.13%**	0.13%	0.12%	0.13%	0.16%	0.21%	0.21%	0.19%
Allowance for credit losses as a % of total mortgage assets	**0.12%**	0.13%	0.17%	0.18%	0.19%	0.19%	0.19%	0.20%

[(1)] *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

[(2)] *Annual EPS may not equal the sum of quarterly EPS as a result of rounding.*

Table 15: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	**2018** Q2[(1)]	2018 Q1[(1)]	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,517,020**	16,507,603	16,486,677	16,478,314	16,477,456	16,464,170	15,692,833	15,570,678
Weighted average diluted	**16,603,186**	16,629,832	16,625,927	16,570,256	16,567,699	16,614,221	15,808,124	15,722,532
Book value per common share	**$ 69.03**	$ 67.14	$ 64.57	$ 62.25	$ 59.98	$ 57.73	$ 54.96	$ 51.72
Common share price – close	**$ 59.56**	$ 53.68	$ 71.50	$ 56.00	$ 59.48	$ 69.37	$ 60.46	$ 58.86
Common share market capitalization	**$ 983,968**	$ 886,538	$ 1,179,996	$ 922,826	$ 980,091	$ 1,142,881	$ 995,180	$ 918,196
Dividends declared per:[(2)]								
Common share	**$ 0.27**	$ 0.26	$ 0.25	$ 0.24	$ 0.23	$ 0.23	$ 0.22	$ 0.21
Preferred share – Series 3	**$ 0.40**	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
EQUITABLE BANK CAPITAL RATIOS								
CET1 Ratio	**14.3%**	14.7%	14.8%	14.8%	14.8%	13.9%	14.0%	13.4%
Tier 1 Capital Ratio	**15.3%**	15.7%	15.9%	15.8%	15.9%	15.0%	15.1%	14.6%
Total Capital Ratio	**15.6%**	16.0%	16.3%	17.2%	17.4%	16.4%	16.6%	16.2%
Leverage Ratio	**5.4%**	5.5%	5.4%	5.3%	5.3%	5.3%	5.1%	4.9%

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

(2) *Annual dividends declared per share may not equal the sum of the quarterly dividends per share due to rounding.*

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 Q2 2018 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2017, except for the adoption of IFRS 9 and IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), effective January 1, 2018. The transitional impact of adopting IFRS 15 was immaterial given that the majority of revenues generated by the Company are interest income from financial instruments which are not within the scope of the standard. Please refer to Note 3 to the interim consolidated financial statements for further discussion.

FUTURE ACCOUNTING POLICIES

IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the audited consolidated financial statements in the Company's 2017 Annual Report for further discussion.

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 Q2 2018 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 2017 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 $4.2 billion at June 30, 2018 (March 31, 2018 – $4.2 billion, June 30, 2017 – $3.8 billion). The securitization liabilities associated with these transferred assets are approximately $4.2 billion at June 30, 2018 (March 31, 2018 – $4.1 billion, June 30, 2017 – $3.8 billion). The securitization retained interests recorded with respect to certain securitization transactions were $109.2 million at June 30, 2018 (March 31, 2018 – $106.2 million, June 30, 2017 – $98.5 million) and the associated servicing liability was $26.0 million at June 30, 2018 (March 31, 2018 – $25.8 million, June 30, 2017 – $25.0 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.7 billion of mortgages in the ordinary course of business at June 30, 2018 (March 31, 2018 – $1.4 billion, June 30, 2017 – $1.3 billion).

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 $12.1 million were outstanding at June 30, 2018 (March 31, 2018 – $9.9 million, June 30, 2017 – $8.0 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, 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 audited consolidated financial statements in the Company's 2017 Annual Report for further details.

RISK MANAGEMENT

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

For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management in the Company's 2017 Annual Report which is available on SEDAR at www.sedar.com. The most significant of those risks are summarized below.

CREDIT RISK

Credit risk is defined as the possibility that the Company will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honour their obligations to the Company. Credit risk arises principally from the Company's lending activities and our investment in debt and equity securities. The Company's exposure to credit risk is monitored by

senior management, the Enterprise Risk Management Committee, as well as the Risk and Capital Committee of the Board, which also undertakes the approval and monitoring of the Company's investment and lending policies.

The Company's primary lending business is providing first mortgages on real estate located across Canada. 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 40% or $55.3 million of the total equity securities portfolio at June 30, 2018, compared to 43% or $37.5 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 Q2.

Table 16: Credit risk exposure ratings scale

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

Management has assessed the credit quality of the Company's assets as at June 30, 2018 on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

The table below provides the gross carrying amount of all the debt instruments of the Company, for which a loss allowance is calculated, including contractual amounts of undrawn loan commitments, based on the Company's credit risk exposure rating scale.

Table 17: Credit quality analysis

				June 30, 2018[1]
($ THOUSANDS)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgages receivable:				
Low risk	**$ 8,966,373**	**$ 719,322**	**$ -**	**$ 9,685,695**
Standard risk	**7,663,936**	**2,847,590**	**-**	**10,511,526**
High risk	**135,799**	**118,647**	**-**	**254,446**
Impaired	**-**	**-**	**28,394**	**28,394**
Total	**$ 16,766,108**	**$ 3,685,559**	**$ 28,394**	**$ 20,480,061**
Less allowance	**(14,116)**	**(9,229)**	**(1,235)**	**(24,580)**
	$ 16,751,992	**$ 3,676,330**	**$ 27,159**	**$ 20,455,481**

				June 30, 2018[1]
($ THOUSANDS)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage commitments:				
Low risk	**$ 11,176**	**$ 70**	**$ -**	**$ 11,246**
Standard risk	**777,406**	**157,717**	**-**	**935,123**
High risk	**-**	**-**	**-**	**-**
Total	**$ 788,582**	**$ 157,787**	**$ -**	**$ 946,369**
Less allowance	**(82)**	**(22)**	**-**	**(104)**
	$ 788,500	**$ 157,765**	**$ -**	**$ 946,265**

(1) *The amounts for the period ended June 30, 2018 have been prepared in accordance with IFRS 9.*

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 redemption or maturity of deposits, the maturity of mortgage backed securities and commitments to extend credit. Redemption rates are affected by many factors, including the level of consumer confidence in the Bank. 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. Despite these precautions, there is a risk that a disruption in funding markets may be so severe or prolonged that the Company may need to take further actions to protect its liquidity position, which may even include curtailing lending activity or drawing on its backstop funding facility.

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 June 30, 2018, see Note 15 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and its NII. 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 June 30, 2018. 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 18: Net interest income shock

($ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates[(1)]
100 basis point shift		
Impact on net interest income	$ 15,960	$ (5,485)
Impact on EVE	(12,549)	20,142
EVE impact as a % of common shareholders' equity	(1.10%)	1.77%
200 basis point shift		
Impact on net interest income	$ 26,515	$ (5,497)
Impact on EVE	(23,505)	48,597
EVE impact as a % of common shareholders' equity	(2.07%)	4.27%

(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, composition, and quality of the portfolio. This information is also reviewed by a Committee of the Board quarterly.

UPDATED SHARE INFORMATION

At August 9, 2018, the Company had 16,520,618 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 706,246 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $36.7 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 and accompanying notes.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2018 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 may 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, if any, can to some extent 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.

Reconciliation of Adjusted net income

	Three months ended					Six months ended		
($ THOUSANDS)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Net income	**$ 37,537**	$ 40,167	(7%)	$ 38,909	(4%)	**$ 77,704**	$ 82,302	(6%)
Add back:								
Backstop funding facility write-down, after income taxes	**4,323**	-	N/A	-	N/A	**4,323**	-	N/A
Adjusted net income	**$ 41,860**	$ 40,167	4%	$ 38,909	8%	**$ 82,027**	$ 82,302	(0.3%)

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods*

Reconciliation of Adjusted EPS – diluted

($ PER SHARE AMOUNTS)	Three months ended Jun 30, 2018[1]	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	Six months ended Jun 30, 2018[1]	Jun 30, 2017	% Change
EPS – diluted	**$ 2.19**	$ 2.34	(6%)	$ 2.28	(4%)	**$ 4.53**	$ 4.82	(6%)
Add back:								
Backstop funding facility write-down	**0.26**	-	N/A	-	N/A	**0.26**	-	N/A
Adjusted EPS – diluted	**$ 2.45**	$ 2.34	5%	$ 2.28	8%	**$ 4.79**	$ 4.82	(1%)

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

Reconciliation of Adjusted Return on shareholders' equity

($ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended Jun 30, 2018[1]	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	Six months ended Jun 30, 2018[1]	Jun 30, 2017	% Change
Net income available to common shareholders	**$ 36,346**	$ 38,976	(7%)	$ 37,718	(4%)	**$ 75,322**	$ 79,920	(6%)
Add back:								
Backstop funding facility write-down, after income taxes	**4,323**	-	N/A	-	N/A	**4,323**	-	N/A
Adjusted income available to common shareholders	**40,669**	38,976	4%	37,718	8%	**79,645**	79,920	(0.3%)
Adjusted weighted average common equity	**1,126,791**	1,090,635	3%	969,755	16%	**1,108,609**	946,523	17%
Return on shareholders' equity	**14.5%**	14.5%	-%	15.6%	(1.1%)	**14.5%**	17.0%	(2.5%)

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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)	Jun 30, 2018[1]	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change
Total assets on the consolidated balance sheet	**$ 21,944,721**	$ 21,054,763	4%	$ 19,795,986	11%
Mortgage principal derecognized	**4,198,014**	4,204,389	0%	3,845,560	9%
Assets Under Management	**$ 26,142,735**	$ 25,259,152	3%	$ 23,641,546	11%

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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)	Jun 30, 2018[1]	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change
Shareholders' equity	**$ 1,212,952**	$ 1,181,472	3%	$ 1,060,852	14%
Preferred shares	**72,557**	72,557	-%	72,557	-%
Common shareholders' equity	**$ 1,140,395**	$ 1,108,915	3%	$ 988,295	15%
Common shares outstanding	**16,520,618**	16,515,238	-%	16,477,654	0%
Book value per common share	**$ 69.03**	$ 67.14	3%	$ 59.98	15%

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **Capital ratios:**
  - **CET1 Ratio:** this key measure of capital strength is defined as CET1 Capital as a percentage of total RWA. This ratio is calculated by the Bank in accordance with the guidelines issued by OSFI. CET1 Capital 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 by the 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 Capital. Tier 2 Capital is equal to the sum of the Bank's eligible stage 1 and 2 allowance (collective allowance under IAS 39) 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 in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 14 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 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.

	Three months ended					Six months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Non-interest expenses	**$ 38,523**	$ 33,810	14%	$ 34,495	12%	**$ 72,333**	$ 64,315	12%
Net revenue	**89,758**	89,587	0%	88,059	2%	**179,345**	177,918	1%
Efficiency Ratio	**42.9%**	37.7%	5.2%	39.2%	3.7%	**40.3%**	36.1%	4.2%

[1] *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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 Bank's ability to meet its liquidity needs for a 30-calendar day liquidity stress scenario. It is equal to 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)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change
Mortgage principal reported on the consolidated balance sheet	**$ 20,370,443**	$ 19,589,827	4%	$ 18,167,893	12%
Mortgage principal derecognized	**4,198,014**	4,204,389	(0%)	3,845,560	9%
Mortgages Under Management	**$ 24,568,457**	$ 23,794,216	3%	$ 22,013,453	12%

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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.

			Three months ended				Six months ended	
($ THOUSANDS,)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Net interest income	**$ 79,496**	$ 81,270	(2%)	$ 78,349	1%	**$ 160,766**	$ 156,701	3%
Other income	**9,709**	7,944	22%	9,313	4%	**17,653**	20,335	(13%)
TEB adjustment	**553**	373	48%	397	39%	**926**	882	5%
Net revenue	**89,758**	89,587	0%	88,059	2%	**179,345**	177,918	1%

[1] *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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.

			Three months ended				Six months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Provision for credit losses	**$ 168**	$ 770	(78%)	$ 378	(56%)	**$ 938**	$ 1,116	(16%)
Divided by: average mortgage principal	**19,980,135**	19,402,264	3%	18,126,331	10%	**19,792,572**	17,933,863	10%
Provision for credit Losses – rate	**0.003%**	0.02%	(0.02%)	0.01%	(0.01%)	**0.01%**	0.01%	-%

[1] *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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.

			Three months ended				Six months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Net income	**$ 37,537**	$ 40,167	(7%)	$ 38,909	(4%)	**$ 77,704**	$ 82,302	(6%)
Average total assets	**21,453,473**	20,802,555	3%	19,572,198	10%	**21,138,478**	19,360,318	9%
Return on average assets	**0.7%**	0.8%	(0.1%)	0.8%	(0.1%)	**0.7%**	0.9%	(0.2%)

[1] *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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.

			Three months ended				Six months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Jun 30, 2018[1]**	Mar 31, 2018[1]	% Change	Jun 30, 2017	% Change	**Jun 30, 2018[1]**	Jun 30, 2017	% Change
Net income available to common shareholders	**$ 36,346**	$ 38,976	(7%)	$ 37,718	(4%)	**$ 75,322**	$ 79,920	(6%)
Weighted average common equity	**1,124,630**	1,090,635	3%	969,755	16%	**1,106,448**	946,523	17%
Return on shareholders' equity	**13.0%**	14.5%	(1.5%)	15.6%	(2.6%)	**13.7%**	17.0%	(3.3%)

[1] *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*

- **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 9 of this MD&A.
- **Taxable equivalent basis ("TEB"):** the presentation of financial information on a TEB is a common practice among financial institutions. 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 June 30, 2018, March 31, 2018 and June 30, 2017, the TEB adjustment was $0.6 million, $0.4 million and $0.4 million, respectively. For the six months ended June 30, 2018, the TEB adjustment was $0.9 million as compared to $0.9 million for the same period in 2017.

DIRECTORS

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

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

Kishore Kapoor
Corporate Director

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

Andrew Moor
President and Chief Executive Officer of Equitable Group Inc. and Equitable Bank

Rowan Saunders
President and Chief Executive Officer, Economical Mutual Insurance Company

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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Senior Vice-President and Chief Risk Officer

Tim Wilson
Senior Vice-President and Chief Financial Officer

Dan Dickinson
Senior Vice-President and Chief Digital Officer

Kimberly Kukulowicz
Senior Vice-President, Marketing and Residential Sales

Brian Leland
Senior Vice-President, Residential Lending

Darren Lorimer
Senior Vice-President, Commercial Lending

Jody Sperling
Senior Vice-President, Human Resources

Aviva Braude
Vice-President, Mortgage Services

Tim Charron
Vice-President and Treasurer

Kasey Chauhan
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Isabelle Farella
Vice-President, Internal Audit

Tamara Malozewski
Vice-President, Finance

Paul von Martels
Vice-President, Equity Release and Prime Credit

Mark McPhail
Vice-President, Risk and Capital Analytics

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Vice-President and General Counsel

Alex Prokoudine
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Mahima Poddar
Vice-President, Product and Corporate Development

Rajesh Raut
Vice-President and Controller

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
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Nicholas Strube
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David Yu
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TSX: EQB and EQB.PR.C

Quarterly Conference Call and Webcast
Friday, August 10, 2018, 10:00 a.m. EST
Live: 416.764.8609
Replay: 416.764.8677 (code 673530)
Archive: www.equitablebank.ca

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